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THE STATE OF HISTORIC TAX CREDITS

Linking Affordable Housing to Historic Preservation Using Tax Credits

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The National Low-Income Housing Coalition reports that in 2017, there was no state in which a person working full-time at the federal minimum wage could afford a two-bedroom apartment at fair market rent.

Housing affordability has been a growing national crisis over the past two decades and troubling statistics are not likely to improve soon. Historic tax credits (HTCs) have proven to be, at their best, a solution for helping to address these issues. With tax policy being debated at federal and state levels across the nation, these credits should be upheld as a tool to combat the crisis in times of both economic prosperity and recession.

Federal legislation for historic preservation began with the National Historic Preservation Act (NHPA) of 1966. While it was another decade before a federal HTC was implemented, the NHPA laid the groundwork for governmental support of these types of activities, characterizing them as important for economic and social prosperity for the present and the future. The federal HTC was championed by the Reagan administration for its "economic good sense" and eventually came to be characterized as "the nation's most effective federal program to promote urban and rural revitalization" by the Internal Revenue Service in 2002. The federal HTC is open to all types of income-producing real estate development, though housing is the leading use of the credit and has accounted for anywhere between 42 and 57 percent of HTC projects over the last five years, according to the National Park Service's (NPS's) "Statistical Report and Analysis for Fiscal Year 2016."

Likewise, the low-income housing tax credit (LIHTC) has been integral to affordable housing developments that have benefited American communities. This federal program has two qualification tracks: a maximum 9 percent credit taken over 10 years that is the result of a competitive allocation process and determined by state housing finance agencies in accordance with a qualified allocation plan (QAP) or a noncompetitive 4 percent credit using private

continued on page 2

continued from page 1

activity bonding authority. Just as HTC programs have been effective at stimulating historic building development, the LIHTC program has proven its usefulness in fulfilling its mission since its inception in 1986 and LIHTC-assisted residential developments account for approximately 90 percent of affordable rental housing in the United States.

Using sources of equity from both of these programs (often called "twinning") can be a critical source of subsidy for affordable housing projects. The law allows claiming the HTC all at once under pre-2018 rules and five years under the new law, (vs. 10 years for LIHTCs), thus providing for a higher credit value. As a result, the HTC program is a desirable source of additional gap financing. The newly released "Federal Tax Incentives for Rehabilitating Historic Buildings" for FY 2017 reports that nearly 7,000 low- and moderate-income housing units or 35 percent of all housing units rehabilitated or created using the HTC were created last year alone. That percentage was nearly 50 percent in the years following the 2008 recession (FY 2009-2011). Over the lifetime of the federal HTC (1977-2017), more than 165,000 low- and moderate-income housing units have been assisted by the program.

Several state governments have recognized the value of incentivizing affordable housing in historic buildings as a way to fulfill their own housing objectives. Four states have built into their own HTC programs special allocations to help fund affordable housing developments:

- Connecticut: The base credit is equal to 25 percent of total qualified rehabilitation expenses (QREs) but is increased to 30 percent for developments that include an affordable housing component for at least 20 percent of rental units (or 10 percent of for-sale units) up to the per project cap of $4.5 million.
- Delaware: The 20 percent credit is increased to 30 percent for low-income housing developments. (The annual program cap is $5 million.)
- Maine: The 25 percent credit, which is capped at $5 million per development and $25 million for the program annually, is increased to 32 percent for eligible affordable housing projects.
- Massachusetts: One of the most nuanced state HTC programs in the country allows developments to earn credits up to 20 percent of QREs. Credits are allocated on a competitive basis based on historic significance, public support and overall challenges of preservation. In addition, at least 25 percent of the credits allocated must be for affordable housing.

No matter the structure of the credit increase for affordable housing, the objective of these state programs is the same: Use historic buildings to address the affordable housing need. This can come in the form of housing preservation or newly created units. Many historic rehabilitations used for affordable housing are adaptive use of properties like former textile mills that allow for flexible layouts of units, or old schools and hospitals that are often ideal because of their double-loaded corridors, existing partition walls and abundant

continued on page 3

continued from page 2

windows which make designing within the Secretary of Interior's "Standards for Rehabilitation" attainable.

Loring House Apartments in Portland, Maine, was built to serve as the city hospital in 1902 and did so until the 1970s. In 1984, the building, with its rambling multiwing additions, was converted to 100 apartments, mostly studios and one bedrooms. Wishrock Group rehabilitated the building to continue to serve as affordable housing for seniors in the community in 2017. They were also able to use LIHTCs, the federal HTC and the 32 percent state HTC for affordable housing; the bonus credit from the state added more than $500,000 in equity.

With changes in the tax law that came late in 2017, HTCs may be more important than ever for affordable housing projects. According to Thom Amdur, executive director of the National Housing & Rehabilitation Association, many state and local gap resources were depleted last year to make up for postelection equity shortfalls and traditional federal gap funding resources like HOME and CDBG are unlikely to fill the gap in the current budget environment.

"Developers have to sharpen their pencils and get creative," said Amdur. "Strategies to curb costs such as vertical integration and value engineering, revenue management and green financing tools are among some of the solutions to making up the difference, and historic tax credits continue to be a valuable solution where they are available."

State lawmakers may do well to consider the programs of states such as Connecticut, Delaware, Maine and Massachusetts that are finding ways to find the common ground between historic building development and the low-income housing need to create an environment where affordable housing is being preserved or created and historic buildings are being put back into uses that positively affect state treasuries. And the continuation of the federal tax credit programs is absolutely necessary to support those efforts. ❖

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