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Residential Real Estate

$2B housing tax credit proposal targets affordable homes

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Developers and builders could benefit from a new $2 billion tax credit to renovate or build affordable housing under recently introduced federal legislation.

The Neighborhood Homes Investment Act would create a tax credit to cover the value between the cost of buying and renovating or building a property in a low-income area and the sales price, potentially creating 500,000 affordable homes over the next 10 years.

The effort has bipartisan support in a divided Congress, with Reps. Mike Kelly, R-Pa., and Brian Higgins, D-N.Y. introducing the legislation in the House last week and Sens. Ben Cardin, D-Md., and Todd Young, R-Ind., introducing a companion bill in the Senate in March.

“For too long, the cost of rehabilitating a home has been more expensive than simply starting from scratch. Now, the Neighborhood Homes Investment Act will allow homeowners and developers to more affordably restore beautiful homes and create more affordable housing in communities that need it the most,” Kelly said in a statement. “This legislation creates stronger homes, stronger families and stronger neighborhoods.”

The potential tax credit has the backing of the Neighborhood Homes Coalition, an umbrella group of 36 organizations that include the National Association of Realtors, the National Association of Affordable Housing Lenders, Habitat for Humanity and the Mortgage Bankers Association.

The tax credit, which would give states $2 billion in tax-credit authority annually, plus inflation, would be modeled after the Low-Income Housing Tax Credit, which supports affordable rental housing but is not designed to build or renovate owner-occupied housing of single-family homes or small multifamily properties.

A previous version of the legislation was introduced in the last session of Congress but did not advance. However, there's renewed interest in a tax-reform package, especially in regards to the expiring provisions of the Trump administration's Tax Cuts and Jobs Act passed in 2017, and that could provide an opening to advocates of the credit.

Elisabeth Coats, director of homeownership alliance at the National Community Stabilization Trust, said the bipartisan support will help boost the proposal in negotiations between Democrats and Republicans on a possible tax package, about which there have already been some discussions. The tax credit could also be included in an end-of-the-year funding passage, similar to last year’s omnibus package that saw the inclusion of a number of workplace provisions, including the Pregnant Workers Fairness Act, the PUMP Act for breastfeeding workers, and elements of the SECURE 2.0 Act to boost retirement programs.

“We are being very optimistic because there are lots of different opportunities that could arise,” Coats said. “We want to make sure that housing in particular doesn’t fall lower on the priority list.”

The coalition has also seen some interest from newer members of Congress in both parties and has approached lawmakers with detailed data on how it could improve homeownership in each district.

Here’s how it would work:

- States would allocate tax-credit authority on a competitive basis.

- Project sponsors would raise money from investors to finance homebuilding and rehabilitation.
- For newly built homes, the tax credit would cover the gap between development costs and sales prices, up to 35% lesser of the eligible costs or 80% of the national median new-home sale price.
- Those purchasing the newly built homes would be required to have incomes at or below 140% of the area's median income and the homes would be sold for a maximum of four times the area’s median family income.
- For renovated homes, the tax credit would equal the lower of either 50% of the rehabilitation cost minus any homeowner repayments, or $50,000.
- Properties would have to be in areas with higher property rates, lower median family incomes and lower home values — although states would have some flexibility.
- Homeowners that sell a home purchased through this program within five years will have to repay part of the profit to the state to support additional similar efforts.

“The Neighborhood Homes Investment Act would address the needs of neighborhoods where existing and aspiring homeowners alike face disadvantages — high poverty rates, low-median family incomes and low home values,” said Christopher Tyson, president of the National Community Stabilization Trust. “NCST and the Neighborhood Homes Coalition are committed to making our nation’s housing and infrastructure more equitable, and to creating opportunities for homeownership for all families.

Proponents of the tax credit say it would help relieve the current housing shortage while creating about 861,000 construction jobs, $56 billion in wages and salaries, and $38 billion in tax revenue.

Ultimately, the tax credit is aimed at a concern in many neighborhoods that homes sitting unoccupied and that are distressed are not worth the price to renovate and sell, leaving vacant properties to sit for years and slowly collapse — so-called “zombie homes.”

The fresh legislative push comes after the meteoric rise in the median sale price of homes throughout the United States during the Covid-19 pandemic. In the second quarter of 2020, that price was $322,600, and it had been around that amount for several years.

By the end of 2022, the median sale price of a home in the United States had risen to $479,500 — a 49% increase. Rapid interest rate hikes by the Federal Reserve have reduced some of that demand, and the median sale price has dropped somewhat, to about $436,800 in the first quarter of 2023.

Higher costs and mortgage rates have sidelined many would-be buyers, with fewer millennials buying homes than just a few years ago. That's made baby boomers the largest homebuying generation, as they are more likely to have the resources to be able to absorb those costs.

Federal Housing Finance Agency loans aside, cash is still king when it comes to home sales. Nationwide, all-cash purchases accounted for about 36% of total home sales in 2022. That's the highest rate since 2013, according to Attom Data Solutions LLC. In 2011 and 2012, coming off the Great Recession, cash sales accounted for 38.5% of sales.