

Trump's budget plans have already cut financial support for low-cost housing

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The pool of private funds available to build or preserve affordable housing in the United States has shrunk by about \$1 billion since November, and President Trump's tax plan is to blame — even though it hasn't been adopted yet.

The president's proposal to slash the tax rate for corporations has had the side effect of weakening a federal tax-credit program that supplies the main flow of money for apartment buildings for low-income people in the Washington area and nationwide. It's been the biggest setback for such financing since the 2008 recession.

Banks and other institutions have curbed how much they're investing via the low-profile program, because they won't need the benefits as much if their tax rate is reduced by more than half as the administration proposes.

The result has been a drop of at least 10 percent since the election in the \$14 billion of private money invested annually in the Low-Income Housing Tax Credits program, according to industry analysts. That's enough to finance about 8,000 affordable rental units.

For now, states, cities and developers are digging deeper into their pockets to provide extra funds to fill the gap. But that depletes money available for other housing projects and related programs. And some projects have been canceled altogether, or remain in limbo as developers wait to see if local authorities come through with necessary funds.

The drop in support for affordable housing undercuts high-priority efforts by state and local governments to accelerate production of low-cost apartments to combat gentrification and slow the widening of the economic divide between affluent and disadvantaged populations.

"These are deals that are already hard enough to finance," said Corey Powell, chief operating officer of Dantes Partners, a District developer that specializes in low-cost housing. "This just puts a new burden on scarce resources for affordable housing."

In addition, housing officials fear their challenges will grow even larger because the administration wants to cut spending on rental vouchers and other federal programs that are also critical to paying for low-cost housing projects. The White House proposed to reduce the budget for the U.S. Department of Housing and Urban Development by 15 percent, or \$7.4 billion.

“It’s a double whammy, with the [tax credit] changes coupled with eventual scarcity of federal resources,” Holly Glauser, director of development for the Pennsylvania Housing Finance Agency, said. “It really drives down the number of units you are going to be able to assist with.”

In Northern Virginia, a plan to renovate 204 low-cost apartments for seniors at the nonprofit Culpepper Garden facility in Arlington has hit two obstacles. First, the change in the tax-credit market created a hole of nearly \$2 million in a \$60.5 million financing package put together by the developer, Wesley Housing.

In response, Wesley and Culpepper Gardens restructured the deal and think it can still go through — but it depends on obtaining federal vouchers that help residents pay the rent.

“If we don’t get those vouchers, the gap couldn’t be closed, and the deal might not get done,” Paul Browne, vice president of real estate at Wesley, said.

The Trump White House has proposed to cut the voucher program, but it’s not clear whether that will affect projects like Culpepper that are already in the works. HUD Secretary Ben Carson told Congress on June 7 that the spending cuts are needed to save taxpayer money, to promote “freedom from regulations and bureaucracy,” and support “a path to self-sufficiency” for low-income people.

The outcome matters to the elderly residents at Culpepper. Garnetta Spriggs, 88, is eager to see the renovation go through because it would mean having washing machines and dryers on every floor.

“I wouldn’t have to lug my laundry all the way down to the basement,” said Spriggs, who lives on the eighth floor.

Like other residents at Culpepper, Spriggs said she could not afford to live elsewhere. Her only income is her pension from working as a CIA computer operator. She pays \$894 a month for an efficiency apartment.

“It helps me to continue to be independent and not rely on my children,” Spriggs said.

The building has not been renovated since it opened in 1975. The rehabilitation is necessary to replace outdated heating and cooling systems, improve kitchens and lighting, and meet requirements of the Americans With Disabilities Act.

Robert Woods, 68, looks forward to the upgraded heating and air conditioning. At present, residents are able to heat or cool their apartment, but cannot switch from one to the other in response to temperature changes.

Woods said he lives at Culpepper because his only income is his Social Security check. His savings evaporated after his sedan business at Dulles International Airport collapsed in the wake of the Sept. 11, 2001, terrorist attacks. He pays \$820 for a one-bedroom apartment, in addition to receiving a county subsidy of about \$200 a month.

“Only through what they offer here could I have any money left to buy clothes or food,” Woods said.

The shortage of low-cost housing in America is routinely called a “crisis.” A recent report by the Joint Center for Housing Studies at Harvard University found that about 11.1 million renter households were “severely cost burdened” in 2015, which means they spent more than half their incomes for housing.

The drop in financing available via federal tax credits began with Trump’s election, when investors realized that Republican control of both the White House and Congress could lead to a historic tax-reform package.

Trump has pledged to lower the corporate tax rate from 35 percent to 15 percent. He says that would improve American companies’ competitiveness and free up private resources to create new jobs.

“The uncertainty of what tax rates might be in the future immediately caused investors to take a step back,” said Beth Mullen, national director of JohnReznick’s affordable housing industry practice.

She and other experts said it was the biggest disruption in the market since the housing market collapse nine years ago.

In the District, the drop created a shortfall totaling \$15.6 million that put at risk 13 projects to build or rehabilitate 1,225 low-cost rental units. But protecting affordable housing is a signature issue for Mayor Muriel E. Bowser (D), and the city has an unusually large trust fund, called the Housing Production Trust Fund, to subsidize such efforts.

As a result, the District agreed recently to invest \$12.8 million to ensure that the 13 projects go forward.

“We’re only able to fill that gap because we’re a city with abundant local funds,” Allison Ladd, deputy director of the District’s department of housing and community development, said.

The downside is that the Housing Production Trust Fund was depleted faster than expected. That will reduce the city’s ability to finance projects still in the pipeline.

“It means there’s less funds for the future,” Ladd said.

Pennsylvania also stepped in recently and shifted \$4 million to salvage eight projects, which had financing that would otherwise have collapsed because of the shrinkage of tax-credit financing.

"We cobbled things together. We shook the couch cushions to make it work," Glauser, of the state housing finance agency, said.

The price was a loss of funds for other priorities including funding homeless shelters and rental assistance in rural counties.

The loss of tax-credit financing has had its most severe impact in rural areas, towns or small cities, where investors are wary of financing affordable housing in the first place.

"Rural markets in Ohio got hit harder than Columbus, Cincinnati and Cleveland," said Brian W. Coate, vice president at Lancaster Pollard, an Ohio-based lending firm. Investors "are more excited about investing in a city. They think the housing market is going to be more stable," he said.

Dulpepper Garden resident Woods offered a bit of dark humor when asked what he'd do if he lost his subsidized apartment.

"There's a lot of new bridges they've built you can live under," he said.

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