

How the proposed budget could stunt new affordable housing

For many Americans, facing hardship in today's real estate market is no unique struggle

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Low-income Americans are already struggling to keep a roof over their heads due to a growing affordable housing shortage.

But budgets drafted by the Trump administration and Congress, along with provisions in the tax cut package, are bound to make matters worse.

As a researcher who studies the intersection of tax law and housing policy, I am concerned about how these proposed changes would reduce the volume of new housing for low-income people and cut aid that people facing economic hardship use to cover their rent.

Spending on housing

The federal government stopped building public housing two decades ago after years of declining construction. Although it has demolished many of these homes, the government continues to own and rent out about 1.1 million of these units.

Nowadays, the government mostly seeks to help make privately owned and operated housing affordable by providing rental assistance to low-income tenants. The main way it does that is by funding the US\$19.3 billion Housing Choice Voucher program through which eligible tenants get help paying their rent.

The federal government also subsidizes the construction of privately owned and operated housing units that are officially designated as “affordable.” Private sector developers who build or rehabilitate affordable housing projects do so with the aid of the federal low-income housing tax credit.

In the U.S., affordable housing is defined as dwellings that cost less than 30 percent of low-income tenants’ income for rent and utilities or the owners’ mortgage, property taxes, homeowners’ insurance and utilities — based on regional median income levels.

The tax credit, which has provided about \$8 billion in subsidies for new affordable housing projects each year, has financed about 3 million new or rehabbed homes since 1987.

In addition, municipal and state debt governments often issue “private activity bonds” to finance low-income housing — as well as student loan programs, hospitals and big infrastructure projects like bridges and highways. Until now, these bonds have been exempt from federal taxes.

Not enough

The supply of affordable housing is so low that there is no state, city or county in the country where a full-time minimum wage employee can afford to rent a two-bedroom unit, according to the National Low Income Housing Coalition, an advocacy group.

And the department of Housing and Urban Development says that the number of low-income families paying more than half their income for rent or living in severely inadequate housing conditions without help from the government is nearing record levels.

As of 2015, roughly 20 million American households (excluding the homeless) were officially eligible for housing assistance. But nearly 75 percent of them did not get this help because of a lack of funds.

Meanwhile, a new study by Freddie Mac, a government-owned company that buys mortgages from lenders, found that the number of affordable housing units has plunged over the last 15 years. The study focused on the affordability of rental units in buildings that were both financed by Freddie Mac and refinanced during that same period.

In those buildings, the share of rental units affordable to very low-income renters — people living on an income that is less than half of their area's median, adjusted for their household size and local economy — dropped from 11.2 percent to 4.3 percent.

Calling the results “striking,” Freddie Mac speculated that the trend reflected a combination of increasing rents, stagnant incomes and potential changes to housing subsidies.

Curbing help

These housing woes are sure to become more dire.

One reason for this is that the proposed tax-cut package would abolish private activity bonds. These bonds currently help pay for the construction of more than 40 percent of new affordable housing units.

Less obviously, current tax reform proposals also stand to reduce the effectiveness of the low-income housing tax credit. While GOP lawmakers are not aiming to end the tax credit as part of their package of tax changes, the low corporate tax rates proposed in the tax bill before Congress would surely reduce the value of the tax credits.

The reason for this grim outlook has to do with the complicated way low-income housing tax credits work.

To spur new affordable housing projects, the tax credits must deliver a meaningful subsidy to housing developers. But developers usually don't use the tax credits directly. Instead, they sell the right to use the credits to banks and other investors. The investors essentially purchase the tax credits at a discount. The lower the price falls, the less value the developer receives.

The price that investors are paying to use the tax credits has already plummeted in anticipation of reduced tax rates, leaving developers unable to secure the funding they need to produce affordable housing. One expert analysis estimates that the proposed tax cuts could lead to 1 million fewer affordable housing units being produced over the next 10 years — about a third of what is currently produced.

Simple and stark

While the budget bills approved by the House and the Senate do not slice \$6 billion from HUD's budget, as the Trump administration tried to do in its spending proposal, they would still leave more American families unable to afford a roof over their heads.

The relatively generous Senate version of the housing line items appears likely to prevail as a way to make way for the tax overhaul. Even so, every state would have less money for housing vouchers, according to the Center for Budget and Policy Priorities, a think tank that researches safety net programs.

Perhaps this all sounds technical and complicated. But the outcome for many low-income Americans will be simple and stark.

The proposed tax changes that make it harder to finance new affordable housing units, combined with proposed cuts to tenant voucher programs, will increase the risk of becoming homeless and take a toll on the poor.