

120TH CONGRESS
1ST SESSION

H.R. _____

IN THE HOUSE OF REPRESENTATIVES

_____, 2026

Mr. KLOIBER introduced the following bill; which was referred to the Committee on Ways and Means (for the provisions relating to tax incentives) and the Committee on Financial Services (for the provisions relating to Federal housing finance)

A BILL

To amend the Internal Revenue Code of 1986 to provide reduced capital gains tax rates for developers of qualified affordable and workforce housing, to establish a community housing endorsement process enabling local and State governments to qualify locally needed housing developments for Federal tax incentives, to reform the application of section 1031 like-kind exchanges to redirect deferred gains toward community housing needs, to establish enhanced Federal financing preferences for high-impact housing developments, to support small and mid-size housing developers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.—

This Act may be cited as the “*Building Homes, Building Communities Act*” or the “*BHBC Act*”.

(b) Table of Contents.—

The table of contents of this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Findings and purpose.
- Sec. 3. Definitions.

- Sec. 4. Capital gains tax incentives for qualified housing developments.
- Sec. 4A. Community housing endorsement process.
- Sec. 5. Reform of section 1031 like-kind exchanges for housing investment.
- Sec. 6. Federal financing and loan preferences for high-impact housing projects.
- Sec. 7. Small and mid-size developer assistance.
- Sec. 8. Coordination with Qualified Opportunity Zone program.
- Sec. 9. Affordability compliance and enforcement.
- Sec. 10. Transparency and reporting.
- Sec. 11. Authorization of appropriations.
- Sec. 12. Effective date.
- Sec. 13. Severability.

SEC. 2. FINDINGS AND PURPOSE.

(a) Findings.—

Congress finds the following:

- (1) The United States faces a severe shortage of affordable and workforce housing, with national estimates indicating a deficit of between 4,000,000 and 7,000,000 housing units needed to meet current demand.
- (2) Between 2012 and 2022, rents in the United States rose approximately 37 percent while median household income grew only approximately 13 percent, placing increasing financial strain on working families and contributing to housing insecurity.
- (3) More than 50 percent of the workforce in many metropolitan areas is unable to afford housing in the communities where they work, resulting in longer commute times, reduced economic productivity, and diminished quality of life.
- (4) Existing Federal housing programs, including the Low-Income Housing Tax Credit under section 42 of the Internal Revenue Code of 1986, have proven effective in stimulating private development of affordable housing but are insufficient in scale to address the full scope of the housing supply shortage.
- (5) The current use of section 1031 like-kind exchanges allows real estate investors to indefinitely defer capital gains taxes by continuously reinvesting proceeds into new properties, reducing Federal revenue without any requirement that such reinvestment serve community housing needs.
- (6) Small and mid-size housing developers, who are often well-positioned to build community-focused housing responsive to local needs, frequently lack access to

the capital, financing, and technical resources necessary to compete with large-scale national developers.

(7) Regulatory barriers, including restrictive local zoning, lengthy permitting processes, and infrastructure costs, disproportionately increase the cost of building affordable and workforce housing and discourage private-sector development.

(8) The Qualified Opportunity Zone program, established under sections 1400Z–1 and 1400Z–2 of the Internal Revenue Code of 1986, has designated thousands of low-income census tracts across the United States for the purpose of spurring economic development and investment in economically distressed communities, and the One Big Beautiful Bill Act (Public Law 119–21) made the program permanent with a new round of designations effective January 1, 2027.

(9) While the Opportunity Zone program has attracted significant private capital, a substantial share of investment has flowed toward luxury development, commercial real estate, and projects that do not directly address the affordable housing needs of existing residents in designated zones.

(10) Aligning the Opportunity Zone framework with targeted affordable housing incentives would leverage existing zone designations, investor familiarity, and community development infrastructure to direct capital toward housing that serves the residents these zones were intended to benefit.

(11) Housing needs vary significantly across communities and are not limited to income-restricted affordable housing; many communities face acute shortages of market-rate single-family homes, starter homes, workforce housing, and other housing types that local residents need and desire but that the private market has not produced in sufficient quantities.

(12) Local and State governments are best positioned to identify the specific housing types, price points, and locations that their communities need, and a Federal incentive structure should empower local decision-makers to endorse developments that address those locally identified needs.

(b) Purpose.—

The purpose of this Act is to—

(1) align Federal tax incentives with the national need for affordable and workforce housing by providing reduced capital gains tax rates for developers who build housing that meets community affordability criteria;

(2) reform the application of section 1031 like-kind exchanges to redirect a portion of currently deferred capital gains toward investments in housing that serves public needs;

(3) strengthen Federal housing finance programs by prioritizing projects that expand affordable and workforce housing supply in high-need areas;

- (4) support small and mid-size developers in participating in the affordable housing market;
- (5) integrate the existing Qualified Opportunity Zone framework with affordable housing incentives to ensure that investment in designated zones produces housing that serves the communities those zones were established to benefit;
- (6) empower local and State governments to identify and endorse housing developments that meet community-specific needs, including single-family homes, starter homes, and other housing types beyond traditional income-restricted affordable housing; and
- (7) promote transparency and accountability in the use of taxpayer-supported housing development incentives.

SEC. 3. DEFINITIONS.

In this Act:

(1) **QUALIFIED HOUSING DEVELOPMENT.**—The term “*qualified housing development*” means a residential real property development (including single-family, multifamily, or mixed-use development with a residential component) that meets any of the following criteria:

(A) not fewer than 20 percent of the total residential units are affordable to households earning not more than 80 percent of the area median income, as determined by the Secretary of Housing and Urban Development;

(B) not fewer than 40 percent of the total residential units are affordable to households earning not more than 120 percent of the area median income; or

(C) the development is a community-endorsed housing development, as defined in paragraph (15).

(2) **DEEPLY AFFORDABLE DEVELOPMENT.**—The term “*deeply affordable development*” means a qualified housing development in which not fewer than 30 percent of the total residential units are affordable to households earning not more than 50 percent of the area median income.

(3) **WORKFORCE HOUSING.**—The term “*workforce housing*” means housing that is affordable to households earning between 60 percent and 120 percent of the area median income and that is located within reasonable proximity to employment centers, as determined by the Secretary of Housing and Urban Development.

(4) **LONG-TERM AFFORDABILITY RESTRICTION.**—The term “*long-term affordability restriction*” means a recorded restrictive covenant, regulatory agreement, or deed restriction that requires the applicable residential units to remain affordable to the target income level for a period of not fewer than 20 years from the date the units are first placed in service.

(5) EXTENDED AFFORDABILITY RESTRICTION.—The term “*extended affordability restriction*” means a long-term affordability restriction with a duration of not fewer than 30 years.

(6) AREA MEDIAN INCOME.—The term “*area median income*” or “*AMI*” means the median family income for the metropolitan statistical area or nonmetropolitan county in which the qualified housing development is located, as published annually by the Secretary of Housing and Urban Development.

(7) SMALL DEVELOPER.—The term “*small developer*” means a developer that, together with any affiliates, has placed in service not more than 100 residential units in the aggregate during the 3 preceding taxable years.

(8) MID-SIZE DEVELOPER.—The term “*mid-size developer*” means a developer that, together with any affiliates, has placed in service more than 100 but not more than 500 residential units in the aggregate during the 3 preceding taxable years.

(9) HIGH-NEED AREA.—The term “*high-need area*” means a metropolitan statistical area, micropolitan statistical area, or nonmetropolitan county in which—

(A) the ratio of median home price to median household income exceeds 4.0; or

(B) the rental vacancy rate is below 5 percent, as determined by the most recent data available from the Bureau of the Census.

(10) TRANSIT-PROXIMATE DEVELOPMENT.—The term “*transit-proximate development*” means a qualified housing development located within one-half mile of a fixed-route public transit station or stop providing service at intervals of not more than 15 minutes during peak commuting hours.

(11) SECRETARY.—Unless otherwise specified, the term “*Secretary*” means the Secretary of the Treasury.

(12) QUALIFIED OPPORTUNITY ZONE.—The term “*qualified opportunity zone*” has the meaning given such term in section 1400Z–1 of the Internal Revenue Code of 1986, and includes any population census tract designated or redesignated as a qualified opportunity zone under such section, whether pursuant to the original designations under the Tax Cuts and Jobs Act (Public Law 115–97) or any subsequent round of designations authorized under the One Big Beautiful Bill Act (Public Law 119–21) or subsequent legislation.

(13) OPPORTUNITY ZONE QUALIFIED HOUSING DEVELOPMENT.—The term “*opportunity zone qualified housing development*” means a qualified housing development that—

(A) is located in whole or in substantial part within a qualified opportunity zone;

(B) meets the requirements of paragraph (1); and

(C) is subject to a long-term affordability restriction or extended affordability restriction, as applicable.

(14) QUALIFIED OPPORTUNITY FUND.—The term “*qualified opportunity fund*” has the meaning given such term in section 1400Z–2(d)(1) of the Internal Revenue Code of 1986.

(15) COMMUNITY-ENDORSED HOUSING DEVELOPMENT.—The term “*community-endorsed housing development*” means a residential real property development (including single-family homes, townhomes, duplexes, and other housing types) that—

(A) has received a community housing endorsement from an endorsing authority under section 4A of this Act;

(B) is consistent with a community housing needs assessment adopted by the endorsing authority; and

(C) is subject to a community benefit agreement, as described in section 4A(d).

(16) ENDORSING AUTHORITY.—The term “*endorsing authority*” means—

(A) the governing body of a county, city, town, township, borough, parish, or other general-purpose unit of local government;

(B) a regional planning commission, metropolitan planning organization, or council of governments that has been delegated endorsement authority by the applicable local government; or

(C) the housing finance agency or housing authority of a State, if the State has established a statewide community housing endorsement program under section 4A(b)(2).

(17) COMMUNITY HOUSING NEEDS ASSESSMENT.—The term “*community housing needs assessment*” means a formal assessment, adopted by an endorsing authority, that identifies the types, quantities, price points, and locations of residential housing needed within the jurisdiction to serve the current and projected housing demands of the community, as described in section 4A(c).

SEC. 4. CAPITAL GAINS TAX INCENTIVES FOR QUALIFIED HOUSING DEVELOPMENTS.

(a) In General.—

Part I of subchapter P of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

“SEC. 1202A. REDUCED CAPITAL GAINS RATE FOR QUALIFIED HOUSING DEVELOPMENTS.

“(a) In General.—In the case of a taxpayer other than a corporation, the net capital gain attributable to the sale or exchange of a qualified housing development interest shall be subject to tax at the applicable reduced rate determined under subsection (b), in lieu of the rate that would otherwise apply under section 1(h).

“(b) Applicable Reduced Rates.—

“(1) **BASE RATE.**—The applicable reduced rate for the sale or exchange of a qualified housing development interest shall be—

“(A) 10 percent, in the case of a qualified housing development that is subject to an extended affordability restriction of not fewer than 30 years;

“(B) 12 percent, in the case of a qualified housing development that is subject to a long-term affordability restriction of not fewer than 20 years but fewer than 30 years; and

“(C) 15 percent, in the case of a qualified housing development that meets the requirements of section 3(1) of the Building Homes, Building Communities Act but is subject to an affordability restriction of fewer than 20 years (but not fewer than 15 years).

“(2) **ADDITIONAL REDUCTIONS.**—The applicable reduced rate determined under paragraph (1) shall be further reduced by—

“(A) 2 percentage points, in the case of a deeply affordable development (as defined in section 3(2) of the Building Homes, Building Communities Act);

“(B) 1 percentage point, in the case of a transit-proximate development (as defined in section 3(10) of such Act);

“(C) 1 percentage point, in the case of a qualified housing development located in a high-need area (as defined in section 3(9) of such Act);

“(D) 1 percentage point, in the case of a qualified housing development that includes a mixed-income integration plan approved by the Secretary of Housing and Urban Development; and

“(E) 2 percentage points, in the case of an opportunity zone qualified housing development (as defined in section 3(13) of such Act).

“(3) **COMMUNITY-ENDORSED DEVELOPMENT RATES.**—In the case of a community-endorsed housing development (as defined in section 3(15) of the Building Homes, Building Communities Act) that does not independently meet the affordability criteria of section 3(1)(A) or (B) of such Act, the applicable reduced rate shall be—

“(A) 12 percent, if the community benefit agreement has a duration of not fewer than 20 years;

“(B) 15 percent, if the community benefit agreement has a duration of not fewer than 15 years but fewer than 20 years; and

“(C) 17 percent, if the community benefit agreement has a duration of not fewer than 10 years but fewer than 15 years.

“(4) **ADDITIONAL REDUCTIONS FOR COMMUNITY-ENDORSED DEVELOPMENTS.**—The rates under paragraph (3) may be further reduced by 1 percentage point for each of the following, as applicable:

“(A) The development is located in a high-need area.

“(B) The development is located in a qualified opportunity zone.

“(C) The development includes single-family homes priced at or below the median home price for the area.

“(D) The development is undertaken by a small developer.

“(5) **FLOOR.**—In no event shall the applicable reduced rate determined under this subsection be less than 5 percent.

“(c) **Qualified Housing Development Interest.**—For purposes of this section, the term ‘qualified housing development interest’ means any interest in real property (including any partnership interest or interest in a limited liability company) that is attributable to a qualified housing development, provided that—

“(1) the taxpayer held such interest for not fewer than 5 years prior to the sale or exchange;

“(2) the qualified housing development was placed in service during the period of the taxpayer’s ownership; and

“(3) the affordability restriction applicable to the development remains in effect at the time of the sale or exchange and is binding on the purchaser or transferee.

“(d) **Recapture.**—

“(1) **IN GENERAL.**—If, at any time during the recapture period, the affordability restriction applicable to a qualified housing development is terminated, violated, or materially modified without the approval of the Secretary of Housing and Urban Development, the taxpayer shall be liable for recapture of the tax benefit received under this section.

“(2) **RECAPTURE AMOUNT.**—The recapture amount shall be equal to the difference between the tax that would have been imposed under section 1(h) without regard to this section and the tax actually imposed, plus interest at the rate determined under section 6621(a)(2) from the date of the original sale or exchange.

“(3) **RECAPTURE PERIOD.**—The recapture period is the period beginning on the date of the sale or exchange and ending on the date the affordability restriction would have expired by its terms.

“(e) Inflation Adjustment.—The Secretary shall adjust the income thresholds used in determining qualification under section 3 of the Building Homes, Building Communities Act annually to reflect changes in the area median income as published by the Secretary of Housing and Urban Development.

“(f) Termination.—This section shall not apply to sales or exchanges occurring after the date that is 15 years after the date of enactment of the Building Homes, Building Communities Act, unless extended by a subsequent Act of Congress.”

(b) Conforming Amendment.—

The table of sections for part I of subchapter P of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item: “Sec. 1202A. Reduced capital gains rate for qualified housing developments.”

(b) Conforming Amendment.—

The table of sections for part I of subchapter P of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item: “Sec. 1202A. Reduced capital gains rate for qualified housing developments.”

SEC. 4A. COMMUNITY HOUSING ENDORSEMENT PROCESS.

(a) In General.—

An endorsing authority may endorse a residential real property development as a community-endorsed housing development for purposes of this Act if the development meets the requirements of this section. A community-endorsed housing development shall be treated as a qualified housing development for all purposes of this Act, subject to the rate schedule established under section 1202A(b)(3) and (4) of the Internal Revenue Code of 1986, as added by section 4 of this Act.

(b) Endorsing Authority Certification.—

(1) LOCAL ENDORSEMENT.—The governing body of a county, city, town, or other general-purpose unit of local government may serve as an endorsing authority by adopting, through official legislative or administrative action—

(A) a community housing needs assessment that meets the requirements of subsection (c); and

(B) a community housing endorsement program establishing the criteria and procedures by which the endorsing authority will evaluate and endorse proposed developments.

(2) STATE ENDORSEMENT.—A State may establish a statewide community housing endorsement program, administered by the State housing finance agency or a comparable State entity, to serve as an endorsing authority for jurisdictions within the State that—

(A) have not established their own local endorsement program; or

(B) request that the State program serve as the endorsing authority on their behalf.

(3) DELEGATION.—A local government may delegate endorsement authority to a regional planning commission, metropolitan planning organization, or council of governments, provided that the delegate entity adopts a community housing needs assessment and endorsement program consistent with the requirements of this section.

(c) Community Housing Needs Assessment.—

(1) REQUIRED ELEMENTS.—A community housing needs assessment adopted by an endorsing authority shall include, at a minimum—

(A) an analysis of the current housing stock within the jurisdiction, including type (single-family, multifamily, manufactured, and other categories), age, condition, occupancy, and price distribution;

(B) an analysis of current and projected population, household formation, and employment trends within the jurisdiction and surrounding area;

(C) an identification of the housing types, price points, unit counts, and geographic locations needed to address current and projected housing demand, including—

(i) market-rate single-family homes, including starter homes;

(ii) workforce rental and ownership housing;

(iii) income-restricted affordable housing;

(iv) senior housing;

(v) housing suitable for families with children; and

(vi) any other housing type identified as a community need by the endorsing authority;

(D) an analysis of regulatory, infrastructure, and market barriers to housing production within the jurisdiction; and

(E) a description of how the endorsement of specific developments will address the identified housing needs.

(2) PUBLIC PARTICIPATION.—Before adopting a community housing needs assessment, the endorsing authority shall—

(A) publish a draft assessment for public review and comment for a period of not fewer than 30 days;

(B) hold not fewer than 2 public hearings at times and locations designed to maximize public participation; and

(C) make the final adopted assessment publicly available on the endorsing authority's website or, if no website is maintained, at the principal office of the endorsing authority.

(3) UPDATES.—A community housing needs assessment shall be updated not less frequently than once every 5 years. An endorsing authority may update its assessment more frequently if material changes in housing market conditions, population, or economic circumstances warrant an earlier update.

(d) Community Benefit Agreement.—

(1) IN GENERAL.—As a condition of receiving a community housing endorsement, the developer shall enter into a community benefit agreement with the endorsing authority that specifies—

(A) the housing types, unit counts, and price points or rent levels to be maintained in the development, consistent with the community housing needs assessment;

(B) the duration of the agreement, which shall be not fewer than 10 years from the date the development is placed in service;

(C) the target buyer or renter population (which may include, but is not limited to, first-time homebuyers, local workers, families, seniors, or other populations identified in the needs assessment);

(D) any commitments regarding local hiring, use of local contractors, or other community benefits;

(E) the enforcement mechanism, including the remedies available to the endorsing authority in the event of a breach; and

(F) the reporting obligations of the developer to the endorsing authority.

(2) RECORDATION.—A community benefit agreement shall be recorded as a restrictive covenant or deed restriction running with the land in the real property records of the applicable county or recording jurisdiction.

(3) FLEXIBILITY.—A community benefit agreement for a community-endorsed housing development that does not meet the affordability criteria of section 3(1)(A) or (B) is not required to include income-based rent or price restrictions, but shall include enforceable commitments ensuring that the development addresses a documented community housing need as identified in the needs assessment. Such commitments may include, without limitation—

(A) maximum sale prices for single-family homes, indexed to the area median home price or area median income;

(B) maximum lot sizes or minimum density requirements consistent with community needs;

(C) commitments to build housing types identified as priorities in the needs assessment (such as starter homes, family-sized units, or age-restricted housing);

(D) requirements that a specified percentage of units be sold or rented to residents or workers of the local jurisdiction for an initial marketing period; and

(E) design, sustainability, or infrastructure standards specified by the endorsing authority.

(e) Endorsement Criteria.—

An endorsing authority shall endorse a proposed development under this section only if the endorsing authority determines that—

- (1) the development is consistent with one or more housing needs identified in the community housing needs assessment;
- (2) the developer has the financial capacity and development experience to complete the proposed development;
- (3) the development will not result in the displacement of existing residents or the demolition of sound, occupied affordable housing without adequate relocation assistance and replacement housing;
- (4) the developer has entered into a community benefit agreement meeting the requirements of subsection (d); and
- (5) the development has received any locally required zoning, land use, or environmental approvals, or the developer has demonstrated a reasonable likelihood of obtaining such approvals.

(f) Federal Registration.—

(1) NOTIFICATION.—An endorsing authority that endorses a development under this section shall notify the Secretary of Housing and Urban Development in writing not later than 60 days after the endorsement, including—

- (A) the identity and location of the endorsed development;
- (B) a copy of the community housing needs assessment;
- (C) a copy of the community benefit agreement; and
- (D) a certification that the requirements of this section have been met.

(2) REGISTRY.—The Secretary of Housing and Urban Development shall maintain a publicly accessible registry of all community-endorsed housing developments, including the information submitted under paragraph (1), integrated with the public database established under section 10(b) of this Act.

(3) REVIEW AUTHORITY.—The Secretary of Housing and Urban Development may review any community housing endorsement and may revoke the Federal recognition of the endorsement if the Secretary determines that—

- (A) the endorsement was procured through fraud, material misrepresentation, or corruption;
- (B) the community housing needs assessment was not conducted in substantial compliance with subsection (c); or

(C) the endorsement is inconsistent with the purposes of this Act.

(g) Technical Assistance for Endorsing Authorities.—

The Secretary of Housing and Urban Development shall establish a program to provide technical assistance to local and State governments seeking to establish community housing endorsement programs, including—

- (1) model community housing needs assessment templates and methodologies;
- (2) model community benefit agreement templates;
- (3) guidance on establishing endorsement criteria and procedures;
- (4) training on Federal reporting requirements; and
- (5) grants of not more than \$100,000 per endorsing authority to offset the costs of conducting the initial community housing needs assessment and establishing the endorsement program.

(h) Anti-Abuse Provisions.—

(1) CONFLICT OF INTEREST.—No member of an endorsing authority, or any immediate family member thereof, shall have a direct or indirect financial interest in any development endorsed under this section. Any endorsement issued in violation of this paragraph shall be void.

(2) SHAM ENDORSEMENTS.—The Secretary may disregard a community housing endorsement and deny the associated tax benefits under this Act if the Secretary determines that—

- (A) the community housing needs assessment does not reflect a genuine analysis of local housing needs;
- (B) the community benefit agreement is not bona fide or lacks enforceable commitments; or
- (C) the endorsement was issued as a mechanism to confer tax benefits on a development that does not meaningfully address a community housing need.

SEC. 5. REFORM OF SECTION 1031 LIKE-KIND EXCHANGES FOR HOUSING INVESTMENT.

(a) Findings.—

Congress finds that section 1031 of the Internal Revenue Code of 1986 currently permits real property investors to indefinitely defer the recognition of capital gains by continuously exchanging investment properties, resulting in significant deferred tax revenue with no corresponding requirement that such reinvestment serve community housing needs.

(b) Qualified Affordable Housing Exchange.—

Section 1031 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

“(g) Enhanced Exchange Treatment for Affordable Housing Investments.—

“(1) IN GENERAL.—In the case of a like-kind exchange under this section in which the replacement property is a qualified housing development (as defined in section 3(1) of the Building Homes, Building Communities Act), the taxpayer shall be entitled to—

“(A) full deferral of gain recognized under this section; and

“(B) an additional basis step-up equal to 10 percent of the gain deferred, which shall be treated as an adjustment to the basis of the replacement property.

“(2) STANDARD EXCHANGE LIMITATION.—In the case of a like-kind exchange under this section in which the replacement property is not a qualified housing development, the amount of gain eligible for deferral shall not exceed \$2,500,000 per taxpayer per taxable year (adjusted annually for inflation under section 1(f)(3), with ‘calendar year 2026’ substituted for ‘calendar year 2016’ in subparagraph (A)(ii) thereof).

“(3) RECAPTURE.—If the replacement property described in paragraph (1) ceases to meet the requirements of a qualified housing development within 10 years after the date of the exchange, the additional basis step-up provided under paragraph (1)(B) shall be recaptured as ordinary income in the taxable year in which the property ceases to qualify.”

(c) Effective Date.—

The amendment made by subsection (b) shall apply to exchanges completed after December 31 of the calendar year in which this Act is enacted.

SEC. 6. FEDERAL FINANCING AND LOAN PREFERENCES FOR HIGH-IMPACT HOUSING PROJECTS.

(a) LIHTC Enhancement.—

(1) INCREASED ALLOCATION.—Section 42(h)(3)(C)(ii) of the Internal Revenue Code of 1986 is amended by striking ‘\$2.75’ and inserting ‘\$3.50 (adjusted annually for inflation under section 1(f)(3), with “calendar year 2026” substituted for “calendar year 2016” in subparagraph (A)(ii) thereof)’.

(2) PRIORITY CRITERIA.—Each State housing credit agency that receives an allocation of housing credit dollar amount under section 42(h) of such Code shall, in its qualified allocation plan, give priority to projects that—

- (A) include the highest proportion of units affordable to households at or below 50 percent of area median income;
- (B) are located in high-need areas, as defined in section 3(9) of this Act;
- (C) are transit-proximate developments, as defined in section 3(10) of this Act;
- (D) include mixed-income integration plans;
- (E) are located in qualified opportunity zones, as defined in section 3(12) of this Act;
- (F) have received a community housing endorsement under section 4A of this Act; and
- (G) are developed by small or mid-size developers, as defined in section 3(7) and (8) of this Act.

(b) HUD Loan and Guarantee Preferences.—

The Secretary of Housing and Urban Development shall, in administering any Federal housing loan, loan guarantee, or credit enhancement program, establish evaluation criteria that assign preference to applications for qualified housing developments based on—

- (1) the number and proportion of affordable and workforce housing units included in the development;
- (2) the duration of the affordability restriction, with enhanced preference for extended affordability restrictions of 30 years or more;
- (3) proximity to public transit and employment centers;
- (4) the inclusion of a mixed-income integration plan demonstrating that the development will serve households across a range of income levels;
- (5) evidence that the development will contribute to reducing the local housing supply deficit;
- (6) whether the development is located in a qualified opportunity zone, as defined in section 3(12) of this Act; and
- (7) plans for long-term property maintenance, resident services, and community engagement.

(c) Interagency Coordination.—

The Secretary of Housing and Urban Development, in coordination with the Secretary of Transportation and the Administrator of the Environmental Protection Agency, shall establish an interagency working group to identify opportunities to align Federal infrastructure, transportation, and environmental investments with housing development in high-need areas, with the goal of reducing site development costs for qualified housing developments.

SEC. 7. SMALL AND MID-SIZE DEVELOPER ASSISTANCE.

(a) Phase-In.—

A small developer or mid-size developer shall be eligible for all tax incentives and financing preferences under this Act upon enactment. In the case of a small developer that has not previously participated in a Federal housing program, the compliance and reporting requirements of section 9 shall be phased in as follows—

- (1) for the first 2 taxable years, simplified reporting consisting of an annual certification of affordability compliance; and
- (2) beginning in the third taxable year, full compliance with all reporting requirements of section 10.

(b) Predevelopment Loan Fund.—

(1) **ESTABLISHMENT.**—The Secretary of Housing and Urban Development shall establish a revolving predevelopment loan fund to provide low-cost loans to small and mid-size developers for predevelopment expenses associated with qualified housing developments, including site acquisition, architectural and engineering services, environmental review, and permitting costs.

(2) **LOAN TERMS.**—Loans under this subsection shall—

- (A) bear interest at a rate not to exceed the applicable Federal rate under section 1274(d) of the Internal Revenue Code of 1986 plus 1 percentage point;
- (B) have a term of not more than 5 years; and
- (C) be forgivable in an amount equal to 25 percent of the principal balance if the qualified housing development is placed in service within 4 years of the loan origination date and maintains the applicable affordability restriction.

(3) **MAXIMUM LOAN.**—No single loan under this subsection shall exceed \$2,000,000 (adjusted annually for inflation under section 1(f)(3) of such Code, with ‘calendar year 2026’ substituted for ‘calendar year 2016’ in subparagraph (A)(ii) thereof).

(c) Technical Assistance Program.—

The Secretary of Housing and Urban Development, in consultation with the Administrator of the Small Business Administration, shall establish a program to provide—

- (1) free project feasibility analysis and financial modeling assistance to small and mid-size developers pursuing qualified housing developments;
- (2) navigational assistance in accessing LIHTC allocations, HUD loan programs, and other Federal housing finance resources;
- (3) peer mentoring networks connecting small developers with experienced affordable housing developers; and

(4) model contract templates, compliance guides, and regulatory checklists designed for developers without dedicated legal or compliance staff.

(d) Enhanced Capital Gains Rate for Small Developers.—

In the case of a small developer, the applicable reduced rate determined under section 4 shall be further reduced by 2 percentage points, subject to the floor established under section 1202A(b)(3) of the Internal Revenue Code of 1986 as added by this Act.

SEC. 8. COORDINATION WITH QUALIFIED OPPORTUNITY ZONE PROGRAM.

(a) Automatic Qualification.—

Any residential real property development that is located in whole or in substantial part within a qualified opportunity zone and that meets the affordability requirements of section 3(1) shall be deemed a qualified housing development for all purposes of this Act, including eligibility for the reduced capital gains rates under section 4, the enhanced exchange treatment under section 5, and the Federal financing preferences under section 6.

(b) Qualified Opportunity Fund Housing Investment.—

(1) DUAL BENEFIT ELIGIBILITY.—A taxpayer that invests capital gains in a qualified opportunity fund (as defined in section 3(14)) and such fund invests in an opportunity zone qualified housing development (as defined in section 3(13)) shall be eligible for—

(A) the deferral, basis step-up, and exclusion benefits available under section 1400Z–2 of the Internal Revenue Code of 1986; and

(B) upon disposition of the investment, the reduced capital gains rate applicable under section 4 of this Act, applied to any gain not excluded under section 1400Z–2(c) of such Code.

(2) NO DOUBLE BENEFIT LIMITATION.—The benefits described in paragraph (1)(A) and (1)(B) shall be treated as complementary and not mutually exclusive, provided that no single dollar of gain shall be both excluded under section 1400Z–2(c) and taxed at a reduced rate under section 4 of this Act.

(c) Enhanced Basis Step-Up for Housing-Focused QOF Investments.—

Section 1400Z–2(c) of the Internal Revenue Code of 1986 shall be applied with respect to an investment in a qualified opportunity fund that holds substantially all of its assets in opportunity zone qualified housing developments by providing an additional basis step-up equal to 5 percent of the original deferred gain, in addition to any basis step-up otherwise available under such section, if—

(1) the investment is held for not fewer than 10 years;

(2) not fewer than 75 percent of the fund's invested assets, measured by value, are held in opportunity zone qualified housing developments throughout the holding period; and

(3) the opportunity zone qualified housing developments in which the fund invests maintain compliance with the applicable affordability restrictions throughout the holding period.

(d) QOF Reporting Enhancement.—

Any qualified opportunity fund that invests in an opportunity zone qualified housing development shall, in addition to any reporting required under section 1400Z-2 of the Internal Revenue Code of 1986, report annually to the Secretary and the Secretary of Housing and Urban Development—

(1) the total number of affordable and workforce housing units placed in service through the fund's investments;

(2) the affordability tiers served and the applicable area median income thresholds;

(3) the compliance status of each opportunity zone qualified housing development; and

(4) the total capital invested in opportunity zone qualified housing developments as a percentage of the fund's total assets.

(e) Existing Opportunity Zone Investments.—

(1) TRANSITION.—Any investment in a qualified opportunity fund made prior to the date of enactment of this Act that is held in a residential real property development located within a qualified opportunity zone may elect to have such development treated as an opportunity zone qualified housing development under this Act if, not later than 2 years after the date of enactment—

(A) the development is brought into compliance with the affordability requirements of section 3(1);

(B) a long-term affordability restriction or extended affordability restriction is recorded against the property; and

(C) the owner or fund certifies compliance to the Secretary of Housing and Urban Development.

(2) PROSPECTIVE BENEFITS.—An investment electing treatment under paragraph (1) shall be eligible for the benefits of this Act only with respect to taxable events occurring after the date on which the development is certified as compliant, and shall not receive retroactive benefits for periods prior to certification.

(f) Anti-Abuse Rule.—

No development shall be treated as an opportunity zone qualified housing development if the Secretary determines that the primary purpose of locating the development within a qualified opportunity zone is to obtain the tax benefits of this section and section 1400Z-2 of the Internal Revenue Code of 1986 without a genuine intention to provide long-term affordable housing to residents of the zone. In making such determination, the Secretary shall consider—

- (1) whether the affordability restriction is bona fide and enforceable;
- (2) whether the development is designed to serve the existing community rather than to displace current residents; and
- (3) whether the developer has a pattern of abandoning or weakening affordability commitments after the applicable holding period.

SEC. 9. AFFORDABILITY COMPLIANCE AND ENFORCEMENT.

(a) Affordability Monitoring.—

(1) ANNUAL CERTIFICATION.—Each owner of a qualified housing development that has received any tax incentive, financing preference, or other benefit under this Act shall certify annually to the Secretary of Housing and Urban Development that—

- (A) the required proportion of units remains affordable to households at the applicable income levels;
- (B) rents on affordable units do not exceed 30 percent of the applicable income limit, adjusted for unit size;
- (C) the affordability restriction remains recorded and in effect; and
- (D) the property is maintained in habitable condition in compliance with applicable building codes.

(2) TENANT INCOME VERIFICATION.—Owners shall verify tenant income at initial occupancy and at each annual recertification using documentation standards established by the Secretary of Housing and Urban Development.

(b) Enforcement.—

(1) NONCOMPLIANCE PENALTY.—Any owner that fails to maintain the required affordability levels or violates the terms of the affordability restriction shall be subject to—

- (A) recapture of all tax benefits received under section 4, with interest as determined under section 6621(a)(2) of the Internal Revenue Code of 1986;
- (B) disqualification from any tax incentive or financing preference under this Act for a period of not fewer than 5 years; and
- (C) a civil monetary penalty of not more than \$50,000 per unit per year of noncompliance.

(2) CURE PERIOD.—Before imposing penalties under paragraph (1), the Secretary of Housing and Urban Development shall provide the owner with written notice of noncompliance and a cure period of not more than 180 days to restore the development to compliance.

(3) TENANT PROTECTIONS.—No tenant lawfully occupying an affordable unit at the time of an owner's noncompliance shall be subject to eviction, rent increase, or loss of unit affordability status as a result of the owner's noncompliance. The Secretary of Housing and Urban Development shall take appropriate action to ensure continued affordability of occupied units during any enforcement proceeding.

(c) Private Right of Action.—

Any tenant residing in a qualified housing development who is charged rent in excess of the amount permitted under the applicable affordability restriction may bring a civil action in a court of competent jurisdiction to recover the excess rent paid, plus reasonable attorney's fees and costs.

SEC. 10. TRANSPARENCY AND REPORTING.

(a) Developer Reporting.—

Each owner of a qualified housing development claiming any benefit under this Act shall submit to the Secretary of Housing and Urban Development, on an annual basis—

- (1) the total number of residential units in the development, disaggregated by affordability tier;
- (2) the applicable income limits and maximum rents for each affordability tier;
- (3) occupancy rates for affordable and market-rate units;
- (4) the total value of tax incentives and financing benefits received under this Act during the reporting period; and
- (5) a description of any material changes to the development, including changes in ownership, financing, or affordability commitments.

(b) Public Database.—

The Secretary of Housing and Urban Development shall establish and maintain a publicly accessible database containing, for each qualified housing development receiving benefits under this Act—

- (1) the location and description of the development;
- (2) the number and type of affordable units;
- (3) the applicable affordability restriction and its duration;
- (4) the identity of the developer and current owner;

- (5) the aggregate value of Federal tax incentives and financing benefits provided; and
- (6) compliance status.

(c) Annual Report to Congress.—

Not later than 2 years after the date of enactment of this Act, and annually thereafter, the Secretary of Housing and Urban Development, in consultation with the Secretary of the Treasury, shall submit to the Committee on Ways and Means and the Committee on Financial Services of the House of Representatives and the Committee on Finance and the Committee on Banking, Housing, and Urban Affairs of the Senate a report containing—

- (1) the total number of qualified housing developments and residential units placed in service under this Act;
- (2) the estimated aggregate value of tax incentives and financing benefits provided;
- (3) the geographic distribution of developments, disaggregated by high-need areas and other areas;
- (4) the estimated impact of this Act on housing supply, affordability, and rental vacancy rates in participating areas;
- (5) the participation rate of small and mid-size developers;
- (6) an assessment of the effectiveness of the section 1031 reforms under section 5 in redirecting investment toward affordable housing;
- (7) an assessment of the volume and impact of qualified opportunity fund investments in opportunity zone qualified housing developments under section 8, including the number of affordable units produced and the capital deployed;
- (8) the number of community housing endorsement programs established, the number of community-endorsed housing developments receiving benefits under this Act, and the types of housing produced through the endorsement process; and
- (9) any recommendations for legislative or regulatory improvements.

SEC. 11. AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated—

- (1) to the Department of Housing and Urban Development, \$250,000,000 for each of fiscal years 2027 through 2037, to carry out the predevelopment loan fund under section 7(b) and the technical assistance program under section 7(c);
- (2) to the Department of Housing and Urban Development, \$75,000,000 for each of fiscal years 2027 through 2032, to carry out the community housing

endorsement technical assistance program under section 4A(g), including grants to endorsing authorities;

(3) to the Department of Housing and Urban Development, such sums as may be necessary to establish and maintain the public database under section 10(b) and to carry out the affordability monitoring and enforcement functions under section 9; and

(4) to the Department of the Treasury, such sums as may be necessary to administer the tax incentives under sections 4 and 5.

SEC. 12. EFFECTIVE DATE.

(a) **IN GENERAL.**—Except as otherwise provided in this Act, this Act and the amendments made by this Act shall take effect on the date that is 1 year after the date of enactment of this Act.

(b) **TAX PROVISIONS.**—The amendments made by sections 4 and 5 shall apply to sales, exchanges, and transactions occurring after December 31 of the calendar year in which this Act is enacted.

(c) **LIHTC ALLOCATION.**—The amendment made by section 6(a)(1) shall apply to calendar years beginning after the date of enactment of this Act.

(d) **REGULATIONS.**—Not later than 270 days after the date of enactment of this Act, the Secretary of the Treasury and the Secretary of Housing and Urban Development shall promulgate such regulations as are necessary to carry out this Act.

SEC. 13. SEVERABILITY.

If any provision of this Act, or any amendment made by this Act, or the application of such provision or amendment to any person or circumstance, is held to be unconstitutional, the remainder of this Act, the amendments made by this Act, and the application of the provisions of such to any person or circumstance not directly affected by such holding, shall not be affected thereby.
