The Preservation of Affordable Housing

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The United States faces a shortage of approximately 7.3 million rental homes affordable and available to the lowest income renters. Federal housing subsidies, meanwhile, provide a vital, albeit insufficient, supply of affordable housing. Expanding this supply and promoting housing stability is a primary concern for federal affordable housing policy, yet preserving the existing federally assisted housing stock is also critical. The existing stock must be preserved to ensure both housing quality and stability for current tenants. Efforts to expand the federally assisted housing stock and close the affordability gap also hinge on preservation, since the loss of federally assisted units can undermine efforts to expand supply through new production.

BACKGROUND

WHAT IS PRESERVATION?

Federal project-based subsidies often provide a one-time upfront allocation of capital for development, or a time-limited operating subsidy (e.g., rental assistance contracts). Yet, federally assisted affordable housing receives limited rental revenue from tenants to finance future capital needs or ongoing operating costs when operating subsidies end. Sustained and renewed funding commitments are needed to ensure future affordability and habitability as federally assisted housing ages and existing rent and tenant eligibility requirements come up for renewal or extension. Ensuring sustained funding and the long-term affordability, quality, and financial viability of federally assisted housing is the cornerstone of affordable housing preservation.

Preservation efforts are shaped by different risks facing the federally assisted stock. Reina (2018) identifies three basic types of risks for preservation: expiration or exit, depreciation, and appropriations. The applicability and extent of each risk varies across federal project-based subsidy programs, and the risks can be interrelated.

Exit risk results from affordability and eligibility restrictions that can expire or policies that enable property owners to exit these restrictions early. In exchange for receiving a federal project-based subsidy, property owners typically agree to affordability and eligibility restrictions for a set period. The duration of these restrictions is determined before the awarding of a one-time capital subsidy, tied to the payment of a mortgage, or subject to the renewal of a rental assistance contract. In some instances, property owners can exit before affordability and eligibility restrictions are set to expire through prepayment of a mortgage, foreclosure, or a legal loophole such as the qualified contract (QC) option in the Low-Income Housing Tax Credit (LIHTC) program. Properties with for-profit owners are generally considered to be at greater risk for exit, particularly in tighter markets where the owners can operate the properties more profitably as market-rate housing.

Depreciation risk refers to the degree to which the financial stability and physical quality of federally subsidized housing can deteriorate over time. The risk of depreciation can be a greater threat than exit risk to the preservation of federally assisted housing. The limited rental income resulting from the eligibility and affordability requirements essential to affordable housing programs mean that owners of federally assisted housing typically require ongoing operating or subsequent capital support, or sometimes both, to maintain the financial stability and physical viability of such housing. Without continued public investment, federally assisted housing can become physically outdated, or even fall into disrepair, posing a threat to habitability. Failed physical inspections can lead to the removal of assisted housing from federal programs. Centralized data on the physical condition of the federally assisted stock are, however, only available for some federal programs, significantly limiting our knowledge of depreciation risk.

Appropriations risk refers to the degree to which federally subsidized housing depends on Congress to provide continual funding to operate as affordable housing. Federally assisted housing is not a one-time cost. Funding for rental assistance contracts or operating assistance must not only be continually renewed by Congress, but also be expanded to keep pace with inflation. Failing to do so means rental assistance contracts might not be renewed, or assistance might fail to keep pace with increasing operating costs, creating the potential for loss of affordable units through exits or depreciation. Capital subsidies must also continue to be made available by Congress after initial construction to ensure the availability of funds for physical preservation to prevent depreciation. In some programs, such as LIHTC, subsequent allocations of capital subsidies might present the only way to extend eligibility and affordability restrictions within a program.

WHY DOES PRESERVATION MATTER?

Preservation is essential for any realistic approach to protecting the lowest-income renters and expanding the supply of affordable housing. Preservation stops displacement and housing instability for current tenants, prevents the loss of difficult-to-replace housing in desirable neighborhoods, mitigates further disinvestment from distressed communities, presents an opportunity to reduce greenhouse gas emissions through energy retrofitting, and prevents the further decline of the already limited federally subsidized housing stock.

Failure to preserve federally subsidized housing can lead to unaffordable rents, a loss of habitability, or evictions for current tenants. Preservation directly addresses these sources of housing instability. Though some federal housing programs offer tenant protection vouchers (TPVs) to tenants when preservation efforts fail, recent research questions their efficacy as a safety net and TPVs are not available to tenants of the largest federal housing production program, LIHTC (NLIHC and PAHRC, 2018). Preservation might be the only existing option to ensure housing stability for many LIHTC tenants so long as existing eligibility and affordability requirements are maintained in the process.

Replacing federally assisted housing lost from neighborhoods offering a high degree of amenities such as access to transportation, good schools, and employment opportunities is also difficult, if not impossible. The cost of land, regulatory barriers, and 'Not in My Backyard' mentality (NIMBYism) can present significant barriers to new development in such neighborhoods. Preservation of affordable homes provides continued access to these neighborhoods for low-income households and combats displacement and further residential segregation. The same issues that make it difficult to replace housing in high-cost and exclusionary neighborhoods could also make preservation more cost-effective than new construction. In disadvantaged neighborhoods, preservation has the potential to prevent further disinvestment.

Preservation also presents a clear opportunity to retrofit older federally assisted housing for energy-efficiency, lowering greenhouse gas emissions and figuring in a larger national strategy to combat climate change. These efforts could also lower utility costs. The residential sector, when including emissions from electricity use, accounted for 15% of US greenhouse gas emissions in 2021 (EPA, 2023). Further research is needed to fully compare the environmental impact of new construction and preservation.

Finally, preservation prevents the loss of units from the federally assisted stock. Given the current shortage of approximately seven million affordable and available units for the lowest-income renter households and chronic underfunding for federal programs, preventing the loss of the already limited assisted stock is critical. The stock will remain the same or decline if the loss of units equals or exceeds new production. Preservation, for all these reasons, is central to promoting housing stability and quality, as well as expanding the reach of federal affordable housing policy.

FORECASTING PRESERVATION NEEDS

Nearly 5 million affordable rental homes are supported by federal project-based subsidies, representing 10% of the total U.S. rental housing stock. LIHTC supports half of federally assisted homes, making it the largest program, followed by project-based Section 8 (28%), public housing (18%), and USDA Rural Development programs (9%). Since some subsidies only provide a portion of the funding needed to build or maintain federally assisted housing, 40% of federally assisted homes rely on funding from multiple subsidy programs (NLIHC and PAHRC, 2021).

The National Housing Preservation Database (NHPD) allows users to examine federal subsidies associated with assisted housing at the property level, including when eligibility and affordability restrictions associated with these subsidies are set to expire. In cases where properties have multiple subsidies, the NHPD allows users to determine the latest effective end date for restrictions at a given property. Analysis of 2023 NHPD data indicates eligibility and affordability restrictions are set to expire for 342,809 federally assisted homes in the next five years, which is 7% of the federally assisted stock. LIHTC (52%) and project-based Section 8 (29%) currently account for most of these homes. The portion of expiring properties assisted by LIHTC is expected to continue rising towards the end of the decade as more properties begin to reach 30 years of service and the end of their federally mandated eligibility and affordability restrictions, though some states mandate or incentivize longer affordability. The NHPD accounts for state-mandated affordability restrictions beyond the federal 30-year minimum based on reviews of current and past state qualified allocation plans (QAPs). The availability of property-level LIHTC data regarding QC waivers and state-level incentives for longer use restrictions, however, is extremely limited, which undermines efforts to identify specific LIHTC properties at risk of loss and produce more accurate program-wide risk estimates (NLIHC and PAHRC, 2022).

Many properties losing their restrictions will renew their assistance or secure new funding to remain affordable, while a smaller share will not. Others might be subject to local voluntary eligibility or affordability restrictions that are longer in duration than required under federal law. Properties in strong housing markets owned by profit-minded owners are at the greatest risk for converting to market-rate housing. Whether these properties will continue to provide affordable rents in the private market will depend on a variety of factors including the motivations of owners, local housing market conditions, and capital needs.

The full scope of depreciation risk for the federally assisted stock is uncertain since housing quality data aren't required to be collected for 51% of federally assisted homes (NLIHC and PAHRC, 2021). Data on physical quality, however, are available for public housing and HUD Multifamily assisted properties through REAC scores. Inspectors assign a REAC score based on the frequency and severity of housing quality and safety deficiencies observed while examining the building exterior, systems, and a sample of homes at each property. NLIHC and PAHRC (2021) found that 23% of public housing homes and 4% of homes assisted by project-based Section 8 scored below 60 and failed their last REAC inspection. Ten percent of homes assisted by public housing and 2% assisted by project-based Section 8 failed at least two of their past three inspections and likely face higher depreciation risk. These properties likely require immediate investment to cover outstanding maintenance deficiencies and provide safe and healthy living conditions for residents. There is already an estimated $70 billion capital needs backlog for public housing alone.

WHAT TO SAY TO LEGISLATORS

Advocates should make it clear to legislators that continual reinvestment is needed to preserve existing federally assisted housing, and that preservation is needed to close the affordable housing gap. Specifically:

- Federal capital and operating subsidies should be increased to both preserve and expand the existing supply of affordable housing. Priority should be given to funding programs such as the national HTF, public housing, project-based Section 8, and USDA rural rental assistance and preservation programs that serve the lowest income renters.
- Annual federal appropriations for public housing, project-based Section 8, and USDA rural housing programs must, at a minimum, keep pace with inflationary costs.
- Congress must address the capital needs backlog for public housing. The best way to do this is through direct investment in the public housing capital fund.
- Congress should close the QC loophole for future LIHTC properties and revise the formula for determining the QC sale price to reflect actual market value for existing LIHTC properties.
- Greater investments in staff and technology are needed to improve the quality and availability of property-level LIHTC data for preservation. Congress should also explore granting more explicit oversight and enforcement powers to collect program data to HFAs or HUD and require the IRS to share its program data with HUD. Better data collection is needed to improve the quality and completeness of existing LIHTC data for preservation, including property-level data on ownership, QC waivers, and use restriction end dates.

FOR MORE INFORMATION

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