HOW DO FEDERAL TAX CREDITS PRODUCE AFFORDABLE HOUSING?

Affordable housing costs the same as market-rate housing to build. To keep the rents affordable developers can only borrow a small amount, creating a financing gap.

To cover the full cost of development, developers compete for subsidy funds in the form of tax credits and local municipal support.

There are two tax credit programs that developers can use to fund a development:

LOCAL FUNDS
Developer must secure local funds before applying for competitive tax credits.

COMPETITIVE TAX CREDITS
These tax credits are awarded to competitive projects and cover **approx. 70% of the cost of development** (9%/LIHTC).

LOCAL FUNDS
Developer must secure local funds before applying for non-competitive tax credits.

NON-COMPETITIVE TAX CREDITS
These tax credits are granted once local funds are secured and **cover 30% of the cost of development** (4%/Bond).

Tax credits are converted to cash by selling them to for-profit companies (e.g. banks) who typically purchase for less than face value (approx. 90¢/$1).

Developers take out small mortgage to keep rents low.

Developer secures additional gap funds.

Developer builds affordable housing and guarantees low rents for 60+ years (filed on deed).

ALLOCATION ROAD BLOCKS
Tax credits are allocated based on population census data which can mean a lag in available funding for growing markets. The value of the credits is also highly volatile and subject to changes in interest rates and market conditions.

GAP FUNDS ROAD BLOCKS
Gap funding is highly competitive with significantly more requests than funds available. Funding sources are also on different time lines which do not always align.

TIME ROAD BLOCKS
Piecing together the funding needed to secure tax credit funds can typically take up to 2-3 years, holding up development and increasing the cost to build.

REACH Community Development