Established 1872

Reprinted from December 16, 2019

www.BankerandTradesman.com

BANKER & TRADESMAN

THE WARREN GROUP Since 1872 Real Estate & Financial Information

THE FINANCIAL SERVICES AND REAL ESTATE WEEKLY FOR MASSACHUSETTS

EXPIRATION DATE

Far Fewer LIHTC Units Are at Risk of Losing Affordability than Predicted

Four Key Factors Mean Potential Loss Is Much Less than 15,000 Predicted

BY ROGER HERZOG AND BILL BRAUNER
SPECIAL TO BANKER & TRADESMAN

Roger Herzog

Bill Brauner

Among the looming questions about housing preservation that the Commonwealth's affordable housing advocates and public officials are debating: Will affordable units funded through the Low Income Housing Tax Credit (LIHTC) program after 1990 be preserved when they hit their 30–year restrictions?

First, a little backstory. Beginning in 1990, affordable rental housing funded under the LIHTC program is required to carry a minimum affordability restriction term of 30 years.

In recent months, there have been concerns expressed – most notably in a report issued earlier this year by the New England Public Policy Center, the research arm of the Federal Reserve Bank of Boston – that most of these housing projects will lose affordability, with a potential risk of over 15,000 units going market-rate in Massachusetts by 2030.

That would represent a huge loss to a state that struggles with high costs of living and needs to maintain as many affordable units as it can.

The good news is that there is good news on that front.

CEDAC recently conducted an in–depth analysis of the affordability restrictions of the 228 LIHTC projects placed in service from 1990 through 2000, and the results show that the assumption that we'll lose thousands of affordable homes is not correct. Roughly 86 percent of the 15,679 LIHTC units in this cohort are subject to some form of longer–term affordability restriction and will not face the risk of market conversion before Dec. 31, 2030. This means that at least 13,466 of these LIHTC units will continue to be a resource for low income families and individuals well after 2030.

LIHTC, a federal tax credit that uses the tax code to finance the production of affordable housing, has proven to be extremely versatile in funding a wide array of rental housing. It is now the largest affordable housing funding program in the country, responsible for the production or preservation of approximately 107,000 affordable housing units each year. In Massachusetts, the program is currently funding over 3,000 affordable units statewide annually.

Factors for Longer Affordability

So why are so few projects at risk by 2030? Our research uncovered a number of key factors creating longer affordability terms. One of the most common reasons for longer affordability is a Tax Credit Regulatory Agreement (TCRA) that extends for 50 to 99 years, well in excess of the 30-year minimum term. Some developers committed to longer–term TCRAs at the time of their projects' initial funding applications to the state to score more points in the competitive process. This factor is responsible for protecting 58 projects – comprising 3,000 units – from being at risk in the next decade.

A second cause of affordability beyond 2030 is some form of refinance using public resources that generate new affordability restrictions, adding 15 to 45 years of additional affordability. To date, roughly 3,300 units of housing have restrictions that have been extended beyond 2030 due to a refinancing event.

A third category consists of projects with long–term Section 8 contracts. These are binding federal rental assistance contracts, typically for a 20–year term, and projects with over 2,100 units have Section 8 contracts that extend affordability beyond 2030.

Finally, there were a number of smaller funding programs that were part of the original financing packages of these LIHTC developments in the 1990s that required affordability terms longer than 30 years, and together account for over 4,000 units.

The net effect of all of these different types of restrictions is striking. From 1990 through 2000, there were 15,679 LIHTC units funded in Massachusetts. Of this total, only 2,213 units (14 percent of the total) will be at risk of market conversion before the end of 2030. The remaining 13,466 units have some form of legal requirement to maintain affordability beyond 2030, ranging from expirations in 2031 to projects that have agreed to affordability in perpetuity.

Recapitalization Still Needed

So that is good news. There are still some outstanding challenges that project owners need to address to maintain these affordable units. There will continue to be a need to recapitalize these properties.

Virtually all residential properties need to be recapitalized every 20 to 30 years. This recapitalization challenge however is more manageable for public officials than trying to preserve affordability when an owner has a legal ability to convert to market.

Moving forward, policymakers should continue to assist owners with longer affordability restrictions to recapitalize these properties as needed, to allow projects to continue to serve as quality housing for decades to come. ◀

Roger Herzog is the Executive Director of the Community Economic Development Assistance Corporation (CEDAC). **Bill Brauner** is CEDAC's Director of Housing Preservation & Policy.