Why is it difficult to develop small communities with the Low-Income Housing Tax Credit?

An investor is looking at three developments

20-home community

Total Costs	$5,200,000
Tax Credits Generated	$3,863,600
Tax Credits/unit	**$193,180**
Fixed Costs	$-$500,000
Net Tax Credits	<u>$3,363,600</u>
Net Tax Credits/unit	**$168,180**

Not enough to get investor interest

30-home community

Total Costs	$7,800,000
Tax Credits Generated	$5,795,400
Tax Credits/unit	**$193,180**
Fixed Costs	$-$500,000
Net Tax Credits	<u>$5,295,400</u>
Net Tax Credits/unit	**$176,513**

Barely enough to get investor interest

60-home community

Total Costs	$15,600,000
Tax Credits Generated	$11,590,800
Tax Credits/unit	**$193,180**
Fixed Costs	$-$500,000
Net Tax Credits	<u>$11,090,800</u>
Net Tax Credits/unit	**$184,847**

Perfect!

When the fixed costs are spread across more units, <u>the cost per unit goes down</u>, resulting in a better investment

The difference in rents is signficant between the 20-unit project that cannot attract investors and the 30-unit project.

<u>A typical 2-bedroom would rent for:</u>

20-home, market rate community *<u>without</u>* tax credit financing

$1,500 / mo ave.

30-unit, below-market-rate community *<u>with</u>* tax credit financing

$1,045 / mo ave.