



BAKER TILLY

21st Annual Washington Real Estate Trends Conference
State of affordable housing industry and legislative
changes to affordable housing
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Your presenter



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Agenda



- State of affordable housing industry
- Recent legislative activities
- Impact of tax reform and Omnibus Spending Bill
- Interest rates
- Advocacy

State of affordable housing - Challenges



- > 2018 Report by the National Low Income Housing Coalition notes a nationwide shortage of 7.2 million affordable rental units for extremely low-income persons
- > From 2000 to 2013, the total number of Americans paying more than 50% of their income for housing has grown from 7 million to 11.2 million
- > This report shows 35 affordable units for every 100 extremely low income units and 56 affordable units for every 100 households at/or below 50% of AMI
 - 69% of D.C.'s extremely low income renters pay more than 50% of their income on housing
 - 72% of Virginia's extremely low income renters pay more than 50% of their income on housing
 - 74% of Maryland's extremely low income renters pay more than 50% of their income on housing.

Recent legislative activity and its impact to affordable housing



- > Tax Cut and Jobs Act of 2017
- > Omnibus Spending Bill (2018)



**Tax Cut and Jobs Act of 2017:
Key provisions related to affordable
housing**



Decrease in corporate tax rate from 35% to 21%

Changes in federal historic tax credit, and federal and state rehabilitation tax credit

Created a new economic development tool called “qualified opportunity zones”

Strategies to address Tax Cut and Jobs Act of 2017



Increase equity pricing lost through corporate tax rates with cost segregation

Strategy: Cost Segregation Study

- > Tax credit investors can recoup the benefits of the 35 percent tax rate for projects placed in service in 2017 or obtain the benefits of 100 percent expensing of personal property and land improvements for projects placed in service in 2018 through a cost segregation study.

How do Opportunity Zones work?

The Opportunity Zones program offers investors three incentives for putting their capital to work rebuilding economically distressed communities:

1. A **temporary deferral**: An investor can defer capital gains taxes until 2026 by putting and keeping unrealized gains in an Opportunity Fund.
2. A **reduction**: The original amount of capital gains on which an investor has to pay deferred taxes is reduced by 10% if the Opportunity Fund investment is held for 5 years and another 5% if held for 7 years.
3. An **exemption**: Any capital gains on investments made through the Opportunity Fund accrue *tax-free* as long as the investor holds them for at least 10 years.

Omnibus Spending Bill (2018): Key Provisions related to affordable housing



- > 12.5% percent increase in Housing Credit allocation for four years (2018-2021)
- > Income Averaging: Allows projects to accept tenants with higher average median incomes as long as the overall average of tenants in project does not exceed 60% AMI
- > Increased the cap for the Rental Assistance Demonstration (RAD) program from 225,000 to 455,000
- > Extended the RAD program to include HUD 202/811 PRAC properties

How does the Income Averaging Test work?

A new minimum test has been added to the two set-aside tests of:

- > At least 20 percent of the units had to be both rent restricted and occupied by households with incomes at or below 50 percent of area median income (AMI)
- > At least 40 percent of the units had to be both rent restricted and occupied by households with incomes at or below 60 percent of AMI.

The new third minimum set-aside (Income Averaging) is as follows:

- > At least 40 percent of the units have to be both rent-restricted and occupied by individuals whose incomes do not exceed the imputed income limitation designated by the taxpayer.
- > The average of the imputed income limitations designated cannot exceed 60 percent of AMI.
- > The designated imputed income limitations must be in 10 percent increments as follows: 20%, 30%, 40%, 50%, 60%, 70%, 80%

Omnibus Spending Bill (2018): Income Averaging Test



More Income Averaging information to know:

Is Income Averaging Required: There is no legal obligation on state HFAs to implement income averaging set-asides.

IRS Guidance and Form 8609: State HFAs do not have to wait for IRS guidance. Income averaging is allowed for new developments making minimum set asides/income elections after March 23, 2018.

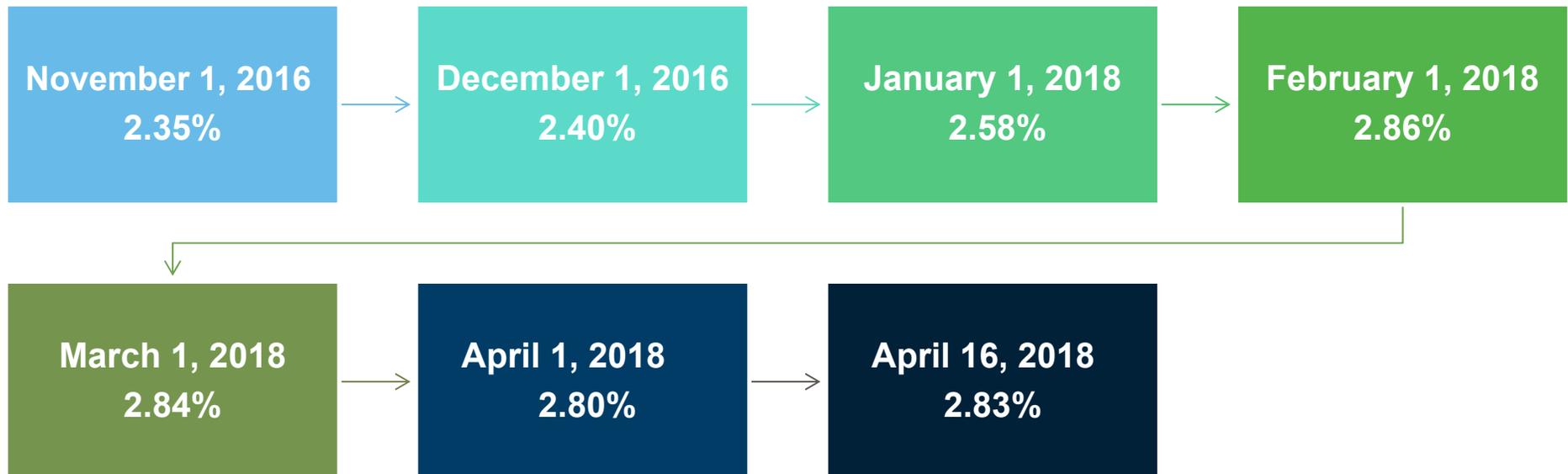
Projects Already Placed In Service: Projects already placed in service may not change the minimum set-aside to the Income Averaging option

Rent Limits vs, Income Limits: Income averaging applies to rent limits and income limits. A unit limited to 80% AMI can charge a maximum of 30% of 80% AMI while a unit limited to 30% AMI can charge a max rent of 30% of 30% AMI.

Interest rates



- > HUD 221d(4) [rehab/new construction] or HUD 223(f) [acquisition or refinance]
- > Still uncertain if there will be more Treasury rate hikes in 2018



Annual developments generate 95,700 jobs and \$9.1 billion in wages



Since inception of the program, \$122 billion of tax revenues have been generated for federal, state and local governments



A working paper by the National Bureau of Economic Research found that each LIHTC development in low income areas causes aggregate benefits in those neighborhoods of \$116 million, increasing surrounding home values by 6.5%



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