How the Private Sector Can Help Solve the Affordable Housing Problem

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The United States is in the midst of an affordable housing crisis. Supply is falling far short of demand, and rents are reaching historic highs. According to data from Apartment List, nearly half of all renters in the country spend more than 30 percent of their income on rent, and one in four renters spends at least 50 percent of his or her income on rent. A recent report by the National Low Income Housing Coalition found that in 99 percent of counties, a full-time minimum-wage worker cannot afford a fair market one-bedroom rental. While policymakers explore various ways to address this crisis, the private sector can play a positive role in ensuring that all Americans have access to affordable housing. Let’s explore some programs and opportunities available to real estate developers, owners, and investors that bolster affordable housing.

Low Income Housing Tax Credits (LIHTC)

The federal LIHTC program is the primary tool that many developers and owners use to build and rehabilitate affordable housing. LIHTC provides a dollar-for-dollar reduction in federal tax liability. Developers and owners can either use the federal tax credits themselves or sell them to investors who can use the credits to offset their federal tax liability. Properties must meet certain requirements that restrict both the amount of rent and the income of eligible tenants, and such restrictions must remain in place for at least 30 years.

Rental Assistance

The Section 8 Housing Choice Voucher program is funded through the Department of Housing and Urban Development and enables owners of rental properties to offer affordable housing to low-income tenants without compromising rental rates. The program allows qualified tenants to pay 30 percent of the tenant’s monthly income towards rent, and the government pays a rent subsidy to the owner to cover the remaining rent.

Local Government Programs that Promote Naturally Occurring Affordable Housing (NOAH)

NOAH refers to rental properties that are affordable for low and moderate income earners without federal subsidies. Municipalities are increasingly offering tax incentives and other benefits to property owners who agree to maintain NOAH properties. Minneapolis, for example, offers property tax reductions to property owners who agree to maintain the affordability of at least 20 percent of
their rental units for a period of 10 years. Minneapolis also assists non-profit housing providers with acquiring and preserving NOAH rental properties by offering low interest rate loans in exchange for owners agreeing to maintain certain rent and income restrictions at the property for at least 15 years.

Investment Opportunities

Affordable housing is considered one of the most stable asset classes in real estate given the high demand, low turnover rates, and low vacancy rates. Affordable housing offers investors the opportunity to have a positive social impact while still generating a strong return. There are several private equity funds, real estate investment trusts, and crowdfunding firms dedicated to providing affordable housing. Another investment option is the newer federal opportunity zone program, which is designed to help raise capital for development in low-income communities by allowing investors to defer taxation of previous capital gains.

By taking advantage of the programs and incentives described above, the private sector can have a meaningful impact on the nation’s need for more affordable housing. Moss & Barnett’s Real Estate group has extensive experience in the multifamily housing sector and can assist with the acquisition, development, financing of, and investment in affordable housing projects.

Attorneys

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