FACT SHEET

Neighborhood Homes Investment Act (H.R. 3940/S. 657)

Our nation continues to face a fair and affordable housing crisis, and across the nation once-thriving urban and rural communities struggle with large stocks of mostly single-family homes in disrepair that sit empty and in need of care. It is virtually impossible to finance the renovation or replacement of these homes, especially in neighborhoods of color where properties are significantly undervalued. Starter homes that would normally be available to first-time homebuyers ready for homeownership continue to be swiped up by investor purchasers and put up for rent: in 2021 1 in 7 homes sold throughout the United States' largest metropolitan areas were bought by investors. Most of these homes were in Black communities in southern and post-industrial Midwest cities that have yet to recover from the Great Recession. And this may only worsen, as MetLife Investment Management estimates that by 2030 nearly 7.6 million homes will be owned by institutional investors and make up more than 40 percent of all single-family rentals throughout the United States. Investors have the cash on hand to outbid owner-occupants, placing homeownership further out of reach for new potential homeowners who want to build wealth and plant roots in their communities.

The bipartisan Neighborhood Homes Investment Act (NHIA) offers a solution to begin renovating or developing homes for owner-occupancy in communities still reeling from the 2008 financial crisis and support the construction or rehabilitation of 500,000 homes over the next 10 years. NHIA creates a tax credit to cover the gap between the cost of building or renovating homes and the price at which they can be sold, thereby supporting renovation and new construction depending on the specific needs of a community or homeowner.

The Neighborhood Homes Investment Act would support widespread economic activity, including:

- Rehabilitation or development of as many as 500,000 affordable homes for purchase by owner-occupants;
- Spur $125 billion in total development activity;
- Create 861,000 jobs and $56 billion in wages and salaries in construction and construction-related industries; and,
- Generate $26 billion in federal and $12 billion in state and local tax revenues and fees.

Under the NHIA, states would allocate tax credit authority on a competitive basis to project sponsors (developers, investors, lenders, or local governments), totaling $2 billion per year. The Internal Revenue Service (IRS) would be responsible for developing regulations for the program, collecting data on program administration, and monitoring performance.

Project sponsors would be responsible for using tax credits to raise equity capital from investors who would cover construction and marketing costs and risks. Investors would receive tax credits only after construction or rehab work is completed AND the property is occupied by an eligible homeowner.

Targeting Investment in Communities with the Greatest Needs

To qualify for credit, homes must be in communities with high poverty rates, low median family incomes, and low home values. This targeting ensures that 22 percent of metropolitan census tracts and 27 percent of non-metropolitan census tracts qualify for NHIA investments. Areas that don't meet qualification criteria may still benefit as states would be able to use up to 20 percent of their tax credit allocations to assist additional non-metropolitan census tracts, existing lower-income homeowners in rapidly gentrifying census tracts, communities affected by natural disasters, and for homes built on crumbling foundations.

NHIA Investment Helps Restore and Support Owner-Occupancy in Communities

Homes developed or rehabilitated for sale using NHIA tax credits may only be purchased by prospective homeowners who meet specific qualification criteria:

- Eligible buyers must have incomes at or below 140 percent of the area or state median income;
- Tax credits are limited to the gap between development costs and net sales proceeds, up to 35 percent of the lesser of:
    - Eligible costs such as construction, rehabilitation, land and building acquisition, demolition, and environmental remediation, or
    - 80 percent of the national median new home sales price; and
- Sales prices of rehabilitated or new homes are capped to 4 times the metropolitan area or state median family income. Higher limits apply with 2-4 unit homes.

For the rehabilitation of homes where a current owner resides, a homeowner must have income at or below the area/state median incomes. Homeowners would receive a tax credit equaling the lowest of:

- 50 percent of the rehab cost;
- Rehab costs less any homeowner repayments; and,
- $50,000.

Ensuring the Neighborhood Homes Investment Act Counteracts Displacement in Communities with the Greatest Needs

NFHA supports NHIA, but it is critically important that the bill include a Sense of Congress or Statement of Policy that makes clear the need for HUD and the Department of Treasury to implement the program in a manner that is intentional about avoiding displacement of existing residents. NFHA recommends adding the following language.

Congress –

1. *Supports continuing homeownership for current residents of distressed neighborhoods as part of the revitalization of those neighborhoods;*
2. *Seeks to minimize displacement of current residents of distressed neighborhoods;*
3. *Expects that the Departments of Treasury and Housing and Urban Development will work together cooperatively, including through development of a Memorandum of Understanding if appropriate, to assure that implementation of this legislation is consistent with the provisions of the Fair Housing Act.*

For more information, please contact Monica Reid at MReid@nationalfairhousing.org.