Yardi Matrix

National Affordable Housing Report

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The End of Compliance: Capital Needed to Preserve Affordable Housing

At the same time that the U.S. is starved for affordable housing, in coming years a steady stream of housing projects financed under the Federal Low Income Housing Tax Credit (LIHTC) program will reach the end of their "compliance" periods, or the timeframe during which owners have agreed to limit rents. While many of the properties will continue to operate as affordable housing, it means that significant resources must be spent preserving existing affordable housing stock.

A study of Yardi Matrix's new affordable housing database found more than 4,200 private LIHTC properties encompassing 520,000 units nationally will hit the end of their compliance periods from 2025 through 2038. When these periods end, owners have fulfilled the 15-year obligation of affordability compliance and they are no longer at risk of losing their tax credits. To a certain extent, the end of the compliance period is advantageous for owners, since after 15 years the properties usually require significant capital to maintain the quality of the housing stock.

The owners of properties with expiring compliance periods have a choice. They may opt out of LIHTC status by selling the properties via Qualified Contracts (if they had not previously waived their right as an initial condition of obtaining the tax credits) or enter an "extended use" period of an additional 15 years, during which owners agree to limit rents based on a formula set to a percentage of area median income (AMI). Per Matrix, another 2,240 private LIHTC properties with over 330,000 units nationally are coming to the expiration of their extended-use periods from 2025 through 2038.

The expiration of the credits and extended-use periods is not a surprise, as it is baked into the structure of affordable properties utilizing the LIHTC program and a dizzying array of smaller programs at the federal, state and local level. As more properties meet the end of their compliance and extended-use periods, investors and developers of older affordable properties must arrange more equity and debt to maintain their affordable status.