BRIDGE INVESTMENT GROUP

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Tax Reform Through the Lens of Affordable Housing

Much of the recent rhetoric on the Tax Cuts and Jobs Act has focused on the potential boost to the overall US economy. Yet, affordable housing advocates are troubled by several elements of the proposed tax reform legislation. Their uneasiness stems from concerns that the new regulations would place undue limitations on affordable housing finance and, in doing so, fail to recognize the nation's acute affordable housing crisis. The severity of housing cost burdens for US households is well documented in Harvard's Joint Center for Housing Studies publication, *The State of the Nation's Housing 2017*. The study indicates that, as of 2015, nearly 19 million US households paid at least half of their incomes for housing; renters comprised approximately 60% of this group.

More specifically, affordable housing market participants' concerns relate to a provision in the House bill that would repeal the tax-exempt status of private activity bonds (PABs) and the proposed corporate tax rate reduction advocated by both the House and Senate. PABs are a form of tax-exempt financing that are used for a variety of purposes including nonprofit projects and affordable housing development. Lack of this financing mechanism would likely significantly curtail the future availability of affordable housing in the US. Furthermore, the corporate tax rate reduction proposed by both chambers would likely reduce the equity available for the preservation and construction of tax credit-subsidized affordable rental housing units. Neither bill has currently created a provision to offset this reduction. Novogradac & Company, a national certified public accounting and consulting firm specializing in real estate, estimates that these two provisions, if enacted, may result in a loss of nearly 1 million affordable rental housing units over the next 10 years.

Bridge Investment Group (Bridge) recognizes the housing affordability issues facing the US and remains highly committed to the sector. Our Workforce & Affordable Housing strategy is particularly well-positioned to make a difference in this ecosystem, regardless of the outcome of the tax legislation. The strategy is not dependent on PAB and/or Low-Income Housing Tax Credit (LIHTC) investment activities that are currently facing legislative headwinds. Rather, it is expected to provide strong, stable cash flows by specifically focusing on the less than 80% of Area Median Income (AMI) population that is often ignored by the public sector. This cohort represents many of the firemen, policemen, teachers, and healthcare workers in our communities that face a rapidly depleting supply of high-quality, affordable rental housing. By mandating that at least 51% of our residents earn below 80% of AMI, our communities can offer Community Reinvestment Act (CRA) credits to our bank investors without reliance on tax credits. Our strategy also possesses a financing competitive advantage. In partnership with our longtime supporter Freddie Mac, Bridge has agreed to a first-of-its-kind flow facility dedicated to the aggregation of workforce and affordable housing properties that allows for operational efficiencies that benefit both residents and investors.

Bridge will continue to monitor the evolving tax situation very closely and believes that our Workforce & Affordable Housing strategy will be able to preserve and rehabilitate thousands of units of high-quality, affordable housing for the US workforce. Our hands-on nationwide operating platform allows us to create thriving, environmentally friendly communities that empower our residents, while providing our investors attractive risk-adjusted returns with immediate current yield.