



**Affordably Housing Policy Recommendation to the Affordable
Housing Working Group**

Summary

The Low-Income Housing Tax Credit (LIHTC) program has been highly effective in increasing the supply and availability of quality affordable housing in the US for 30 years. This system would be equally successful in creating and preserving quality affordable housing for low income residents in Australia if adopted by the Australian government.

The LIHTC program is the US federal government's primary program for encouraging private capital to invest in the development and preservation of affordable rental housing for low-income households. This system was established in 1986 and has since provided nearly 2.6 million affordable rental units (40,502 projects) in the United States. The LIHTC program is unique because it functions as a capital subsidy to stimulate the production and preservation of new affordable housing. We expect that the program will prove highly successful if adopted by the Australian government given its success in the US and due to the fact that many US LIHTC investors have a large presence in Australia. Given that many companies that are already familiar with LIHTC program have offices in Australia, they will be able to adopt the system quickly and efficiently.

Recommendation Highlights

We recommend the LIHTC program for three key reasons:

1. **Attractive Results:** The LIHTC program is the most successful affordable housing program in the history of the US. LIHTC units accounted for roughly *one-third* of all multifamily rental housing constructed between 1986 and 2011, and occupancy level has consistently been approximately 96%.
2. **Business Participation:** Nearly \$100 billion in private investment has been leveraged in the history of the LIHTC program. \$8 billion was deployed in recent years and continues to grow.
3. **Seamless Adoptability:** Many investors in the United States are multinational and have large offices in Australia. Because these companies are already familiar with the program, they will be able to participate in the program quickly and without spending significant time and resources understanding a new system.

LIHTC Basics

The LIHTC program was established in 1987 to solve the problems and inefficiencies in low-income housing supply following the use of public government housing and monetary-based subsidies, i.e. housing vouchers. This program was designed to attract private capital into the development and preservation of rental housing for low-income households. The federal government began to issue tax credits to affordable housing developers that could be sold to investors to fund affordable rental housing for low-income families. The program was highly successful in increasing affordable rental housing stock while dramatically reducing government spending on public housing.

Low-Income Housing Tax Credits are a dollar-for-dollar tax offset issued by the federal government and distributed by the states to affordable housing developers. Property developers apply for the credits from the state to fund the development of new affordable housing properties or the conversion of existing market-rate properties to low-income multi-family rental housing.

The tax credits are then on-sold to investors (companies or individuals) seeking to reduce their tax burden. The property developer uses the resulting proceeds to fund the equity portion of the new affordable housing project. The developer also applies for tax exempt debt financing issued by the state (usually in the form of 30-year fixed rate bonds) to fund the debt portion of the new affordable housing project. In exchange for the tax credits and tax exempt financing, the developer must guarantee that the property will be rented exclusively to low-income residents at lower than market prices for at least 30 years. A resident's eligibility, and the maximum rent they may be charged, is determined by the average income of the area. In exchange for developing the affordable housing project, the developer is permitted to include a developer fee as part of their development cost. The fee amount is a predetermined calculation based on development cost, asset location, and other factors.

Key Reasons to Adopt the LIHTC System

The LIHTC program has been highly effective in creating and preserving affordable housing in the US through private sector investment. Australia would greatly benefit by adopting this system for the following key reasons.

1. **Attractive Results:** In its history, the LIHTC program has been a resounding success in creating and preserving affordable housing while maintaining high levels of occupancy in these properties.
 - a. *Units Created:* LIHTC units accounted for roughly one-third of all multifamily rental housing constructed between 1987 and 2013. (2.1 million affordable units). In 2015, it is estimated that 90% of affordable housing is from the LIHTC program. In the 20 year period from 1995 to 2015, more than 70,000 LIHTC units were completed each year.
 - b. *Occupancy:* Over the course of the past decade, the occupancy level in housing tax credit properties has consistently been approximately 96%. This implies that not only are the units occupied, but also low-income families are choosing to stay in these units because the rents are lower than comparable market-rate rents and the property is in good physical condition. Given the normal turnover of rental units, this means that housing credit properties are effectively fully occupied.
 - c. *Investment Stability:* The LIHTC program has a significantly lower foreclosure rate relative to other real estate asset classes, around one-third of the normal foreclosure rate.
2. **Business Participation:** Since the program's conception in 1987, about \$100 billion in private funds have been invested in this program.
 - a. *Tax Incentives:* Private corporations and individuals are able to optimize their taxes by participating in the program. Developers often sell the tax credits at a 10-15% discount to investors. This allows investors to achieve a discount on their tax liability while allocating much needed funds to affordable housing, all without any direct government spending.
 - b. *Deal Scrutiny:* Investors purchasing low-income housing tax credits become the investment partner in the affordable housing project for 15 years. As is the case with any investment, this incents the investors to closely review the financial structure and

viability of the asset which typically results in durable financial structure. If the properties fall out of compliance with the standards, investors and developers face significant financial penalties.

- c. *Economic income*: The LIHTC program is a job creator. According to the National Association of Home Builders, every 1,000 unit LIHTC apartment developed creates 1,130 jobs, many of which are in the construction sector. Nationwide in the United States, the LIHTC program creates 95,700 jobs, \$3.5 billion in federal, state, and local taxes, and \$9.1 billion in economic income (wages and business income).
3. **Seamless Adoptability**: Many investors in the United States are multinational and have large offices in Australia. Many buyers of tax credits are Fortune 500 businesses, including banks, insurance companies, and large retailers (ex. JP Morgan, Google). These companies have major offices globally, including in Australia. Because they are already familiar with the system in the US, they can easily adopt the system in Australia. If the government decides to proceed with another route, these large companies must learn an entirely new system at significant cost.

The Low Income Housing Tax Credit program would allow the Australian government to quickly and efficiently increase the supply of high quality affordable housing stock, create jobs, and stimulate private sector investment, without increasing direct government spending. Australia would greatly benefit by adopting the most successful affordable housing development program in US history. WNC & Associates, as a pioneer and industry leader in affordable housing, would be very excited to work hand in hand with the Australian government to help design and shape the future of affordable housing in Australia.

WNC & Associates

WNC & Associates, Inc., was founded in 1971 when most people had never heard of affordable housing. At that time, few saw the opportunities in this emerging industry. That year we closed our first investment in affordable housing, becoming one of the first in the country to do so.

In 1987, when the states were learning how to allocate Low -Income Housing Tax Credits, WNC was already assisting developers with how to structure and use them effectively. We moved quickly in this new program and closed 22 acquisitions in the first year.

For over four decades, WNC has provided the experience, leadership, innovation and flexibility our customers have come to rely on. The key to our competitive advantage, however, is our ability to close transactions quickly and efficiently. We excel at this by drawing on our unparalleled experience and longevity in the industry and our company's extensive access to capital. Our senior officers average 25 years with WNC and 29 years in the real estate industry. Our investor base exceeds 19,500 institutional and retail clients, including 28 Fortune 500 companies, multinational banks and some of the nation's leading insurance companies.

Today, with more than \$7 BILLION of real estate assets acquired including over 1,250 properties in 45 states, we don't just say we are an "industry leader" and a "long-term partner," we've proven it for over four decades.

Please direct any inquires to Jack Aronson at +1 (415) 746-0666 or at jaronson@wncinc.com

Works Cited

- Baum-Snow, Nathaniel, and Justin Marion. "The Effects of Low Income Housing Tax Credit Developments on Neighborhoods." *Journal of Public Economics*. U.S. National Library of Medicine, n.d. Web. 14 Feb. 2016.
- Dietz, Robert. "A Win-Win-Win for Affordable Housing." *US News*. U.S. News & World Report, 5 Sept. 2013. Web. 14 Feb. 2016.
- Group, Reznick. "The Low-Income Housing Tax Credit Program at Year 25: A Current Look at Its Performance." *Reznick Group Report: The Low-Income Housing Tax Credit Program at Year 25* (n.d.): n. pag. *CohnReznick*. CohnReznick. Web.
- Harrold, Scott. "Affordable Housing." *Housing Finance Systems* (n.d.): n. pag. *Lancaster Pollard*. Lancaster Pollard, Apr.-May 2012. Web. 14 Feb. 2016.
- Ludwig, Terri. "Pay for Success: Building On 25 Years of Experience with the Low Income Housing Tax Credit." *Pay for Success: Building On 25 Years of Experience with the Low Income Housing Tax Credit* (n.d.): n. pag. *Federal Reserve Bank of San Francisco*. Enterprise Community Partners, Inc. Web. 11 Feb. 2016.
- National Association of Home Builders. "The Low Income Housing Tax Credit: The Most Successful Affordable Rental Housing Production Program in Our Nation's History." (n.d.): n. pag. *Novoco*. National Association of Home Builders, Oct. 2011. Web.
- Novogradac, Michael. "The Big 7: Seven Key Reasons for the LIHTC Program's Success." *Notes from Novogradac*. Wordpress, 31 July 2013. Web. 14 Feb. 2016.
- Novogradac, Michael. "State LIHTC Programs Grow in Popularity, Production." *Notes from Novogradac*. Wordpress, 24 Sept. 2014. Web. 14 Feb. 2016.
- Tucker, Harold. "Impact of LIHTC Housing in the US | Spectrum Enterprises." *Spectrum Enterprises RSS*. Spectrum Enterprises, 3 Apr. 2015. Web. 14 Feb. 2016.