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UP FOR GROWTH® LEGISLATIVE NOTE

H.R. 6175, *The Revitalizing Economies, Housing and Business (REHAB) Act of 2020*

Rep. Earl Blumenauer (D-OR) and Rep. Mike Kelly (R-PA)

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BACKGROUND

From 2000–2015, housing production in the United States fell 7.3 million homes short relative to housing needs.[1] This underproduction of homes has consequences for the economy writ large and negative impacts on renters as households grapple with rising rent costs. Nearly half of the nation's 44 million renter households pay more than 30 percent of their income on rent and rent-related costs and an additional 17 percent of their income on transportation costs.[2,3] This cost burdening limits economic mobility and stifles overall community and economic growth.

Importantly, the consequences of underproduction are most acutely felt in high-opportunity, transit-connected areas. Demand for these communities is high as they provide opportunities for jobs and amenities, but often, the supply of housing in these areas is kept artificially low because of burdensome structural and systemic barriers.[4] Transit-Oriented Development (TOD) solutions are some of the best tools for ensuring that housing gets built in opportunity-rich, transit-served areas. Increasing the production and preservation of housing is key for correcting the supply and demand imbalance that leaves millions of families unable to access affordable homes in communities near jobs and opportunities. Policies and programs that lead to more housing production — both through new construction and rehabilitation of existing structures — are critical. Solving the housing crisis requires both increasing the supply and concentrating growth in the areas that have the most impact on social and economic mobility.

While new construction in walkable urban areas is important, many cities have a supply of older buildings that could be rehabilitated to meet critical housing needs. High costs associated with rehabilitation projects and improving surrounding infrastructure disincentivizes housing developers from investing in these projects. As a result, many older buildings in high opportunity areas go underutilized, despite the growing demand for housing in these areas. Tax credits and financing incentives that help make these projects feasible are one way that the federal government can help spur redevelopment and help localities fulfill important housing needs.

The Revitalizing Economies, Housing, and Business (REHAB) Act would create a federal tax credit to support the redevelopment of older, non-historic buildings near transit walksheds. Credits in the REHAB Act would go toward both site redevelopment and infrastructure improvement, helping to close the gap between development cost and projected revenue.

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LEGISLATIVE SUMMARY

The REHAB Act seeks to increase the supply of housing, particularly in transit served areas, by reinstating and expanding the 10 percent rehabilitation tax credit. The bill would expand the tax credit application for residential and nonresidential use in non-historically designated buildings that are at least 50 years old and within one half mile of existing or proposed transit stops. Specifically, H.R. 6175 would:

1. Reinstate the 10 percent rehabilitation tax credit in the Internal Revenue Code § 47 for buildings that are not certified historic structures.

2. Increase the tax credit from 10 percent to 15 percent of rehabilitation expenditures.

3. Modify requirements that the building be placed in service prior to 1936, to a requirement that the building be placed in service 50 years prior to the year of application for the credit.

4. Require that eligible buildings be within one half mile of existing fixed guideway, commuter rail, or passenger rail stations or fully funded and planned public transportation projects.

5. Expand the use of the credit to residential buildings by including "qualified rehabilitated buildings" as an exception in Internal Revenue Code § 50(b)(2)(C).

6. Require that applicants certify that the building receiving the credit is not a certified historic structure.

7. Provide a 25 percent tax credit to cover the cost of infrastructure improvements that are required as part of project rehabilitation expenditures. Infrastructure expenses cannot exceed 25 percent of total project costs.

8. Expand the REHAB credit to building expansion expenses for adjacent buildings. The expansion-related expenditures cannot exceed 100 percent of those attributable to the original qualifying building.

9. Provide a 25 percent tax credit for expenditures related to rent-restricted housing, as defined in Internal Revenue Code § 42(g)(2), for households earning less than 100 percent area median income (AMI). Buildings must remain affordable for 10 years or face a recapture period.

10. Establish a public reporting requirement for recipients of the tax credit.

LEGISLATIVE ANALYSIS

Rehabilitation and preservation are important tools for achieving affordable housing goals. The existing 20 percent Historic Tax Credit, which is analogous to the proposed REHAB Act credit but only available to historically certified properties, has created more than 153,000 affordable housing units since its inception in 1976.[5] Research from Smart Growth America finds that nearly 145,000 buildings located in central business districts and downtown areas would be eligible for the REHAB tax credit. 84 percent of these buildings are multifamily buildings.[6] Subsidizing rehabilitation of these buildings — and surrounding infrastructure improvements — would likely spur economic development and increase the supply of homes, businesses, and stores in transit-served corridors.

The bill's expansion of credit eligibility to residential use is critical for maximizing the benefits of the program. Cost constraints and other barriers to housing keep supply low and force housing production into either lower opportunity suburban areas where land and development costs are cheaper or into luxury apartments that require higher rents to achieve necessary rate of return on investment. The REHAB credit — particularly as it applies to low-income affordable housing — could help incentivize much-needed housing in high opportunity areas available to low and moderate income households.

Because the REHAB credit would differ significantly from the 10 percent rehabilitation credit, both in size and application, predicting the impact and up take is difficult. Demand for housing in TOD areas and the large inventory of buildings that would qualify for the credit indicate that this bill would have a positive impact on neighborhood revitalization and housing production.

ABOUT UP FOR GROWTH®

Up for Growth® is a national 501(c)(3) organization that forges policies and partnerships to achieve housing equity, eliminate systemic barriers, and create more homes.

[1] Up for Growth. (2018). *Housing Underproduction in the United States.* Retrieved from: https://www.upforgrowth.org/sites/default/files/2018-09/housing_underproduction.pdf

[2] Harvard Joint Center on Housing Studies. (2019) *The State of the Nation's Housing 2019.* Retrieved from: https://www.jchs.harvard.edu/state-nations-housing-2019

[3] The New Democrats Coalition. (2018). *Missing Millions of Homes*. Retrieved from: https://newdemocratcoalition.house.gov/imo/media/doc/NDC%20Missing%20Millions%20of%20Homes_Housing%20TF%20Findings%20Report_June%202018.pdf

[4] Tracy Hadden Loh, Christopher B. Leinberger, and Jordan Chafetz. (2010) *Foot Traffic Ahead: Ranking Walkable Urbanism in America's Largest Metros 2019*. Retrieved from: https://smartgrowthamerica.org/resources/foot-traffic-ahead-2019/

[5] Elizabeth Rosin. (2017). *Using the Historic Tax Credit for Affordable Housing.* HUD Exchange. Retrieved from: https://www.hudexchange.info/programs/environmental-review/historic-preservation/tax-credit/#:~:text=may%20affect%20them.-,Introduction,retail%2C%20manufacturing%20and%20entertainment%20space.

[6] Smart Growth America. (2020). *REHAB Act and Real Estate.* Unpublished research.

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