Picture of Preservation

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Picture of Preservation 2024

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Executive Summary

The shortage of affordable rental housing in the United States has grown significantly in recent years for renters with the lowest incomes. Between 2019 and 2022, the shortage of affordable and available rental homes for extremely low-income renters grew by nearly half a million to a total shortage of 7.3 million homes (Aurand et al., 2024). Federally assisted rental homes provide a vital supply of housing that is affordable to the lowest-income renters, given the shortage of private market units affordable and available to them. These homes, however, require sustained or renewed funding commitments to ensure future affordability and habitability as buildings age and existing rent restrictions and tenant eligibility requirements expire or come up for renewal. Ensuring sustained funding and the long-term affordability, quality, and financial viability of federally assisted homes constitute affordable housing preservation.

The long-term affordability and quality of federally assisted housing encounters three types of preservation risks: exit, depreciation, and appropriations risks (Reina, 2018). These risks can be interconnected and show up differently across federal subsidy programs. A failure to address these risks and preserve the existing affordable housing stock can lead to higher rents for tenants, a loss of habitability, and possibly displacement (Wild, 2024; Parrella-Aureli, 2023; Freddie Mac, 2022; Reina and Winter, 2018; Reina, 2018; Blanco et al., 2014; Econsult, 2012; NHLP, 2002). Failed preservation can also lead to a loss of important legal requirements tied to federally assisted units with implications that extend beyond rent affordability or habitability. These legal requirements vary by subsidy but can include restrictions limiting occupancy to lower-income tenants, tenant protections such as good cause eviction requirements, or requirements for non-discrimination against prospective tenants with housing choice vouchers (HCVs).

Using data from the National Housing Preservation Database (NHPD), this report characterizes the federally assisted housing stock and documents its preservation risks. Federally assisted homes included in this report include those assisted by the Low-Income Housing Tax Credits (LIHTC), Section 8 Project-Based Rental Assistance (PBRA), Public Housing, Section 515, Section 202, Section 521, HOME Investment Partnerships Program (HOME), Project-Based Vouchers, Section 538, Section 811, HFA-Funded Section 236, Mod Rehab, and Section 514. Based on our analysis of NHPD data, we find that:

- Five million rental homes are supported by federally funded project-based rental subsidies, representing 10% of the rental housing stock nationwide. The average home has been affordable for 36 years.

- An estimated 104,088 federally assisted homes were added to the federally assisted housing stock in recent years, while 71,096 homes were lost, resulting in a net gain of only 33,992 federally assisted homes.
- LIHTC preserved an average of 34,403 federally assisted homes per year between 2010 and 2020, representing 39% of tax credit-assisted homes funded nationally. The share of tax credit homes funded to preserve affordable homes varied substantially by state during this period, from 71% in Michigan to 14% in Wyoming.
- Exit risk is growing across the federally assisted housing stock. Affordability restrictions are set to expire for 374,497 federally assisted homes in the next five years, representing 7% of the stock. Compared to 2019, non-renewable subsidies fund a larger number and share of these homes, and are owned by for-profit organizations, suggesting they may face additional barriers to preservation.
- An estimated 155,555 LIHTC homes allocated since 1990 lost their affordability restrictions after only 15 years, suggesting they were lost through the Qualified Contract (QC) process. The share of LIHTC homes likely lost through the QC process is the highest in Kansas, Arkansas, Nebraska, and South Dakota.
- Public housing faces a significant and growing depreciation risk. An estimated 267,326 public housing homes (30%) failed their most recent REAC inspection and likely require immediate investment, which is twice the number of homes that failed in 2019. One in five public housing homes have also failed two or more of their latest REAC scores, up from 9% in 2019.
- Since 2010, key HUD project-based housing programs have experienced a cumulative $21.3 billion of lost appropriations relative to fiscal year (FY) 2010 funding levels.

The risks and challenges outlined in this report highlight the significant effort needed to preserve the nation's affordable housing stock. Appropriating sufficient funding for federal housing programs can help ensure that current tenants remain stably housed in decent homes and that public investments in these homes are protected. Federal funding is also needed to retrofit the aging housing stock to become more energy efficient and climate resilient. In addition to funding, reforms are needed to protect the existing and future federally assisted stock from growing exit risks. Preserving the existing stock is ultimately foundational to any effort to expand the supply of affordable housing and alleviate the shortage for the lowest-income renters.

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The Federally Assisted Housing Stock

Rental housing subsidies can be tenant-based or project-based. Tenant-based subsidies, such as Housing Choice Vouchers, move with tenants and help them pay their rent on the private rental market. Project-based subsidies remain with the home. Project-based subsidies provide rental assistance contracts, grants, low-interest loans, tax credits, or mortgage insurance to help housing providers build, operate, or maintain affordable homes. Federal project-based subsidies support over 5 million homes, representing 10% of the rental housing stock nationwide. The table below provides an overview of the subsidies included in this report and the number of homes they assist. The Appendix provides a summary of the data sources and methodology for the primary research featured in this report.

Table: Federal Project-Based Subsidy Programs

Program	Assistance	Income Targeting	Rent	Homes Assisted in 2023	Percent of Federally Assisted Stock
Low-Income Housing Tax Credits (LIHTC)	Tax credit	Below 50% or 60% AMI, or a range of incomes up to 80% AMI that average to below 60% AMI, depending on owner election	30% of the elected set-aside for the unit	2,629,871	52%
Section 8 Project-Based Rental Assistance (PBRA)	Operating subsidy	Varies by program. Typically, all households must earn below 80% AMI, and 40% of households must earn below 30% AMI	30% of tenant's income	1,069,016	21%
Public Housing	Operating subsidy and capital grants	Below 80% AMI, 40% of new admissions must earn below 30% AMI	30% of tenant's income	897,600	18%
Section 515	Low-interest loan	Below 80% of AMI, plus $5,500	30% of tenant's income	373,525	7%
Section 202	Low-interest loan and/or operating subsidy	Depends on program. Below either 30% or 50% AMI.	Budget-based rent or 30% of tenant's income	322,086	6%
Section 521	Operating subsidy	95% of households must earn below 50% AMI for new properties. 75% of households must earn below 50% AMI for old properties.	30% of tenant's income	295,040	6%

HOME Investment Partnerships Program (HOME)	Block grant that can be customized by area	Below 60% AMI for 90% of households. 20% of households must earn below 50% AMI for newly constructed properties and properties with more than five assisted units.	The lesser of either the fair market rent or 30% of 65% AMI. In units required to be occupied by households earning below 50% AMI, rent must not exceed 30% of 50% AMI or 30% of a tenant's income	217,976	4%
Project-Based Vouchers*	Operating subsidy	Below 80% AMI, and 75% of new admissions must earn below 30% AMI	30% of tenant's income	128,072	3%
Section 538	Low-interest loan	Below 115% AMI	Budget-based rent	67,702	1%
Section 811	Operating subsidy	Depends on program. Either below 30% AMI (PRA), below 50% AMI (PRAC), or below 80% AMI (PRAC funded in FY 1995)	30% of tenant's income	38,992	1%
HFA-Funded Section 236	Interest rate subsidy	Below 80% AMI	Rent cannot exceed 30% of 115% AMI and average rent cannot exceed 30% of 100% AMI	32,130	1%
Mod Rehab*	Operating subsidy	Below 80% AMI	30% of tenant's income	17,514	.3%
Section 514	Low-interest loan	Not formally established	Flat rent	16,892	.3%

Source: NHPD January 2024

Note: Multiple programs can assist federally assisted homes. The estimates above may differ from other sources due to data reporting lags for property-level data. This report does not include the Community Development Block Grant (CDBG), Indian Housing Block Grant (IHBG), national Housing Trust Fund (HTF), Housing Opportunities for Persons with AIDS (HOPWA), and tax-exempt multifamily housing bond programs.

*The number of Project-Based Vouchers (PBVs) is underestimated because data only include properties with at least 11 PBV-assisted units as of 2019.

Federally assisted homes often depend on multiple subsidy programs to serve the lowest-income families. Forty-one percent of affordable homes were assisted by two or more federal project-based subsidies in 2023, up from 38% in 2019. The most common pairings include LIHTC and Section 8 PBRA (9%), LIHTC and HOME (7%), LIHTC and HUD insured mortgages (7%), and Section 515 and Section 521 (7%).

The Low-Income Housing Tax Credit (LIHTC) program is the nation's largest affordable housing production program and finances a growing share of affordable homes. The share of federally assisted homes assisted by tax credits rose from 49% in 2019 to 52% in 2023. Other programs that assisted a significant share of federally assisted homes include Section 8 Project-Based Rental Assistance (PBRA) (21%), which provides operating subsidies, and public housing (19%), which provides operating and capital subsidies. The deep subsidies provided through Section 8 PBRA and public housing enable affordable housing providers to serve the lowest-income families.

Affordability varies across properties based on the subsidy program supporting them. Rents paid by tenants can be either income-based or market-based. Fifty-five percent of federally assisted homes charge income-based rents and are most affordable to the lowest-income families. Tenants' rent contributions at these properties are typically 30% of their income. Programs with income-based rents include public housing, Section 521, Mod Rehab, Project-Based Vouchers, and Section 8 Project-Based Rental Assistance (PBRA). Other programs allow rents that are based on an area's income distribution. Landlords are allowed to charge rents that would be affordable at a particular income threshold (e.g., affordable for incomes at 60% of area median income (AMI)) regardless of the tenants' income. These properties are typically only affordable to the lowest-income families with additional rental subsidies.

Federally assisted homes can be owned by public housing authorities (PHAs), non-profits, and for-profit entities. During the 1970s, for-profit organizations began owning a growing share of federally assisted homes (Figure 1). Sixteen percent of federally assisted homes with a start year of 2020 or later are owned by nonprofits or PHAs, compared to 93% of federally assisted homes with a start year before 1950. As of 2023, for-profit organizations own more than half (51%) of all federally assisted homes. Nonprofit organizations and PHAs own 34% of all federally assisted homes, while 6% of homes have multiple types of owners. Ownership type is unknown for the remaining 9%.

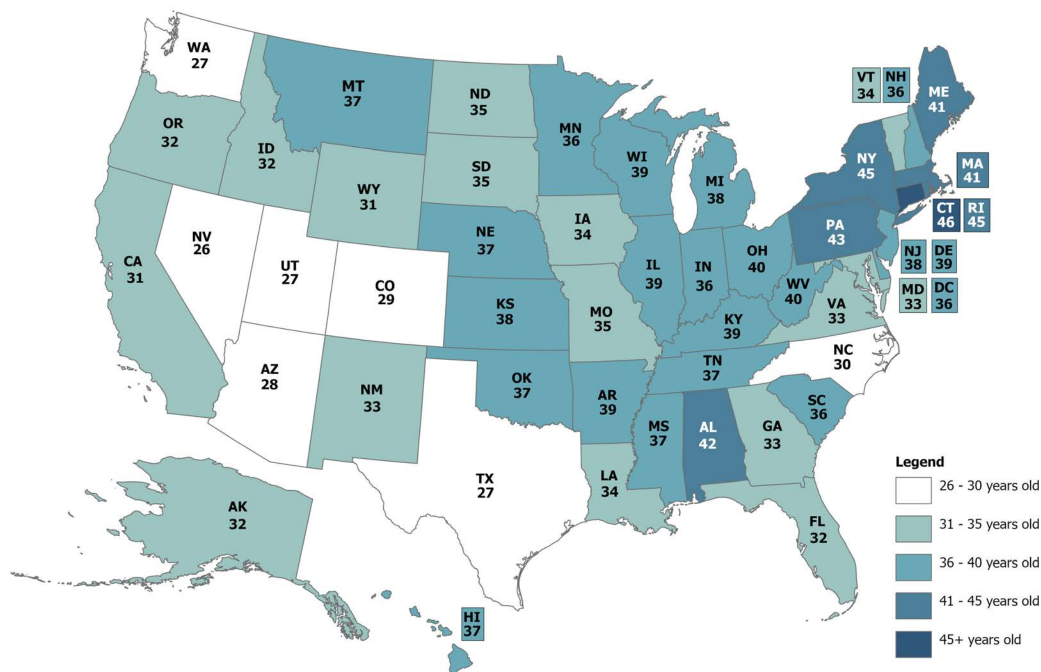
Figure 1: Ownership Type of Federally Assisted Homes by Start Year

Source: NHPD January 2024
Note: Construction date is not available for all subsidy programs, so it is estimated using the earliest subsidy start, occupancy, or construction date.

Most properties have non-renewable affordability restrictions for a set period. In exchange for receiving project-based subsidies, owners agree to restrict the rent they charge and limit whom they admit based on an applicant's household income. Nineteen percent of federally assisted homes are assisted by public housing and have perpetual affordability restrictions imposed by federal guidelines. An additional 33% are assisted by Section 8 Project-Based Rental Assistance (PBRA), Section 811, Project-Based Vouchers, and Mod Rehab and have affordability restrictions that can be renewed. The remaining 48% of federally assisted homes have restrictions that are not renewable and typically range from 20 to 40 years. Once these subsidies expire, owners of these properties must secure new financing to maintain the properties and operate them as affordable housing.

Most federally assisted homes are more than 35 years old, indicating they may require recapitalization to modernize costly building systems that have exceeded the end of their useful life. The average federally assisted home has been affordable for 36 years. On average, federally assisted homes are older in the Northeast (43 years) and Midwest (38 years) and slightly newer in the South (33 years) and West (30 years) (Figure 2). Overall, 28% of federally assisted homes have been affordable for 50 or more years. Sixty-eight percent of these homes have not received a significant new public investment in the past 20 years.

Figure 2: Average Age of Federally Assisted Homes by State



Source: NHPD January 2024.
Note: Property age was determined using the earliest subsidy start, occupancy, or construction date.

In total, 1.7 million federally assisted homes (34%) are targeted to support families, while 1.5 million (29%) are reserved for older adults or people with disabilities. Five percent include multiple target tenant designations. Two percent target another population, such as veterans, unhoused people, or at-risk youth. Target tenant designation is missing for the remaining 30% of federally assisted homes.

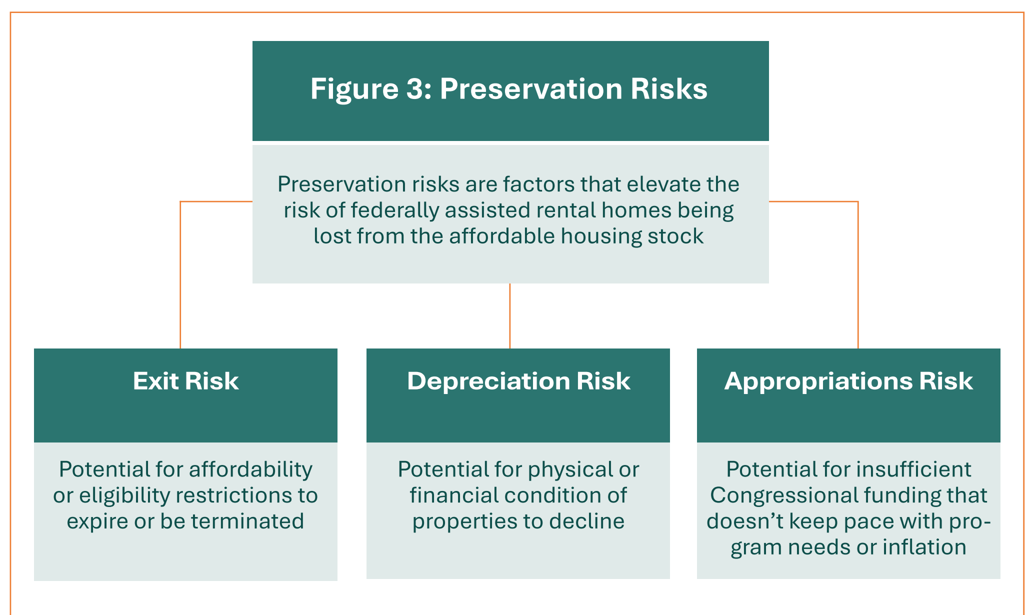
What Is Affordable Housing Preservation?

Preservation is the act of investing in affordable homes to sustain their long-term affordability, maintenance, and financial viability. Federally assisted rental homes require sustained or renewed funding commitments to ensure future affordability and habitability, which is essential as buildings age and existing rent and tenant eligibility requirements expire or come up for renewal. Ensuring these commitments is the cornerstone of affordable housing preservation. If an existing federally assisted property is not preserved, public investment in the property will be lost and efforts to expand the affordable housing stock will be undermined as new units simply replace units lost.

Failing to preserve affordable homes can lead to higher rents for tenants, a loss of habitability, and potentially displacement (Wild, 2024; Parrella-Aureli, 2023; Freddie Mac, 2022; Reina and Winter, 2018; Reina, 2018; Blanco et al., 2014; Econsult, 2012; NHLP, 2002). Failed preservation can also lead to a loss of important legal requirements tied to federally assisted units with implications that extend beyond rent affordability or habitability. These legal requirements vary by subsidy but can include restrictions limiting occupancy to lower-income tenants, tenant protections such as good cause eviction requirements, or requirements for non-discrimination against prospective tenants with housing choice vouchers (HCVs). Additionally, research has found that affordable housing preservation efforts are likely more cost effective than new construction, with some studies finding preservation between 25% and 50% less costly per unit than new construction (Reina, 2018; Wilkins et al., 2015; MacArthur Foundation, 2008). Lastly, preservation provides a chance to retrofit older federally assisted housing stock with energy-efficient designs, lowering greenhouse gas emissions and reducing utility costs for property owners or tenants (EPA, 2023; Block et al., 2012; Taylor, Searcy, & Jones, n.d.).

What Kinds of Preservation Risks Does the Federally Assisted Stock Face?

There are different types of risks threatening the preservation of the federally assisted housing stock. Reina (2018) identifies three main types of preservation risks: exit, depreciation, and appropriations risks (Figure 3). These risks can be interrelated, and they can manifest differently across federal subsidy programs.



Exit Risk

Federal housing subsidies typically include program requirements pertaining to tenant eligibility and the affordability of rents (PAHRC & NLIHC, 2020). Exit risk refers to the potential for these program requirements to end through expiration or termination. Depending on the subsidy, the program

restrictions can expire after a period determined prior to the awarding of a one-time capital subsidy, at the full repayment of a mortgage, or when a rental assistance contract is not renewed. In some cases, owners can request the premature termination of affordability restrictions, as is the case in the LIHTC program. Program restrictions can also be perpetual, as is the case with public housing.

Various factors influence the likelihood of a property exiting a program and the federally assisted stock, including the property ownership type, mortgage pre-payment, property size, additional affordability requirements imposed by states or localities, whether a subsidy is renewable, and price appreciation in the local housing market (Freddie Mac, 2022; Reina & Begley, 2014; Ray et al., 2015). For example, LIHTC and Project-Based Section 8 properties with for-profit owners are generally considered at greater risk of exit than those with nonprofit owners (Freddie Mac, 2022; Khadduri et al., 2012; Ray et al., 2015 Meléndez et a., 2008). This is particularly relevant in competitive housing markets where owners can potentially operate properties more profitably as market-rate housing instead of maintaining them as affordable housing (Reina & Begley, 2014; Ray et al., 2015; Khadduri et al., 2012).

While exit risk poses a threat to sustained affordability, many properties renew their rental assistance contracts or successfully apply for new subsidy allocations and ultimately remain affordable to lower-income households. For example, among properties with Section 8 PBRA contracts (i.e. renewable assistance), approximately 18% exited the stock between 1992 and 2004, which declined to just 4% between 2005 and 2014(not including an additional 2% that experienced foreclosure or abatements) (Finkel et al., 2006; Ray et al., 2015). Properties can also reposition as moderately priced housing in the private market after exiting. Freddie Mac (2022) found that approximately 61% of LIHTC homes that exit the program remain affordable to households at 60% AMI. They identified no cases in which homes remained affordable to tenants at 30% AMI (Freddie Mac, 2022). Yet over half of LIHTC households are extremely low-income (HUD, 2024b). In some instances, rents affordable at 60% AMI might even exceed voucher payment standards and remain out of reach for the lowest-income renters who are fortunate enough to have a voucher. More research is needed to understand what happens to properties when they leave the federally assist-

ed stock and, especially, what happens to existing tenants. The extent to which tenants' housing stability is impacted by exits and their experiences are poorly understood.

Exit risk also threatens more than just affordability. Properties exiting federal housing programs stand to lose other important legal requirements tied to assistance. These legal requirements vary by subsidy but can include restrictions limiting occupancy to lower-income tenants, tenant protections such as good cause eviction requirements, or requirements for non-discrimination against prospective tenants with housing choice vouchers (HCVs).

Depreciation Risk

Depreciation risk is the likelihood that the financial stability and physical condition of federally assisted housing will deteriorate over time. Given the basic requirements that affordable housing programs assist lower-income renters and that rents are limited, rental revenue from tenants can fall short of what is needed to cover ongoing costs without subsidy (Blumenthal et al., 2016). Even with subsidies, owners of federally assisted housing typically work under tight margins and face challenges maintaining the financial health and physical quality of their properties over time (Brennan & Fedorowicz, 2020; Khadduri et al., 2012).

If a property is aging, subject to long-term congressional disinvestment, or affected by a natural disaster, it might require significant repairs and become uninhabitable for tenants, resulting in displacement without immediate capital investment (Reina, 2018). Failed physical inspections can also disqualify assisted properties from federal programs. Centralized data on the physical condition of the federally assisted stock are only available for some federal programs, significantly limiting our knowledge of depreciation risk (PAHRC & NLIHC, 2021; PAHRC & NLIHC, 2022).

Appropriations Risk

The need for subsidies means the existing federally assisted housing stock is largely dependent upon funding from Congress. The funding appropriated by Congress must not only be maintained but needs to increase annually to keep pace with inflation. Otherwise, there is a potential for loss of affordable housing units through both exit and depreciation risk, limiting the number of people who can be assisted. Appropriations risk refers to the risk that Congress will not provide adequate funding to preserve the federally assisted housing stock.

The chronic underfunding of public housing is a prime example of appropriations risk. Since the mid-1990s, no funds have been allocated to build additional public housing units, and the existing public housing stock has been subject to substantial underinvestment (NHLP, n.d.). The public housing capital needs backlog is currently between $70 billion and $90 billion due to funding cuts to the program (NAHRO, 2023). Substantial capital investments are needed to preserve our nation's public housing (Finkel et al., 2010; Fischer, Acosta, & Bailey, 2021).

Preservation Risks in Focus

This section uses the NHPD to quantify the scope of exit and depreciation risks that could impact the federally assisted housing stock.

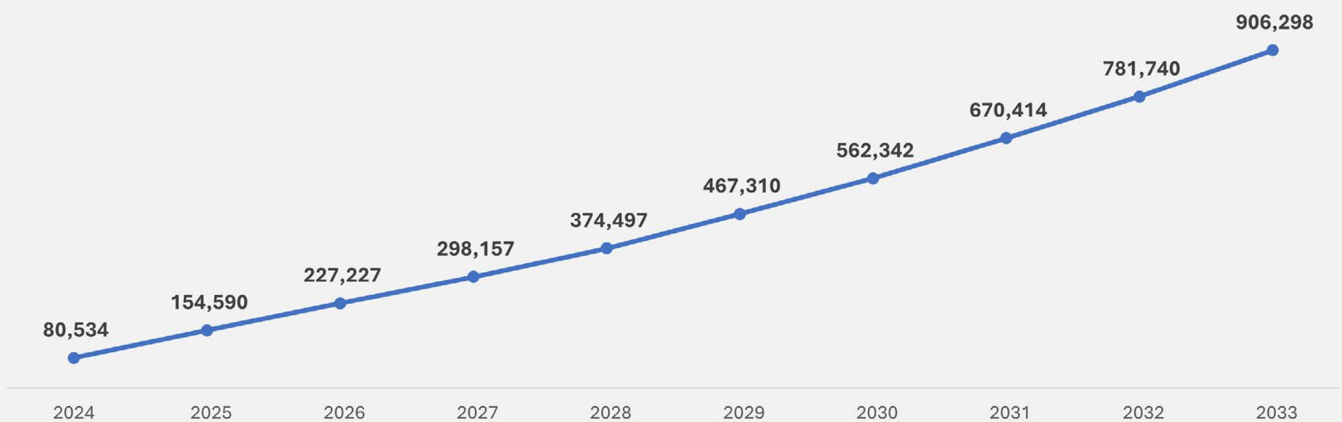
Exit Risk

Affordability restrictions are set to expire for 374,497 federally assisted homes through 2028, representing 7% of the federally assisted housing stock (Figure 4). Exit risk varies by state, with a larger share of homes in Wisconsin (18%), North Dakota (16%), Iowa (14%), Alaska (14%), and South Dakota (13%) facing expiring affordability restrictions between now and 2028. Not all of these homes will lose their affordability restrictions. Twenty-seven percent of homes with affordability restrictions expiring in the next five years have renewable subsidies and are likely to remain affordable.

A growing share of homes with expiring affordability restrictions have property characteristics that can increase their likelihood of exiting the affordable housing stock. In 2023, 72% of federally assisted homes with affordability restrictions expiring in the next five years were assisted by non-renewable subsidies, up from 49% in 2019. Owners of these properties may need to compete for additional subsidy allocations to invest in the long-term maintenance and operation of these homes. Federally assisted homes facing exit risk are also increasingly owned by for-profit organizations, which are more likely to reposition affordable homes as market rate housing, resulting in the loss of homes from the affordable housing stock. Sixty percent of federally assisted homes expiring in the next five years are owned by for-profit organizations, up from 53% in 2019.

Exit risk is high across many housing programs. Across the three largest housing programs facing exit risk, 538,418 LIHTC-assisted homes, 225,907 Section 8 PBRA-assisted homes, and 72,419 Section 515-assisted homes have affordability restrictions expiring within the next 10 years. These homes represent 20% of the LIHTC and Section 8 PBRA-assisted housing stock and 19% of the Section 515-assisted stock. Some homes can also exit federal housing programs before their affordability restrictions are set to expire. For example, the LIHTC program's Qualified Contract (QC) loophole allows property owners to submit a

Figure 4: Federally Assisted Homes Reaching the End of Their Affordability Restrictions by Year

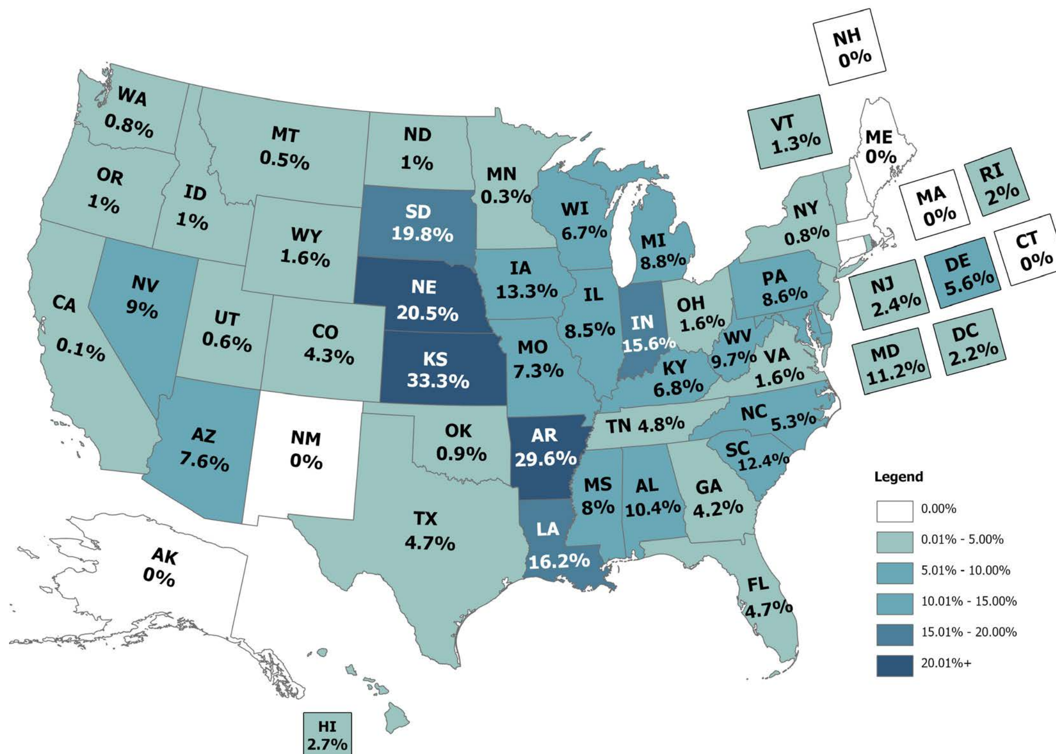


Source : NHPD January 2024.

"qualified contract" to their state housing finance agency after their property has been in service for 14 years. If the state housing finance agency cannot find a buyer at the qualified contract price within a year who is also willing to keep the property affordable in the long term, the affordability restrictions phase out and that property can become market rate. Approximately 192,755 homes allocated a LIHTC subsidy since 1990 lost their affordability restrictions before reaching Year 30. Among these homes, 155,555 lost their affordability after 15 years, suggesting they were lost through the Qualified Contract (QC) process. The remaining homes lost their affordability restrictions prior to Year 15, suggesting they may have been subject to foreclosure. Use of the QC process has increased since 2015. Industry experts speculate that the growing value of LIHTC homes and pressure from investors prompted this increased use of the QC process (Mamet, 2023).

The share of homes lost through the QC process varies substantially by state, ranging from none to one-third of all LIHTC-assisted units in a given state. The largest shares of LIHTC-assisted homes likely lost through QCs were in Kansas (33%), Arkansas (30%), Nebraska (20%), and South Dakota (20%) (Figure 5). Housing finance agency (HFA) policies designed to discourage or prevent LIHTC owners from submitting a QC may influence the outcomes of affordable properties. As of 2023, 32 HFAs require owners to waive their right to a QC as a condition of receiving tax credits, and 12 additional HFAs incentivize waivers (National Housing Trust, 2023). Some states began requiring these waivers only recently. Since waivers do not retroactively apply to properties previously allocated tax credits, the QC process can continue to present a risk for these states. To discourage existing owners who have not waived their right to a QC, some HFAs award negative points or disqualify owners who have previously submitted a QC on future LIHTC applications and impose additional administrative barriers and fees for owners that make QC requests (PAHRC & NLIHC, 2022).

Figure 5: Percent of LIHTC Units That Lost Affordability after Year 15



Source: HUD's LIHTC Database 2003-2004, 2006-2009, and 2011-2024. Note: Tax credits allocated after 1990 that lost their affordability restrictions after 16-29 years of affordability were classified as likely lost due to QC opt out.

Depreciation Risk

Depreciation risk, stemming from declining physical or financial conditions, can reduce the habitability and operational feasibility of federally assisted homes. Property-level physical inspection scores can be used as a proxy to assess depreciation risk for federally assisted properties (Ruiz, Stout, & Herlihy, 2017). Federally assisted properties are commonly required to undergo physical inspections every one to three years, depending on the severity of deficiencies observed during the most recent examination. Inspectors tour each property to assess the condition of the site, building exterior, systems, common areas, and units. A score between 0 and 100 is assigned to properties based on the frequency and severity of health, safety, and operational deficiencies.[1] However, these inspections do not replace a capital needs assessment to estimate the cost to repair buildings. Some critical deficiencies identified during inspections may not require significant investments to correct (Finkel et al., 2010). HUD recommends pairing physical inspections with a physical needs assessment to identify necessary repairs, suggesting these inspections can provide a window into the physical condition of properties (HUD, 2016).

Depreciation is a significant risk for public housing properties, as they have been subject to chronic congressional disinvestment. Across the country, 267,326 public housing homes (30%) failed their latest REAC inspection score and likely require immediate investment. The share of public housing homes failing their latest REAC score has steadily increased, rising from 15% to 30% since 2019. One in five public housing homes has also failed two or more of their latest REAC scores, up from 9% in 2019.

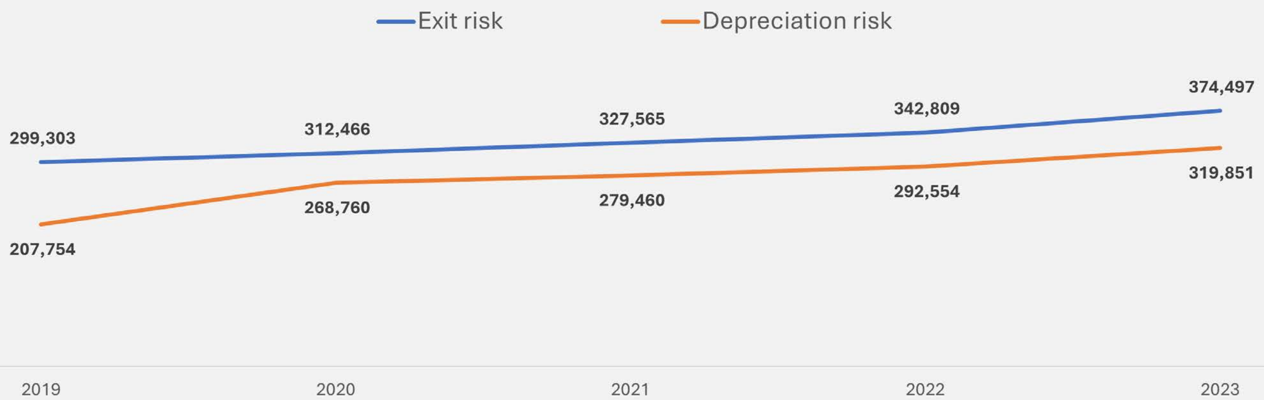
Depreciation risk is less prevalent for homes assisted by HUD-assisted multifamily programs. Four percent of homes assisted by HUD-assisted multifamily programs, representing 54,581 homes, also failed their latest REAC score. The number and share of these homes have remained constant since 2019. Only 3% of Section 8 PBRA-assisted homes failed two or more of their three latest inspections. As of 2023, 4% of HUD-assisted multifamily programs were classified as troubled by the HUD field office for failing to meet financial, physical condition, or management performance agreements with HUD. An additional 28% of HUD-assisted multifamily homes were classified as potentially troubled.

1 In 2023, HUD began changing the inspection protocol that properties must follow from Real Estate Assessment Center (REAC) standards to the National Standards for the Physical Inspection of Real Estate (NSPIRE). The new NSPIRE standards more strongly weigh health and safety deficiencies identified within the living area of properties. Inspection scores determined using the new NSPIRE standards are not included in this report.

Our understanding of depreciation risk threatening the long-term affordability and habitability of federally assisted homes is incomplete. Physical inspection scores do not assess the financial stability of properties, which can foreshadow declining physical conditions. Additionally, REAC and NSPIRE scores are only reported for 48% of federally assisted homes. Inspection scores are notably not publicly available for properties assisted by LIHTC, Section 515, HOME, Section 515, Section 514, or Section 538.

Overall, exit and depreciation risks have risen since 2019. As of 2023, 14% of the federally assisted housing stock faced known exit or depreciation risks, compared to 10% in 2019. Both types of risk have increased significantly (Figure 6). Exit risk is likely rising due to an increasing number of potential LIHTC expirations, while depreciation risk may be increasing because of deteriorating public housing conditions stemming from long-term disinvestment. We categorize properties as facing depreciation risk if they failed their most recent REAC score. The total number of homes facing depreciation risk is likely even higher since inspection scores are not publicly available for LIHTC properties, which account for the largest share of federally assisted homes.

Figure 6: Federally Assisted Homes Facing Exit or Depreciation Risk by Year

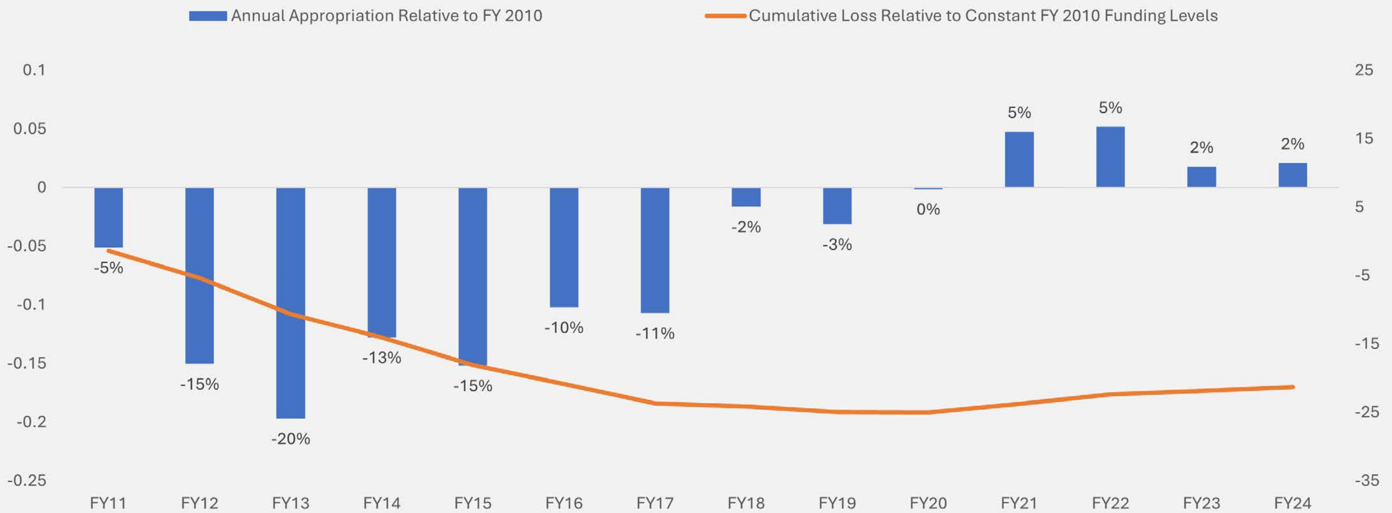


Source : NHPD January 2020-2024
Note: *Exit risk* includes properties with affordability restrictions expiring in the next five years. *Depreciation risk* includes properties that failed their latest REAC score. Depreciation risk is likely underestimated, since REAC scores are only available for public housing and HUD-assisted multifamily properties.

Appropriations Risk

Adequate annual appropriations for key HUD housing programs, including Section 8 Project-Based Rental Assistance, Public Housing, HOME, Section 202, and Section 811, are essential for mitigating exit and depreciation risks in federally assisted housing. At a minimum, annual appropriations for these programs must keep pace with inflation. Over the previous decade, however, these programs faced significant challenges due to limitations imposed by the Budget Control Act of 2011 (BCA). Figure 7 shows how significant funding cuts to key HUD project-based housing programs relative to FY 2010 levels were made as a result of the BCA—cuts that have yet to be made up for despite increases in appropriations starting

Figure 7: Annual Appropriations and Cumulative Loss (in Billions) for Key HUD Project-Based Housing Programs Relative to FY 2010



Note: Adjusted for inflation. Key HUD housing programs include Project-Based Rental Assistance, Public Housing Capital and Operating Funds, HOME, Section 202, and Section 811.
Source: NLIHC and PAHRC tabulations of NLIHC federal budget data.

in FY 2021. Since FY 2010, cumulative appropriations for these key programs are $21.3 billion less than if appropriations had remained at FY 2010 levels, adjusted only for inflation.

Further increases to appropriations beyond the rate of inflation are needed to adequately fund key HUD project-based programs. Yet the Fiscal Responsibility Act of 2023 (FRA) created strict new spending caps that allow for an increase of only 1% in FY 2025 appropriations from those enacted in FY 2024. A 1% increase in appropriations for these HUD project-based programs would fail to keep pace with inflation, let alone begin to make up for the losses in funding incurred during the previous decade. While President Biden and Congress have negotiated for some additional funding beyond the 1% FRA cap to address inflationary costs, the cap remains a significant barrier to increasing funding for HUD programs in the FY 2025 appropriations process.

Trends in Preservation

The preservation risks documented in the previous section demonstrate that continued operating and capital support is crucial to maintaining the affordability and physical condition of federally assisted homes. The following section uses the NHPD to quantify the preservation of federally assisted homes. While an estimated 104,088 federally assisted homes were added to the federally assisted rental stock in recent years, 71,096 homes were lost. These losses resulted in a net gain of only 32,992 new affordable homes in this period.

Despite significant preservation challenges, at least 99,629 federally assisted homes were preserved in recent years using federal resources. These homes were in properties that received a new grant, low interest loan, or tax credit to fund repairs necessary to modernize critical building systems and ensure

they can continue operating sustainably. State and local housing programs, such as tax-exempt bonds, tax abatements, and housing trust funds, likely preserved additional homes, but data are not available on state-funded preservation initiatives nationwide.

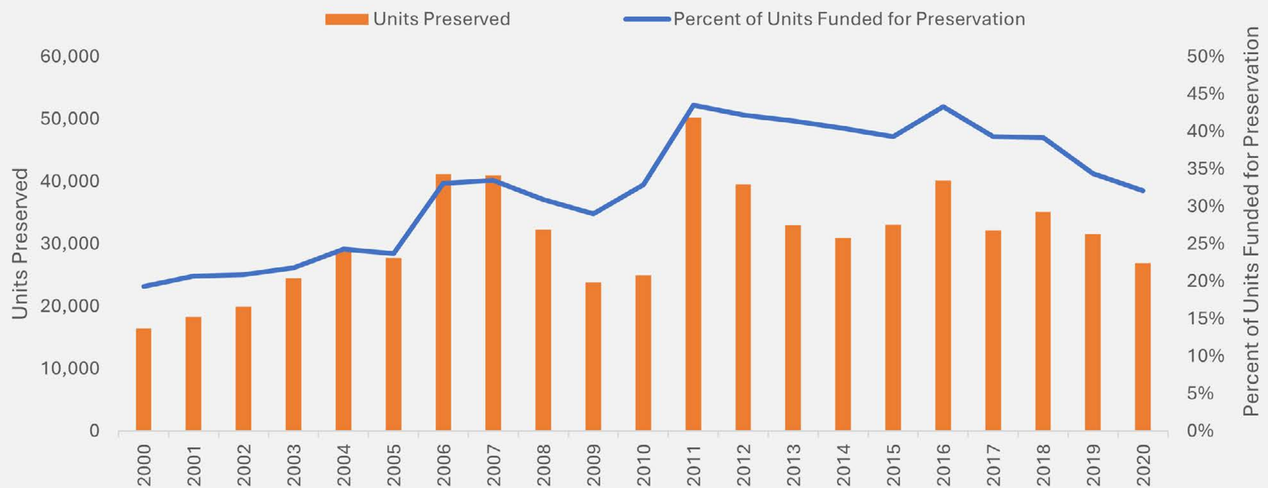
The number of homes preserved in recent years varied across housing programs. Among the 99,629 homes preserved, 50% were in properties initially assisted by LIHTC, 50% were in properties assisted by Section 8 PBRA, 12% were in properties initially assisted by USDA programs, including Section 515, 514, and 521, and 9% were in public housing.[2]

The following section uses the NHPD to describe preservation trends in the LIHTC program, which is the primary federal program for building and preserving federally assisted housing.

LIHTC as a Preservation Tool

Between 2010 and 2020, the LIHTC program preserved an average of 34,403 federally assisted homes in 368 properties per year, representing 39% of tax credit homes funded during this period.[3] Preservation using LIHTC peaked in 2011, recapitalizing 50,526 federally assisted homes and leveraging 44% of tax credit homes funded during this time (Figure 8). This peak was likely due to the impact of the Housing and Economic Recovery Act of 2008 (HERA), which increased the amount of tax credits and tax-exempt bond authority states received, and the American Recovery and Reinvestment Act (ARRA), which provided an historic $3 billion to preserve public housing and create the Tax Credit Assistance Program and Tax Credit Exchange Program. Many states used these programs to fund the preservation and construction of LIHTC projects with small funding gaps that had stalled due to low investor demand for tax credits in the immediate aftermath of the Great Recession (National Housing Conference, n.d.). Additionally, many public housing authorities used their public housing capital fund awards from ARRA to leverage additional funding through public and non-public sources, including the LIHTC program (Voith & Mariano, 2010).

Figure 8: Number and Percent of LIHTC Units Funded to Preserve Federally Assisted Homes



Source: NHPD January 2024; HUD LIHTC Database 2024
Note: Years in the figure indicate when tax credit units were most recently placed in service.

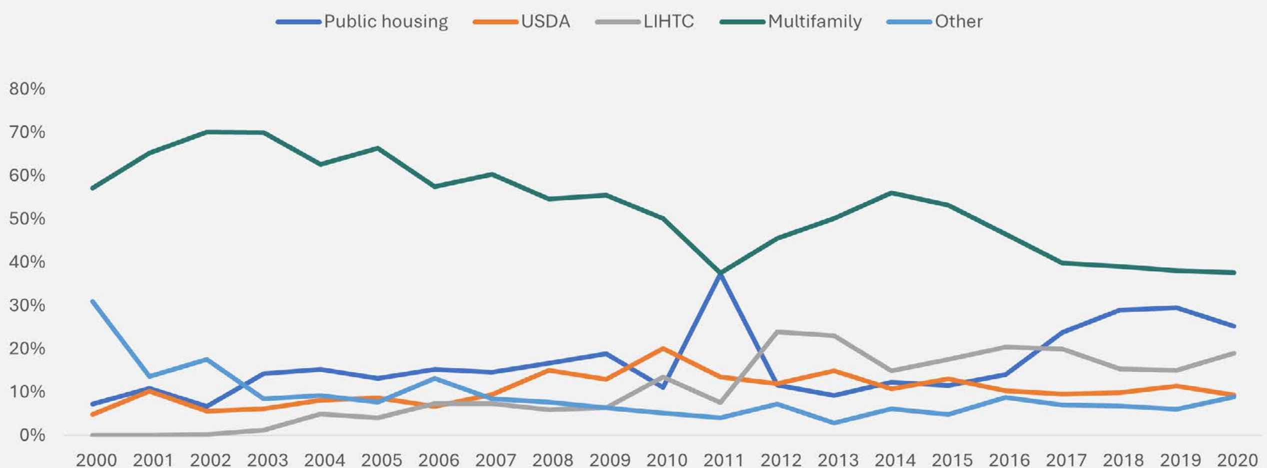
2 Properties can be assisted by multiple programs, which is why cumulative percentages exceed 100%.
3 Funded refers to the year LIHTC homes were most recently placed in service.

Since then, the number and share of LIHTC-assisted homes funded for preservation has decreased. In 2020, the latest year data were available, the share of LIHTC homes funded for preservation dropped to 32% despite a growing number of properties facing exit and depreciation risk.

LIHTC development overall dropped significantly following the Great Recession and has yet to rebound to pre-recession levels. Between 2003 and 2007, an average of 118,857 affordable homes a year were built or preserved using LIHTC, but the number dropped to 86,076 annually between 2012 and 2020. Fewer homes built and preserved using LIHTC may make it more challenging for states to balance new construction goals with growing preservation needs driven by both exit and depreciation risks.

Between 2000 and 2020, most homes rehabilitated and preserved with tax credits were initially assisted by the Section 8 PBRA program (50%). A substantially smaller share of homes preserved with tax credits were assisted by HOME (18%), USDA programs (11%), public housing (18%), and existing LIHTC properties (17%). Over time, the share of LIHTC homes funded to preserve existing LIHTC properties and public housing that converted through the Rental Assistance Demonstration program has increased (Figure 9). On the other hand, the share of LIHTC homes funded to preserve HUD-assisted multifamily homes, such as those assisted by Section 8 PBRA, Section 811, and Section 202, has decreased.

Figure 9: Share of Units Preserved by LIHTC by Initial Program



Source: NHPD January 2024; HUD LIHTC Database 2024
Note: Years in the figure indicate when tax credit units were most recently placed in service.

The share of tax credit homes funded for preservation varies substantially by state. The share of LIHTC homes awarded funds for preservation between 2010 and 2020 ranged from 71% in Michigan to 14% in Wyoming. These preservation patterns could be driven by state-level QAP policies such as incentives for preservation or preservation set-asides that mandate that a portion of all tax credits be used to rehabilitate properties. For instance, federally assisted homes tend to be older in the Northeast, which could contribute to how states in the region prioritize their affordable housing resources. Additional research is needed to understand the factors influencing preservation trends across states.

Conclusion

Five million federally assisted rental homes in the United States provide crucial housing to renters with the lowest incomes. However, the demand for federally assisted housing and the stability it offers far exceeds the present supply. There is a shortage of 7.3 million rental homes affordable and available to the lowest-income renters (Aurand et al., 2024), and just one in four renters who qualify for housing assistance receive it (Gartland, 2022). Existing federally assisted housing faces major preservation risks related to program exits, depreciation, and inadequate congressional appropriations. These risks threaten the limited supply of affordable housing and could undermine the ability to expand this vital public asset. Preserving the existing affordable housing stock is imperative, and public policy must focus on increasing funding and reforming existing programs to better address preservation risks.

Despite the urgent need for investments in affordable housing preservation and construction, Congress narrowly failed to pass the Build Back Better Act of 2021, which included historic funding levels for deeply affordable housing. Build Back Better would have allocated $90 billion for rental assistance ($75 billion for Housing Choice Vouchers and $15 billion for Project-Based Rental Assistance), $80 billion to preserve public housing, and $37 billion for the national Housing Trust Fund to build and preserve homes affordable to people with the lowest incomes.

The Inflation Reduction Act (IRA), passed in 2022, provided HUD with much less funding, targeted specifically for creating the Green and Resilient Retrofit Program (GRRP). This program provides direct loans and grants to HUD-assisted multifamily properties to improve their energy and water efficiency, reduce greenhouse gases, and improve their resilience to climate hazards (HUD, 2024a). As of September 2024, the GRRP program had awarded $842.5 million to improve approximately 22,400 affordable homes nationwide (HUD, 2024c). The IRA also provided $27 billion in funding to the Environmental Protection Agency (EPA) to establish the Greenhouse Gas Reduction Fund, used to leverage private financing for greenhouse gas and air pollution reduction projects in communities across the country. Some of the funding and tax credits established under the IRA can be used to improve the energy efficiency and climate resilience of federally assisted housing. Larger, more broadly targeted investments to address preservation specifically are needed to fully preserve and expand the federally assisted housing stock.

Mirroring some of the housing provisions in the Build Back Better Act, the Housing Crisis Response Act of 2023 would provide more than $150 billion in vital investments to help low-income renters afford rent, support public housing, and create and preserve affordable and accessible housing. The legislation would provide $24 billion for Housing Choice Vouchers and supportive services, $1 billion for the first new project-based rental assistance contracts since 1983, and $65 billion to repair and preserve 500,000 of the nation's public housing units (U.S. House Committee on Financial Services, 2023). Passage of the Housing Crisis Response Act would thus represent significant progress in preserving and revitalizing the existing federally assisted housing stock, especially public housing, which faces an estimated $70 to $90 billion capital needs backlog (NAHRO, 2023).

The LIHTC program is the largest source of capital for expanding and preserving the federally assisted housing stock. Yet the program is oversubscribed. Prospective developers requested over $2.9 billion in tax credits from states in 2021, nearly twice the available allocation of credits (NCSHA, 2021). Tax credit resources should be increased to meet existing preservation needs and expand the supply of affordable

housing. Any expansion of the LIHTC program should be accompanied by key reforms to ensure the program better serves the lowest-income renters and that homes remain affordable in the long term. The Affordable Housing Credit Improvement Act of 2023 would expand LIHTC while boosting credits for projects targeted to those with the lowest incomes and for projects in tribal and rural communities. While these changes to the LIHTC program, if passed, would contribute to the preservation and expansion of tax credit housing for people and communities with the greatest needs, more must be done to address exit risks in the LIHTC program.

Other reforms to LIHTC, such as expanding the nonprofit set aside amount, eliminating the QC loophole, extending the minimum required affordability period for properties, and strengthening nonprofit organizations' "right of first refusal" (the right to priority in purchasing a property and gaining full ownership) would further address exit risks in the program.

This report documents the preservation risks facing the nation's federally assisted housing stock. Both increased funding and significant reforms are needed to ensure the long-term affordability and habitability of this housing stock while securing the housing stability of its tenants. Only then will it be possible to address the national shortage of affordable housing facing the lowest-income renters.

The Affordable Housing Credit Improvement Act of 2023 would expand LIHTC while boosting credits for projects targeted to those with the lowest incomes and for projects in tribal and rural communities. While these changes to the LIHTC program, if passed, would contribute to the preservation and expansion of tax credit housing for people and communities with the greatest needs, **more must be done to address exit risks in the LIHTC program.**

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Appendix: Data Notes, Sources, and Methodology

The National Housing Preservation Database (NHPD) was used to examine characteristics of the federally assisted housing stock, measure exit and depreciation risks these homes face, and quantify the number of homes preserved using federal resources. Data from the NHPD was retrieved each year in January between 2019 and 2024 and was retroactively standardized to maximize comparability overtime. The NHPD was matched to HUD's 2023 Picture of Subsidized Households (POSH), HUD's February 2024 Multifamily Properties Assisted data, HUD's January 2024 Rental Assistance Demonstration (RAD) transactions, and HUD's 2024 LIHTC Database.

1. The Federally Assisted Housing Stock

1a. Federally Assisted Homes

Federally assisted homes include properties with at least one likely active subsidy as of January 1, 2024. These estimates include properties assisted by HUD Project-based Section 8, Section 202 direct loans, HUD insurance programs, State HFA Funded Section 236, LIHTC, HOME rental assistance, Section 515 rural rental housing loans, Section 514 direct loans, rural development Section 538, Mod Rehab, Project Based Vouchers, and Public Housing. These estimates do not include properties funded by CDBG, national HTF, McKinney Vento Permanent Housing, HOPWA, the Indian Housing Block Grant, or Tax-Exempt Multifamily Housing Bonds. Subsidies are considered likely active if:

1. The subsidy status in the NHPD is active,
2. The subsidy status is inconclusive due to a missing an end date, or
3. The subsidy is a Project-based Section 8 contract that expired less than one year ago.

The number of assisted units for all likely active subsidies at each property was summarized to estimate the number of assisted units at each property. If a subsidy is missing an assisted unit value, the total unit value is used instead. HUD-insured mortgages that are not affiliated with Section 236 are updated to have an assisted unit value of 0 because these properties are not subject to affordability restrictions.

1b. Property Ownership Type

Properties are affiliated with nonprofits if they were funded by Public Housing or Section 202 Direct Loans, have nonprofit ownership, or are LIHTC-funded properties with a nonprofit sponsor. Properties have some profit motivation if their owner type is for-profit, limited dividend, or limited profit and they are not affiliated with a nonprofit. In total, 473,282 units were missing owner-type information.

1c. Rent Capital Investment

Properties are considered to receive recent significant public investment if their earliest subsidy start or occupancy date in the NHPD was before 2003 or if they received a LIHTC syndication, completed a Rental Assistance Demonstration conversion, or received a Section 202 or 811 Capital Advance.

1d. Properties That Received a Capital Infusion in the Past 20 Years

Properties were considered to receive a capital infusion the most recent year if they completed a conversion through the Rental Assistance Demonstration program or received any of the following subsidies in the past 20 years: Section 202 direct loans, HUD insurance programs, State HFA Funded Section 236, LIHTC, HOME rental assistance, Section 515 rural rental housing loans, Section 514 direct loans, rural development Section 538, Section 202 capital advance, or Section 811 capital advance.

1e. Target Tenant Type

The target tenant type was determined by matching the NHPD to HUD's 2023 LIHTC Database. Target tenant type information is available for properties assisted by LIHTC, project-based Section 8, Section 202 direct loans, HOME Assistance, Section 515, and Section 538. Properties were considered to target elderly families if any of the subsidies attached to the property stated that the property owner targeted elderly populations. In total, 1,512,234 federally assisted homes are missing information on target tenant type.

1f. Properties with Renewable Subsidies

Properties were considered to have renewable subsidies if they were actively assisted by Section 8, Public Housing, Project Based Vouchers, or Mod Rehab. All other subsidy programs, including LIHTC, Section 515, Section 521, HOME, HUD-insured mortgages, Section 538, Section 202 Direct Loans, and State HFA Funded Section 236, are considered non-renewable.

2. Preservation Risks in Focus

2a. Expiring in the Next Five Years

Properties are considered as expiring in the next five years if they are affordable as of December 31, 2023, and their latest active subsidy is set to expire between January 1, 2024, and December 31, 2028. Properties expiring in the next five years also include 7,845 homes assisted by Project-based Section 8 contracts that expired between January 1, 2023, and December 31, 2024, that have not yet been renewed. Public housing properties that received a tax credit through HOPE VI were excluded from these estimates.

2b. Public Housing in Need of Immediate Investment

Public Housing units with a most recent REAC score below 60 were classified as needing immediate investment.

2c. LIHTC Homes Lost Due to QC Opt-Out

HUD's LIHTC Database from 2003-2004, 2006-2009, and 2011-2024 were matched longitudinally by their tax credit ID to identify tax credits that lost their affordability restrictions early. The year tax credits lost their affordability restrictions were identified as the first year the tax credit was listed as nonprogrammatic or reached the end of their affordability restrictions. Affordability restrictions were adjusted to reflect state-imposed requirements to extend restrictions or incentives. Only tax credits included in HUD's 2024 LIHTC Database were included in the analysis. The number of years tax credit properties lost their affordability restrictions early was calculated by taking the difference between their estimated affordability

restriction end year and the year the tax credit was listed as nonprogrammatic. Tax credits allocated after 1990 that lost their affordability restrictions after 16-29 years of affordability were classified as likely lost due to Qualified Contract (QC) opt out.

3. Trends in Preservation

3a. Number of Units Preserved

Properties were classified as preserved if they have been affordable for at least five years and met any of the following conditions:

- The property was awarded a new subsidy that appeared in the NHPD in 2023 with a start date at least five years beyond the earliest start or occupancy date of the property.
- The property was awarded Section 202 or 811 Capital Advance in 2023.
- The property was entered into the MPR demonstration program in 2023.
- The property converted to Section 8 PBRA through RAD in 2023.
- The property underwent a Mark to Market conversion in 2023.
- The property completed a transfer of a Section 515 mortgage.
- The property was awarded a new subsidy that appeared in the NHPD in 2023 and was listed in HUD's LIHTC Database as having received HOPE VI funding, been re-syndicated, or been converted through RAD.

These estimates do not include units preserved through state or locally funded subsidy programs or federally funded programs for which recent project-level data is unavailable, such as the national HTF, CDBG, and PBVs.

3b. Net Gain and Loss of Units from NHPD

Using the NHPD to examine changes in the federally funded affordable housing stock requires that reporting lags, update intervals, and data quality across housing subsidy programs tracked by the NHPD be similar across compared years. To meet these criteria, the 2023 NHPD was retroactively standardized to increase comparability to the 2024 NHPD.

To estimate the number of units gained and lost from the NHPD between 2022 and 2023, NHPD data retrieved January 2023 was matched to NHPD data retrieved January 2022 using HUD subsidy ID and subsidy name. If a HUD subsidy ID was not available, the NHPD subsidy ID replaced the HUD subsidy ID. Any records with duplicate HUD subsidy ID and subsidy name were removed from the analysis. Once the 2023 and 2022 NHPD subsidy data were matched, the 2022 data were updated to reduce differences due to administrative changes:

1. Subsidies were reclassified as active if their subsidy was set to expire after January 1, 2022, unless the subsidy was made inactive for another reason (i.e. missing from subsequent updates or listed as terminated).
2. LIHTC subsidies were reclassified as inactive if they were allocated before 1990 or were listed as nonprogrammatic in 2022.
3. HUD terminated mortgages were listed as inconclusive if their end date was in the future.

4. All subsidies that were identified as duplicates and were deleted from the NHPD between 2022 and 2023 were removed from the analysis.
5. Public Housing units lost due to RAD conversions were subtracted from the units lost and added count.
6. Properties suspected to be domestic violence shelters were removed.

After these standardizations were applied, 2023 data and standardized 2022 NHPD data were aggregated to the property level. While some homes added to the NHPD in 2023 were likely built a few years earlier, tracking changes in the NHPD can show how the affordable housing stock is changing overtime.

4. LIHTC as a Preservation Tool

4a. LIHTC Construction Type

LIHTC properties were classified as preserved if any of the following conditions were met:

- Property ever assisted by public housing, Section 8 PBRA contract converted by RAD, or Mod Rehab in the NHPD.
- Tax credit flagged as receiving HOPE VI, converting through RAD, or re-syndicated in HUD's LIHTC Database.
- The earliest property start date is at least 10 years earlier than the latest LIHTC start date.
- The earliest property occupancy date is at least 10 years earlier than the latest LIHTC start date.
- LIHTC initially allocated before 1990 is still affordable.

The remainder of the properties were classified as new construction.

Picture of Preservation

December 2024

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