

M. National Housing Partnerships

The 1968 Act authorized the creation of a National Housing Corporation, and a system of national housing partnerships, to meet the national need for low- and moderate-income housing.

The Act provides for the formation of a national consortium of major industrial and financial companies to build low- and moderate-income housing, the capital for the consortium being subscribed by these companies. Although the housing industry is one of the largest in the nation, there is no single existing entity which accounts for more than one-third of one percent of the market, and few firms carry on activities of a national scale. The proposed consortium is envisioned as a dynamic input for lower-income housing that is now lacking.

The consortium would be organized as a limited partnership, and the Corporation would serve as the general partner of the limited partnership. Larger investors in the consortium might invest, for example, ten percent of their commitment in shares of the corporation and agree to provide the balance as direct partners' investments in the limited partnership.

Large corporations would thereby involve themselves in meeting the need for more low- and moderate-income housing by investing in the consortium rather than actively using their personnel to produce the housing.

The Congressionally chartered corporation, along with its shareholders, will enter into a real estate limited partnership that would participate with local partners in the building of housing units with subsidies under federal housing programs. The partnership may provide up to 25 percent of the initial equity investment unless the Corporation determined that more was needed because the necessary investment is not readily obtainable from other responsible investors residing or doing business in the local community.

The financial feasibility of this proposal is based upon existing real estate practice and tax law. Most multi-family housing projects, including low- and moderate-income projects eligible for federal assistance of various kinds, realize little or no net cash return from operations during the project's life. However, the owners of any project are entitled to take depreciation deductions on the full cost of the building. Moreover, under existing tax law, depreciation may be taken in various accelerated forms, so that substantial amounts are deductible in early years of the project's life. These depreciation deductions plus other deductions result in substantial book losses for the first ten years or longer.

Under existing tax laws, project owners may use these book losses to offset other income in computing annual taxes. For

{ this reason, many project owners are willing to make investments that result in book losses in the early years of the project, since these losses reduce the amount of tax currently payable on other income. Each dollar of book loss would reduce the sponsor's current taxes on other income by an amount varying from 50 cents for a corporation to as high as 70 cents for individuals. Accordingly, many housing projects today are directly owned either by corporations or by individuals }
{ possessing other income. The Internal Revenue Code allows }
{ partnerships to pass through such tax losses to the partners. }

The consortium is proposed to achieve the following purposes:

a. To attract new financial resources from major corporate enterprises to an instrument organized primarily for the production of housing for low- and moderate-income families;

b. To increase substantially the volume of production of such housing over levels presently attainable;

c. To attract and to develop managerial and professional talent able to work knowledgeably and sensitively with housing programs at all levels of government;

d. To use economies anticipated from large-scale production to introduce systematic innovations that will reduce costs and improve the design of low- and moderate-income housing;

e. To conduct applied research and provide technical assistance in connection with its activities.

The Corporation is thus intended to become a national "yardstick" for the application of systematic but sensitive techniques to materials fabrication and assembly, labor and contractor relationships, management and occupant relationships--the entire range of economic, social and aesthetic implications of subsidized housing.

The creation of the consortium opens up the possibility of locally organized, broadly based profit motivated development groups receiving technical assistance (architectural and legal service) and financial investment from this national source.