

10 Things We Can Do Now To Promote Affordable Housing

“There are many other common sense solutions that reasonable people concerned just with implementing good policy would be able to agree on. But we’re not doing any of that.”

~State Assembly Member, Kevin Kiley, speaking before the Assembly Housing Community Development Committee in June of 2021

PREFACE

The following presentation was made at the [Catalysts For Local Control](#) Town Hall meeting on September 7, 2022, by Bob Silvestri, president of [Community Venture Partners., Inc.](#) and publisher of [The Marin Post](#). To read the full version of the published article [CLICK HERE](#).

The following are links to recommended reading, to better appreciate the overall context within which this presentation's proposals were made.

- [The California State Legislature is beating a dead horse](#)
- [Dazed and Confused – California Housing](#)
- [Small is Better – Missed Opportunity](#)
- [The Great Unaffordability Crisis and Housing Costs](#)
- [The State's RHNA Housing Quota days are numbered](#)

HISTORY LESSONS

- The greatest mistake federal government ever made -- raising interest rates after the 1929 stock market crash.... worsening the Great Depression.
- Second greatest mistake - bailing out the big banks (the “top”) after the crash of 2008... instead of to millions of Americans who lost their jobs and homes (the “bottom”) -- slowest economic recovery since the Great Depression.
- Neither economy nor housing affordability depend on the health of the big banks or big housing developers. Socioeconomic success depends on the health of the working middle class.
- Trickle-down economics is a con.

WE HAVE A MARKET-BASED ECONOMY

- A market-based, profit-driven system **will never build affordable housing** unless it's directly in its self-interest to do so or it is subsidized.
- Sacramento has **turned over control of housing policy to the market** without requiring enough **public benefits** in return.
- We're getting **market-rate development, gentrification, displacement,** and a myriad of loophole-exploiting gimmicks to qualify for **more density and escape paying property taxes.**
- **The state has abandoned its fundamental responsibility to provide housing for those most in need: the poor, the disenfranchised, and the working middle class.**

THERE'S NOT ENOUGH MONEY?

- True, if subsidies paid for by taxpayers.
- Meanwhile, the world is awash in speculative capital, throwing stupid amounts of money into questionable, Wall Street, startup ventures.
- Housing policies and tax laws are misaligned with what private investment capital needs.
- What is the incentive for investors or future homeowners if affordable housing is subject to deed-restricted upside appreciation, deed-restricted rental rates, or rent control?
- How do we attract that capital without “giving away the store” and getting a paltry amount of affordable units in return?

ECONOMIES OF SCALE

- **Costs per unit** decrease with economies of scale. So housing **legislation focuses on density** designed **big projects by big developers**: (100 or more units in one location):
- “**Bigger is better**” has been **detrimental**.
- **State’s focus is misaligned with the reality** and the **majority** of development and adaptive-reuse **opportunities for smaller, infill projects** (less than 100 units)
- **Smaller, local developers better** situated to build **community-serving, infill projects**. But **excluded** from incentive programs.
- **We need large-scale assistance programs for small-scale, local development opportunities.**

CALIFORNIA HAS HIGH TAX RATES

- California has the **highest tax rates in the country** for property taxes, sales taxes, business fees and taxes, and income taxes combined.
- High tax rates **reduce market liquidity**, are a **disincentive to risk-taking**, and become a **monetary and psychological barrier** for buyers and sellers.
- California treats **real estate investment gains as ordinary income**. California has **no capital gains tax** for real estate transactions or sale of personal residences.
- An **obstacle to market liquidity**.
- **Conversely, any tax benefits offered can be a very powerful incentive. Use this!**

THERE'S ONLY SO MUCH CALIFORNIA CAN DO?

- **Big developers** have **well-paid, lobbyists** in Washington D.C. to remove local zoning and planning control.
- **California** has **no one representing us** in D.C. who is **solely focused** on our affordable housing challenges.
- California has to **“lobby up the ladder”** to win support for the **innovative approaches** to housing finance and tax incentives that require federal participation.

...AND THE LIST OF CHALLENGES GOES ON

- Mortgage rates are rising and property operating and maintenance costs rising from inflation.
- Home buyers are having harder time qualifying for loans or coming up with a sufficient down payment.
- Lenders are reluctant to lend to marginal buyers, having been burned in the past.
- Renters are being priced out of metropolitan markets.

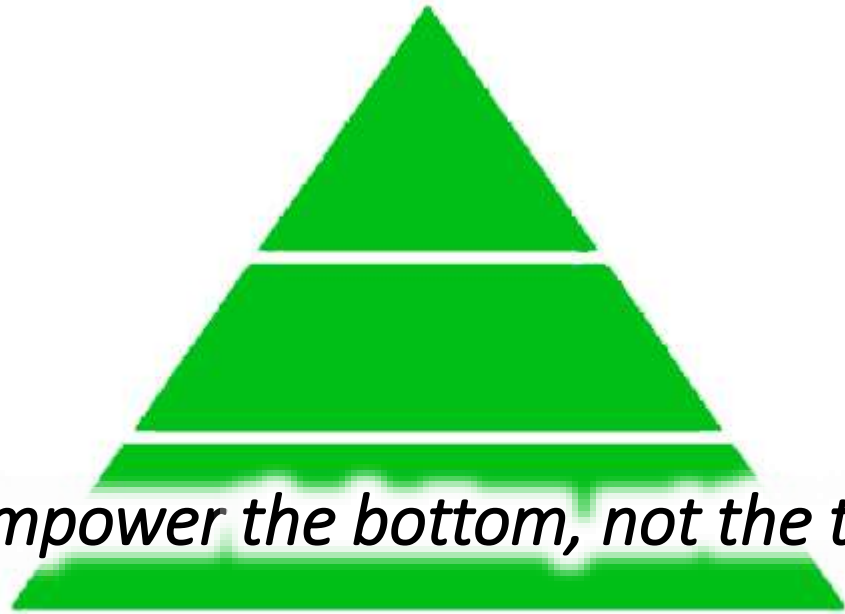
- **Local governments on the front lines** of the housing battle **without any bullets in the guns** (actually, without even any guns).
- **Local governments get all the blame** for failing to build housing-- but **have no funding or “carrots”** to offer developers.
- **Developers are the gatekeepers** to a city’s ability **to fulfill its RHNA** housing quota, **avoid state penalties, fines, and third-party lawsuits**, or even benefit from housing tax credit programs. – It’s a real estate **developer’s dream**.
- **Without more giveaways** of land, zoning rights, low-cost financing, or taxpayer-funded grants, developers have **no motivation to develop anything**.
- **Developers can go elsewhere** if returns on capital are not favorable enough.

- **Developers are good negotiators** and used to pressing for as much as they can get until the deal almost breaks.
- **Cities have negligible negotiation skills** and only seem **good at writing big checks, taking on too much debt, and worrying** about punishments from state agencies.
- Investment returns decide **what** gets proposed, **where** it gets built, and **how** it's designed.
- **This is terrible public policy that has to be changed.**



California housing policies have everything upside down

10 THINGS WE CAN DO TO PROMOTE AFFORDABLE HOUSING



Empower the bottom, not the top.

Build low-income housing for those most in need
(less than 50% of the median income)

1. CHANGE THE TAX CODE

- Create a California capital gains tax on earnings from investment in low-income housing.

Offer developers reduced taxes on the revenues from the operations and/or sale of *low-income housing* – increased return on investment acts as a **subsidy**.

- Change the 1031 exchange law to allow for “non-like-kind” tax deferred sales for investment in affordable housing.

Allow tax-deferred *exchanges of “non-like-kind” investments only for low-income housing* investment.

Gains on stocks, art, Bitcoins could *free up tens of billions of dollars* for low-income housing development.

1. CHANGE THE TAX CODE

- Create a reduced rate, capital gains tax on the sale of a primary residence for owners who are 55 years old or older.

A one-time, reduced tax rate -- *a powerful incentive to increase housing supply* available for growing families.

- Create a state tax deduction for donations to for-profit projects, but ONLY for very-low-income housing development

Allow charitable tax deductions to qualified “for-profit” ventures *only to develop very low-income housing* (rental housing for 30% of median income or less).

2. INCREASE TAX CREDIT SUBSIDIES FOR LOW-INCOME HOUSING DEVELOPMENT

- Increase the federal LIHTC and California program, tenfold.

The Federal Low-Income Housing Tax Credit (“LIHTC”) program has been a *very successful incentive* for the development of low-income and affordable housing. LIHTCs are involved with 90% of low-income housing built.

The program is behind the times.

In 1986, LIHTC was \$6.8 billion. Today, it’s \$9.6 billion. **It needs to be \$100 billion.**

3. SEND TAX CREDITS DIRECTLY TO LOCAL GOVERNMENTS

- Send LIHTC directly to Cities and Counties

Federal Low-Income Tax Credits go to The California Tax Credit Allocation Committee (CTCAC) then both LIHTC and California's version of the LIHTC go to projects.

Concentration of decision-making in Sacramento = *political influence and credits going to large projects* by large developers.

Distribute tax credits directly to California cities and counties, based on % of population -- *allocate credits, locally.*

Give local government negotiating tools to build the types of low-income housing that are most needed.

3. ...AND EMPOWER SMALL DEVELOPERS

- Create a public entity to enable tax credit syndication for small developers

Tax credits sold by developers to third-party investors (i.e., major corporations).

Transactions done through syndicators who also package credits into derivatives for institutional investors.

Syndicators won't work with smaller developers because it's not profitable (too much work for small percentage-based fees).

A public syndication agency is needed to facilitate tax credit sales for small developers.

4. FUND PHAs TO PRESERVE AND DEVELOP AFFORDABLE HOUSING

- Fund California public housing agencies so they can do their job

The *California Association of Housing Authorities* (CAHA) is a collaborative organization representing PHAs in *72 cities and counties* in California.

The most knowledgeable about the affordable housing needs and opportunities in their communities,

The most qualified to implement regional, state, and federal programs and regulations impacting the development/redevelopment of affordable housing.

5. CREATE PROGRAMS THAT ENABLE HOME OWNERSHIP

- Offer first-time home buyers co-equity loans

Many *home buyers lack funds* to make a traditional 20% *down payment*.

Provide equity capital to make their down payment as an “*equity sharing*” loan.

Public fund is repaid (its equity investment plus a percentage of the property’s appreciation-profit) *when house is sold* or refinanced.

5. CREATE PROGRAMS THAT ENABLE HOMEOWNERSHIP

- Insure private lenders against losses on home mortgages

Lenders are reluctant to lend money to “marginal” borrowers when interest rates rise.

Insure private lenders against potential losses from *default by the homeowners*.

6. LEVERAGE PUBLIC ASSETS – DON'T SPEND THEM

- Insure multifamily lenders instead of giving away property rights and public funds

Insuring debt is a form of leverage of public funds.

Leverage is *more stimulative* and *less risky* than investing cash.

If the default rate is 2.5%, *one dollar of equity* is worth *one dollar of development value*, whereas *one dollar of debt insurance* is worth *forty dollars of development value*.

Stimulate low-income housing development by *insuring debt not issuing public debt.*

7. ASSIST RENTERS

- State-funded rental housing vouchers

Existing '*rental housing voucher*' program administered locally by public housing authorities with *HUD funds*.

Grossly inadequate number of vouchers to address the need for rental assistance and *insufficient to pay* the cost of rent in California.

Need a *state-funded, rental housing voucher program* to better address the enormous need for rental assistance.... They **can only be spent** on rent!

8. STOP SUBSIDIZING MARKET-RATE HOUSING

- Developers of market-rate housing do not need the financial support of California taxpayers

No good reason EVER to subsidize or incentivize market-rate housing.

For-profit *developers are good at adjusting pricing* based on supply and demand.

If a project is a mix of units, state assistance and incentives – funding, tax credits, bonuses, waivers, etc. -- *only apply to the low-income part of that project and only to build more low-income units.*

9. PRESERVE HOME OWNERSHIP

- Outlaw or severely limit purchases of single-family homes by major investment groups

The number of *single-family homes* purchased and managed as rentals by *major, national investment groups* has sky-rocketed.

Large investment syndicators now *own \$60 billion worth* of single-family homes in the U.S.

This is *driving up prices and driving local individual investors out* of the market.

10. FIX THE RHNA DEBACLE, NOW!

- The state's Regional Housing Needs Assessment process is an unworkable mess

The State Auditor's Office says its *growth and housing needs data* is not based on *evidence*.

HCD is *double-counting demand* statistics.

RHNA is completely *divorced from socioeconomic reality*.

This is all about *holding on to political power*, not creating affordable housing.

[Support the lawsuit.](#)

CONTACT US

CONTACT

[Community Venture Partners, Inc.](#)

[CLICK HERE](#)

CONTACT

[The Marin Post](#)

[CLICK HERE](#)

Community Venture Partners, Inc. © 2022