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Pairing Tax Credits To Help Create Affordable Housing

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Pairing low-income housing tax credits and historic tax credits could help generate a greater supply of affordable housing, particularly if younger buildings qualified as being historic.

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In a report entitled “Affordable Housing and Historic Preservation,” the U.S. Department of Housing and Urban Development (HUD) and the Advisory Council on Historic Preservation (ACHP) noted historic buildings and housing affordability often go together.

Federal and state tax incentives offer opportunities to help ensure projects combining historic buildings and affordability are financially feasible, as when the Low-Income Housing Tax Credit (LIHTC) is combined or “twinned” with the Historic Tax Credit

(HTC). That's a good thing, because many cities confront a dearth of affordable housing on one hand, and a need to put historic properties to more productive use on the other.

Combining the tax credits can help address both issues.

"On their own, historic tax credits and low-income housing tax credits are extremely valuable. Combined, it's not hyperbolic to say the effect is incredible," says Phil Renzi, an associate at The Architectural Team in Chelsea, Mass. "They are complementary programs vital to providing quality affordable housing."

Pairing the credits has become more common over the last half decade, as developers large and small grow better acquainted with how the HTC works.

But according to a pair of Minnesota-based historic preservation experts, a great many additional buildings might be eligible to benefit from the combined leveraging of both tax credits, if only developers maintained a more open-minded view about what buildings might be eligible for historic preservation status.

Big opportunities

First, it's worth noting that twinning tax credits to help enable the creation of affordable housing is not without its serious challenges.

Rachel Peterson, principal with historic preservation consulting firm Hess Roise and Company in Minneapolis, notes requirements can sometimes place the demands of each type of tax credit at odds with one another.

"Unit counts become important when you're working on the LIHTC side," she says. "And in the case of some historic buildings, if they have big historic spaces, the state historic preservation office is not always keen on subdividing to create the requisite number of units. It becomes a balancing act."

Another layer of complexity involves the interplay between federal and state credits, says David Block, director of development at Evergreen Real Estate Group in Chicago, and a veteran of several Illinois and Wisconsin projects pairing tax credits. "Some investors may have significant need for federal credits and provide outstanding pricing on federal credits," he says. "But they may have less need for state tax credits where the project is located. So, in many cases, different federal and state buyers will result in the best overall benefit to the project."

There's always a gap between available financing and the cost to redevelop old buildings into affordable housing. Combining the two tax credits can fill that gap. The more buildings that might qualify for both the HTC as well as LIHTC, the more affordable housing that could be developed in vintage buildings.

So does a large supply of candidate properties exist? "This is one of the big opportunities," says Charlene Roise, founder of Hess Roise and Company.

“We have gotten several properties on the National Register that are less than 50 and even less than 40 years old. A lot of people, when they think of historic preservation, they think of old warehouses and old mansions . . . They’re thinking pre-war, but a lot of post-World War II properties have that potential. People don’t think of suburbia as having historic properties, but a lot of those suburban properties from the post-war era might be.”

Key cog

Hess Roise and Company was able to land Amhoist Tower, built in 1983-84 in Downtown St. Paul, on the National Register.

The building represented a key cog in the 1980s-era redevelopment of the city’s downtown district and also is associated with the American Hoist and Derrick Company, which had a hand in projects from Mount Rushmore and World War I and World War II shipbuilding through the Space Shuttle.

“Though young in historic terms, it has a significant story behind it,” Peterson says. “The typical benchmark is 50 years old. But that’s not a hard line. If the building is exceptionally important, you can get them listed when they’re younger.”

Noting “it’s all about the story,” Peterson reports linking a building to a significant event, pattern or trend in history is a way to get younger buildings a place on the National Register. That could make them candidates for the HTC and conversion to affordable housing.

“More buildings are becoming historic every day,” Peterson says. “The pool is only going to get bigger. And that just expands the opportunities to pair LIHTC with HTC and develop more exciting projects.”