

Affordable housing takes hit as tax credits wane

Nonprofits worry about cost of delaying projects if credits don't sell

by Michael Shaw Friday, January 30, 2009

Investors seek fewer tax credits during lean economic times and that's causing big problems for affordable housing projects, which often rely heavily on selling those credits to raise construction funds.

At least eight projects in the Sacramento region with a combined development cost of \$158 million could lose their federal tax credit allocations if they don't find any takers. That could put them on hold indefinitely.

"We've got so much invested," said Holly Wunder Stiles, a project manager for the Sacramento Mutual Housing Association, which had planned to start construction in March on a \$23 million, 90-unit apartment complex in North Highlands near McClellan Park. "We already have our plans. We're talking a very serious delay if we have to reapply for credits."

The nonprofit organization has spent \$1.5 million on pre-construction work and had hoped to raise about \$13 million through tax credits.

Several of the affected projects are part of a 10-year plan to end chronic homelessness for the estimated 2,500 people in the region without a place to live. That includes the North Highlands project and the planned transformation of the Budget Inn motel on Stockton Boulevard into a 74-unit transitional housing complex.

Affordable housing advocates and developers are scrambling to find solutions and are hoping a fix will be inserted into an economic stimulus package from Congress.

In better financial times, insurance companies, banks and other investors vigorously competed for the tax breaks. They pay up front to get them, but get a bargain in the long run by offsetting tax liability over 10 years. The federal government has spurred low-income housing development this way for years.

But lately, few are interested. Matt Schwartz, president and chief executive officer of the California Housing Partnership Corp., a nonprofit affordable housing advocate, said investor demand for tax credits nationwide in 2007 was \$9 billion. Demand fell to \$4.5 billion by the end of last year and is projected to fall to about \$3 billion this year.

Even when there is interest, there is little competition, so prices have plummeted.

Schwartz said credits sold for near face value during better economic times but now might go for 75 cents on the dollar. That means developers need to find more money to cover the shortfall.

The North Highlands project, the Budget Inn and six others were awarded \$59.3 million in credits last year that will expire at the end of March if no investors are found. A plan to revamp Hotel Berry in downtown Sacramento partially through the sale of tax credits collapsed last year due to a lack of investor support.

The credits apply to federal taxes, but are doled out by the California Tax Allocation Credit Committee, which determines worthy projects. Developers often enlist financial professionals and a net-

work of tax credit syndicators to complete the transaction.

Rachel Iskow, executive director of the Sacramento Mutual Housing Association, said banks are required by the Community Reinvestment Act and federal regulators to reinvest capital in low-income neighborhoods. But if their obligations in the Sacramento area have been met, they're unlikely to invest further.

So what happens to the projects that can't secure financing?

"That's a hard question to answer," said Christine Weichert, assistant director of the Sacramento Housing and Redevelopment Agency. Some might reapply for credits in the hope that the economy improves.

In the meantime, the state is considering extending the March deadline by 90 days, said Joe DeAnda, spokesman for state Treasurer Bill Lockyer. The Tax Credit Allocation Board will take up the issue next month.

"We have had a number of (tax credit) returns higher than normal, signaling they're having trouble selling them," DeAnda said. He said investors are wary of rural projects or those involving individuals with specific needs, such as the homeless.

Schwartz and other advocates are pushing for Congress to reinvigorate investment. Proposals include replacing credits with direct grants from the Treasury Department or allowing credits to be applied retroactively to times when companies had far more profit to offset.

“We’ve got to have a solution,” he said.

In the meantime, some low-income housing projects are being hit with what advocates are calling a “double-whammy.” Not only do they need to sell credits, they’re relying on bond proceeds from Proposition 1C. State officials froze most payments awarded from that program last month due to the budget crisis.

“I haven’t allowed myself time to think of the consequences,” Wunder Stiles said.



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For more information, call (916) 453-8400 or visit our website at mutualhousing.com.