Developers of affordable housing in California are on pins and needles over Trump's tax plan

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Over two years, developer Geoffrey Morgan lined up investors, partnered with a medical clinic and found a manufacturer in Idaho to build 135 apartments for formerly homeless residents near downtown San Jose.

Everything was on track for the project to break ground by the end of last year. Then election day happened.

"I got Trumped," Morgan said.

President Trump's election has thrown a wrench into low-income housing development across the country, especially in California. His promise to cut business tax rates has large banks and other investors backing away from a tax credit program that reduces what companies owe in taxes in exchange for investing in low-income housing projects.

After election day, affordable housing projects across the state immediately saw multimillion-dollar budget gaps and future dollars are now at risk. The tax credit program is the largest source for funding for low-income housing in California, and the market downturn could mean a reduction in state low-income housing funding by $250 million this year, said Matt Schwartz, president and chief executive of California Housing Partnership, a nonprofit advocate for low-income housing.

"It's caused a huge amount of distress," Schwartz said.

The market slump comes at a trying time for housing in California. One-third of California renters spend more than half their income on housing costs, and the state is producing at least 100,000 fewer homes each year needed to meet demand for residents at all income levels, according to a recent state report. At the same time, the California Housing Partnership estimates that state and federal funding for low-income housing in California dropped 67% to $892 million annually between 2009 and 2015.

The federal program, along with a similar state effort, has provided $32 billion in funding for housing for low-income residents in California over the last three decades.

But Trump's pledge to reduce the corporate tax rate from its current 35% rate to 15%, as well as similar plans by the Republican-controlled Congress, means that companies might no longer need as many credits to pay less in taxes. Since election day, investors have fled the low-income housing tax credit market, according to Peter Lawrence, a director at Novogradac & Co., a national accounting and consulting firm that specializes in affordable housing. Those who have stayed are typically only willing to pay 10% to 15% less for tax credits in California than they were beforehand, Lawrence said.

The plummeting market blew holes in the budgets of some projects that were close to breaking ground, including Morgan's Second Street Studios in San Jose. After election day, Morgan's tax credit investor balked at paying the $26 million previously committed to the development, and was willing to shell out only $23.5 million, he said. Days before the project had to meet financing deadlines, the city of San Jose pumped in the extra $2.5 million needed to close the gap. Without the city's help, Morgan said, the development would have fallen through.

"For folks like us to have something like this come up at the last second, it's terrifying," Morgan said.

Developers are asking housing agencies in San Diego and Los Angeles to make up for similar shortfalls. The developer of a 52-unit project in San Diego for low-income disabled veterans has asked the city for an additional $1 million. Los Angeles has agreed to shell out an additional $2 million to make up a funding gap for two projects with a combined 93 units for low-income families in South Central and Hollywood.

"While we're concerned about potential long-term impacts on the program, we remain committed to supporting our partners in affordable housing development, who are instrumental in making housing available to the most vulnerable Angelenos," Rushmore Cervantes, general manager of Los Angeles' Housing and Community Investment Department, said in a statement.

In response to the market uncertainty, the state treasurer's office, which administers the federal and state tax credit programs, has extended its deadlines for low-income housing projects to complete their deals. The treasurer's office is unaware that any of the 269 low-income projects funded with $3.3 billion in tax credits last year has failed so far, a spokesman said. Developer applications for this year's first round of major funding are due in March.

The new projects seem likely to continue to receive less interest from investors. Lawrence, who is monitoring corporate tax reform in Washington, D.C., said its unclear when the president and Congress are going to introduce legislation and what the ultimate result might be.

"We may have some indefinite period of volatility going forward," Lawrence said.

Low-income housing developers remain on pins and needles.

"The practical matter is we're all facing extraordinary levels of uncertainty and trying to make changes in real time," said Daniel Falcon, a vice president at McCormack Baron Salazar, which received a tax credit last year for an 81-unit project for low-income families in Los Angeles' Westlake-MacArthur Park neighborhood. "Every time I see a CNN or L.A. Times update on my phone, I'm like, 'What happened? What's that going to do to my project now?'"

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