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Buying a new home is out of reach for many. Could housing tax credits help?

By Cathy Cook / Journal Staff Writer



A New Mexico senator wants to get more single-family homes built by creating a new tax credit program at a time when housing affordability is at a generational low. Economics experts say the bill could help New Mexicans, but far more needs to be done to shift the housing market.

Sen. Martin Heinrich recently introduced the New Homes Tax Credit Act, which would authorize in federal income tax credits annually to incentivize investment in home building.

“Every New Mexican who’s looked at buying a home knows: housing prices are too high,” the Democratic senator said. “To solve that, we need to build and renovate more homes.”

The proposed program would allow housing development entities to apply for the tax credits from the Community Development Financial Institutions Fund. Then, the development entity could exchange the tax credits with investors for money to spend on building or renovating single-family homes for low-to moderate-income families. The investors would be able to claim the tax credit over five years for a total of 39% of the investment.

The legislation is modeled after the New Markets Tax Credit, a federal program that uses tax credits to incentivize investments in low-income communities. That program has allowed for 259 million square feet of commercial real estate to be built or rehabilitated, according to the Community Development Financial Institutions Fund website.

“Tax credits of this manner can help generate improvement in supply, especially for low- and middle-income folks, but the need is ultimately even greater than what the tax credits can deliver,” said Reilly White, assistant professor of finance at the University of New Mexico.

The legislation is cosponsored by Democratic Sens. Ron Wyden of Oregon, Peter Welch of Vermont and Chris Van Hollen of Maryland. The Mortgage Bankers Association, National Association of Home Builders and National Association of Realtors all support the bill, as do New Mexico affordable housing developers and advocacy groups. Housing New Mexico, Homewise, Yes Housing Inc. and Strong Towns Albuquerque all support the legislation.

“With nearly half of U.S. households unable to afford a \$250,000 home, we must adopt policies to make homeownership more accessible and increase production of entry-level housing,” Carl Harris, chairman of the National Association of Home Builders, said in a statement.

Harder than ever to buy a new home

Over the last decade and a half, the U.S. has chronically underbuilt homes, and that lack of supply has contributed to the recent housing price increases, White said. High prices and high mortgage rates have priced many people out of buying a home.

In the last two years, it has been harder to buy a new home than any time in at least the last four decades, White said.

Housing market issues happen where people want to live, White said. In New Mexico and across the country, people are moving from rural areas into cities for jobs.

New Mexico is seeing a lot of internal migration from rural counties to cities such as Rio Rancho, Las Cruces, Santa Fe and Albuquerque, so those are the places with more housing pressures.

There are differences in how those cities are able to respond to housing pressures. Santa Fe is very restrictive in terms of building new homes and increasing density, while Albuquerque is geographically limited because it is bordered on three sides by the Isleta Pueblo and Sandia Pueblo reservations and the Sandia Mountains, White said.

The average house value in the Santa Fe area is \$581,000, whereas median annual household income is closer to \$77,000. Santa Fe would need tens of thousands of properties to balance the supply and demand for housing there, White said. In Albuquerque, average home prices are \$331,000, according to White.

Compared with other areas in the state, Las Cruces has more land to expand into and more moderate housing price increases, said Chris Erickson, a New Mexico State University economics professor.

New multi-family housing helps create affordable places for people to live and an explosion of multifamily apartments in the last couple of years has helped stabilize rent prices in Albuquerque and Santa Fe, White said. Rents increased dramatically when the pandemic began and in the following years — rents in Albuquerque are almost double what they were in 2018. But over the last year, rents have stabilized.

At the same time, it has become very difficult to buy a starter home, White said, and homeownership is the “single greatest source of wealth for Americans.”

Home ownership has a lot of positive demographic and health benefits as people age. When someone owns their own house, they tend to have better health outcomes and better access to resources because they have a pool of equity to rely on, White said.

The federal government's role in real estate

The federal government is heavily involved in real estate, Erickson said. In the U.S., there are about \$12 trillion in outstanding mortgages, and the federal government is involved with at least half of them.

“The goal of federal government is to increase access to home ownership for people who have middle and moderate incomes,” Erickson said.

But that federal intervention in the mortgage market also drives up demand, which can drive up prices. Programs like the tax credit Heinrich is proposing that subsidize construction and increase supply can help mitigate the high home prices, according to Erickson.

“Now the problem is, of course, when you have a mortgage market of 12 and a half trillion dollars, it takes a lot of subsidies to make a dent on that, and so a lot would depend on the size of the program,” Erickson said.

To really influence the problem would take trillions, Erickson said, because the commercial and residential real estate market is so large.

While subsidies to encourage construction are one path to getting more housing built, changing zoning laws to make construction easier is another path — one that communities in California have been pursuing in recent years by allowing for more density in areas where there have traditionally been single-family homes, according to Erickson.

In New Mexico, changing zoning laws would likely have a notable impact on denser areas like Albuquerque or Santa Fe, but much of the state has access to lots of land with room to expand.

“Depending where you are in the state, our problem is probably not zoning laws, because we have lots of access to land in New Mexico, and so generally, there’s room to expand. It’s in places where you have relatively limited land that the zoning laws can help, if you allow single-family homes to become multi-family homes for example,” Erickson said.

But federal laws focused on zoning could make a big impact on housing affordability nationally, according to Erickson.

How effective were tax credits in the past?

Programs that offer tax credits in favor of developers have been tried with different initiatives over the last few decades, UNM assistant professor White said.

One of those initiatives was in the 1990s in Dallas, Texas, where tax credits were used to incentivize developers to rebuild dilapidated properties to sell to people with low and moderate incomes.

“It didn’t have a negative effect on prices in the neighborhood,” White said. “So when people hear ‘low income housing,’ they’re always worried about, ‘Oh, this will affect the price of my house.’ We don’t really see a lot of evidence for that.”

At the same time, it is unclear if tax credits focused on developing housing in the past meaningfully increased the supply of housing. While the homes built benefited the families who were able to live in them, the houses were often in places where other homes would have been built anyway.

“Housing tax credits can be a very useful tool at generating construction for low and middle income households, but it’s a drop in the pool of what’s needed to boost housing supply in New Mexico and the rest of the country,” White said.

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