

Housing Development Incentive Program (HDIP) Fact Sheet

Data provided to MassINC by DHCD as result of public records request

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Bottom Line: The HDIP program is oversubscribed, with \$57 million in applications pending in pipeline. This represents 41 housing projects totaling 2,276 units of housing and \$706.6 million dollars of investment in Gateway Cities that could move forward immediately with adequate program funding. At the current funding rate of \$10M per year, these projects may be delayed for up to 5 years and there is no funding at all available for new projects until 2027.

Policy Recommendation: Allocate at least \$30 million of ARPA or budget surplus funds to clear the HDIP backlog. Going forward, increase the \$10 million cap per year to \$30 million.

Background

From 2014 to this year, the HDIP program administered by DHCD has awarded \$42.8 million to 35 real estate projects creating 2,028 units of housing and representing \$557 million of investment in Gateway Cities. This represents a return on the state's investment of 12 to 1. With adequate funding, HDIP could produce 10-15% of the 10,000 housing units needed to achieve the state's annual multifamily housing production goal each year.

For comparison, the Baker Administration allocated \$136 million in state and federal affordable housing tax credits this year for 28 projects in 21 communities to create 1,526 new rental units (1,346 of them affordable) and leveraging about \$310 million in additional equity. Both programs are key tools in the toolbox for solving our housing shortage.

The HDIP program was created to help catalyze private housing development in Gateway Cities where market conditions create real barriers. Currently, most large new projects in these communities need state and federal affordable housing subsidies which may require hundreds of thousands of dollars per unit. On top of an existing housing stock that is already older and in many cases deteriorated, it is no wonder that poverty and racial segregation continue to be concentrated in Gateway Cities.

HDIP accomplishes its goal by providing a modest subsidy that helps market-rate projects (with up to 20% affordable units) pencil out favorably in what may be more risky or untested markets. Many Gateway City projects need this boost because construction costs—materials and labor—are fairly constant throughout Massachusetts, but market rents vary wildly. This discourages private development in Gateway Cities despite historically strong demand for homes in every region of the state. A side effect is concentrated private real estate investment and speculation in the overheated communities around Boston. HDIP leverages a tremendous amount of private investment and creates much needed “missing middle” housing with price points lower than metro Boston. Many of these developments are complicated but strategically important infill projects to revitalize Gateway City downtowns.

HDIP consists of two components. The first is a “tax increment exemption” or TIE agreement, in which the municipality relieves a percentage of property taxes for a certain period of time. This helps real estate development get off the ground and generate cash flow in the early years of the project. It is

negotiated by the local government with the developer and reviewed and approved by DHCD. It costs no state money. The second component kicks in once a TIE agreement is approved. The project becomes “certified” and eligible for state HDIP tax credits, with a per project cap of \$2 million and an annual program cap of \$10 million. As a result, only about 6 projects receive HDIP awards each year.

HDIP benefits communities disproportionately impacted by the pandemic and unlocks new housing in places that need private investment and property taxes to fund schools, infrastructure, and services. These dollars save the state money in the long run by helping Gateway Cities become more self-sufficient, and the program helps the entire state by distributing private housing development more fairly across all regions of the Commonwealth.

HDIP Impact to Date (Completed Projects)

Total State Credits Awarded	\$ 42,786,204
Total Real Estate Investment	\$ 557,161,285
Total Housing Units Created	2,028
2014 awards	\$ 1,167,825
2015 awards	\$ 0
2016 awards	\$ 5,004,105
2017 awards	\$ 8,387,379
2018 awards	\$ 3,641,844
2019 awards	\$ 9,939,110
2020 awards	\$ 10,000,000
2021 awards	\$ 4,645,941 (\$10M total including conditional awards)

HDIP Pipeline and Future Impact with Adequate Funding

Conditional Awards	\$ 32,794,677
Total Development Cost	\$ 321,445,475
Housing Units to be Created	890
2021 credits	\$ 5,354,059
2022 credits	\$ 10,000,000
2023 credits	\$ 10,000,000
2024 credits	\$ 5,440,618
2025 credits	\$ 0
Prior Applications Under Review	\$ 7,800,000
Total Development Cost	\$ 144,500,000
Housing Units to be Created	592
2021 HDIP RFP Applications	\$ 16,502,170
Real Estate Investment	\$ 240,605,000
Housing Units to be Created	785
TOTAL HDIP PROJECT PIPELINE	\$ 57,096,847
TOTAL DIRECT ECONOMIC IMPACT	\$ 706,550,475
TOTAL NEW HOUSING UNITS	2,267