



AB 2058 (Affordable Housing Preservation Tax Credit (AHPTC))

BACKGROUND

According to the California Housing Partnership, more than 1.4 million California households are in need of affordable housing. While increasing the supply of affordable rental homes is critical, we must also preserve the affordable housing that currently exists so that this need does not grow greater.

Between 1997 and 2018, California lost 15,044 affordable rental homes as affordability restrictions expired. Another 34,554 affordable rental homes are at risk of converting to market-rate rentals in the near future. In addition, many neighborhoods currently have a stock of unrestricted housing, including mobile-home parks, that historically has been naturally affordable. Recent and future rent increases, however, are gradually pricing lower-income families out of these homes.

PROBLEM

When these properties or mobile-home parks come up for sale, affordable housing entities that would keep the developments affordable often have difficulty competing with buyers who plan to maximize rents. Affordable housing developers are at a disadvantage in the competition to purchase these properties because they cannot leverage as much debt and therefore pay as high a price due to restricted rents. It also typically takes them longer to obtain the public financing commitments they need to be able to buy the property.

Sellers of older properties, however, often must pay significant capital gains taxes on the sale, which leads them typically to sell to institutional investors through a like-kind tax-deferred exchange, which means governments rarely see tax revenue. If affordable housing developers could offer sellers a tax credit to offset a significant portion of their capital gains, they

could effectively outbid other buyers and preserve California's precious affordable housing stock.

SOLUTION

This Bill creates an Affordable Housing Preservation Tax Credit (AHPTC) to incentivize the preservation of existing affordable apartment properties and mobile-home parks by experienced affordable housing organizations. The AHPTC would provide a 50% credit (up to \$1 million per transaction) against the state and federal capital gains otherwise owed by the seller of an existing building or park if they sell to a nonprofit entity who will operate the property as affordable housing for low-income households for 55 years.

Qualified purchasers would first obtain an over-the-counter AHPTC reservation from the state's Tax Credit Allocation Committee that could then be used to negotiate a competitive deal with a seller of a qualified property. The seller would receive half of the credit at the close of escrow and the other half after documenting its actual capital gains tax payments. A \$500 million initial allocation of credits would lead to the preservation of roughly 25,000 affordable rental apartments and mobile-home spaces, both those with existing expiring rent-restrictions as well as those without any restrictions that are naturally affordable. Because the offering of the AHPTC would likely induce more owners to pay capital gains, the net cost to the State should be significantly lower.

SUPPORT

California Coalition for Rural Housing
California Housing Partnership

FOR MORE INFORMATION

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