



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.

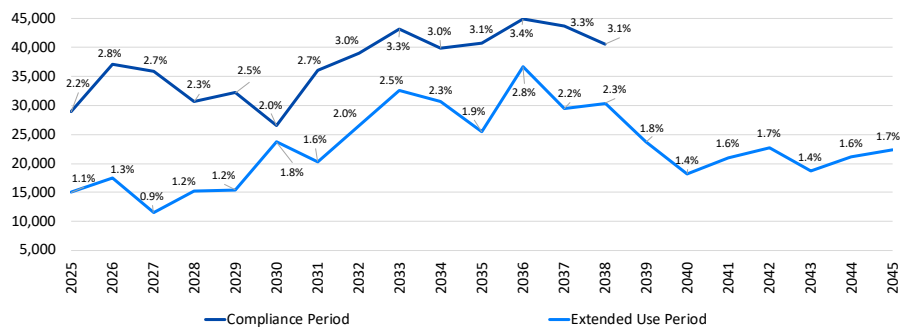
The expiration of the credits and extended-use periods is not a surprise, as it is baked into the structure of affordable properties utilizing the LIHTC program and a dizzying array of smaller programs at the federal, state and local level. As more properties meet the end of their compliance and extended-use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

In addition to the strict regulations regarding affordability standards, the preservation of affordable stock is influenced by demand and competitive environment, which vary by state. The more expensive a housing market is relative to incomes (either due to restrictive public policy or a sudden surge in domestic migration/demand), the more of an incentive there is to remove the property from its affordability status. In the end, affordable housing stakeholders worry that they will be spending more resources maintaining the nation's stock of affordable housing and less on building additional units that are badly needed.

Compliance Period Ends; Now What?

Because the LIHTC program started in 1986, it wasn't until the mid-2000s that a significant number of properties began reaching the end

Number of Private-Sector Units With Expiring Compliance and Extended-Use Periods and Percentage of Total LIHTC Units

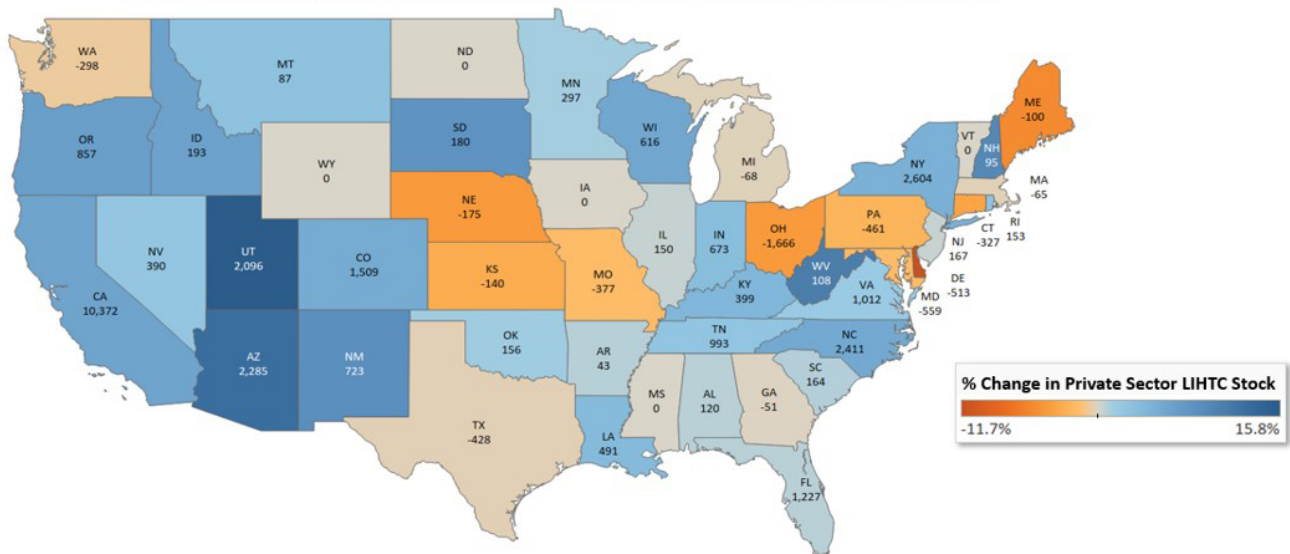


Source: Yardi Matrix; Data as of January 2025

of their compliance periods, while the end of extended-use periods started in earnest in the last decade. In 2025, compliance periods will end for nearly 29,000 fully affordable private-sector units in the U.S., representing 2.2% of stock, according to Matrix. Another roughly 15,000 fully affordable units, or 1.1% of total stock, will come to the end of their extended-use periods.

The number of units with expiring compliance periods declines in 2030 to 26,542, or 2.0% of

Forecast Net Change in Private-Sector LIHTC Units as a Percent of In-State Stock (2025-2027)



Source: Yardi Matrix; Total private sector LIHTC units includes planned, prospective and under construction. Data as of January 2025

stock, but rises to 43,254 units in 2033, peaking at 3.4% of total stock in 2036, per Matrix. Over the next decade, 389,982 units will reach the end of compliance periods. The number of properties hitting the end of the extended-use period drops to 11,541 units in 2027, but then mostly increases and peaks at 36,685 units, or 2.8% of total stock, in 2036. Some 234,230 units have expiring extended-use periods over the next decade. Five states will see at least 2,000 fully affordable units reach the end of their extended-use periods over the next three years, led by Texas with 9,179 units. The other states are Florida (6,512 units), Ohio (2,800), California (2,184) and North Carolina (2,122).

The significance of these expiration periods is in the potential to lose affordable stock. The eventual fate of affordable properties with expiring use periods depends on considerations that include the location, performance and condition of the property. Like a market-rate asset, property value depends on the amount of cash flow, but unlike a market-rate property, buyers have tax incentives to maintain affordability by limiting rents.

Investors that buy into an affordable apartment property at the end of the compliance period must factor in the cash flow from rents, demand and occupancy, and amount of capital expenditure needed. A recent Matrix study of affordable properties found a variation between markets in occupancy rates and demand. In some high-supply markets, the differential between rents at affordable and market-rate properties was slim, which makes affordable properties less competitive in comparison. However, in many high-cost markets, the gap between affordable and market-rate apartments was wide, creating strong demand and high occupancy rates for affordable units.

The property's condition is of paramount importance. Complications arise if the condition is

either exceptionally good or poor, as either extreme raises the possibility of affordable decontrol. Properties in pristine condition might tempt value-add investors, who would raise rents and turn the property into market-rate units. More commonly, properties with expiring use periods have extensive capital expenditure needs that buyers must contend with. Because affordable properties limit rents, cash flow tends to be tight, and many buildings have put off repairs that will become the responsibility of the new investors. The building's cash flow might not be enough to cover the cost of investment.

Top 10 States	# of Units With Expiring Extended Use Periods (2025-2027)	% of Units With Expiring Extended Use Periods (2025-2027)	Total Private Sector LIHTC Units Per State
Texas	9,179	6.6%	138,501
Florida	6,512	4.1%	156,995
Ohio	2,800	7.5%	37,378
California	2,184	1.3%	165,865
North Carolina	2,122	4.9%	42,873
Georgia	1,803	3.5%	51,481
Washington	1,578	3.7%	43,209
Illinois	1,428	4.4%	32,583
Virginia	1,252	2.0%	61,382
Maryland	1,135	3.6%	31,203

Source: Yardi Matrix

Investor demand is usually strong for properties coming off compliance periods. Many affordable properties achieve high occupancy rates and low turnover, providing investors with stable cash flows. Rent growth may not match the highs of the market-rate segment, but affordable properties tend to be less volatile.

The potential change in affordable housing stock will vary greatly by state in coming years. To understand the possibilities, we compared the number of projected fully affordable deliveries with the number of units with expiring ex-

tended-use periods nationally and in each state. On balance, the number was positive. Between 2025 and 2027, Matrix projects 69,800 fully affordable, private-sector units delivered nationally, 25,000 more than the 44,600 units with expiring extended-use periods. Thirty states have more units forecast to be delivered over the next three years than units with expiring use periods, and 14 states have more units with expiring use periods than forecast deliveries.

Top 10 States	Forecast Deliveries LIHTC Units (2025-2027)	# of Units With Expiring Extended-Use Periods (2025-2027)	Net Change in LIHTC Units
California	12,556	2,184	10,372
New York	3,235	631	2,604
North Carolina	4,533	2,122	2,411
Arizona	2,739	454	2,285
Utah	2,389	293	2,096
Colorado	2,129	620	1,509
Florida	7,739	6,512	1,227
Virginia	2,264	1,252	1,012
Tennessee	2,114	1,121	993
Oregon	1,255	398	857

Source: Yardi Matrix

Five states have a net gain of at least 2,000 units. California leads with a net gain of 10,372, with 12,556 forecast deliveries and 2,184 expiring extended-use units. Other states with the largest net positive numbers include New York (net gain of 2,604), North Carolina (2,411), Arizona (2,285) and Utah (2,096).

States in which there are more units with extended-use periods expiring than forecast deliveries between 2025 and 2027 are led by Ohio, which has 2,800 use periods expiring and only 1,134 forecast deliveries, a potential net loss of 1,666 units. Other states with negative net numbers are Maryland (-559 units), Delaware (-513), Pennsylvania (-461) and Texas (-428). To

be clear, the states only lose affordable units if the expiring properties are not renewed as affordable, which is not a certainty. But even if these states do not lose all of the expiring affordable units, the data indicates that they need more work to maintain a sufficient amount of affordable stock.

Capital Needed to Maintain Affordability

Maintaining the country's stock of affordable housing is a constant struggle. According to a recent report by the National Low-Income Housing Coalition (NLIHC) and the Public and Affordable Housing Research Corporation (PAHRC), 155,555 LIHTC homes allocated since 1990 lost their affordability restrictions after only 15 years. All told, in recent years 104,088 homes were added to federally assisted housing stock while 71,096 homes were lost, resulting in a net gain of only 32,992 federally assisted homes.

"Federally assisted rental homes ... require sustained or renewed funding commitments to ensure their future affordability and habitability as buildings age and decline physically and/or their existing affordability restrictions and tenant eligibility requirements expire or come up for renewal," the report said. "Mitigating these risks and preserving the existing federally assisted housing stock is essential to any effort to expand the supply of affordable housing for the lowest-income renters."

Affordable properties can remain in use with the employment of LIHTC 4% credits and/or application for one or more available debt and equity subsidies. That said, though the LIHTC program has grown and states and municipalities increase funding for subsidizing affordable housing, the number of units built remains inadequate relative to the demand. On top of that reality, the first generation of affordable housing projects is

reaching the end of the compliance period and will need fresh capital to remain in operation.

Even if most projects find a way to continue to operate according to their original mission, the effort and capital to maintain existing stock detracts from the overall goal of increasing the total amount of affordable housing available.

As an increasing number of affordable properties reach the end of their original use periods and the cost of maintenance and repairs continues to rise, the capital and subsidies dedicated to meet the country's preservation needs may prove inadequate.

—Paul Fiorilla, Director of Research, Yardi Matrix

LIHTC Basics

The Low-Income Housing Tax Credit (LIHTC) was established in 1986 and is responsible for more than half of the nation's fully affordable housing stock. LIHTC construction is arranged through a 9% tax credit that is available to owners of apartment developments that agree to limit rent for low-income tenants, typically those who earn 60% or less of area median income (AMI). The Urban Institute estimated in a recent report that 25% of apartments built in the U.S. between 2000 and 2019 were supported by LIHTCs.

Funds for the LIHTC program—the federal government budgeted \$10 billion of 9% credits in 2024, according to Novogradac—are allocated by Congress to State Housing Finance Agencies based on population. Developers apply for credits from the state to build apartments. Once tax credits are awarded, developers sell them at a discount, reflecting the time value of money and the local demand for Federal Income Tax Credits. Owners of LIHTC developments agree to limit rents based on the AMI formula, usually for 30 years. This is known as the extended-use period. Property owners deliver the tax credits over a 10-year period to tax credit equity investors and are subject to recapture of credits if they do

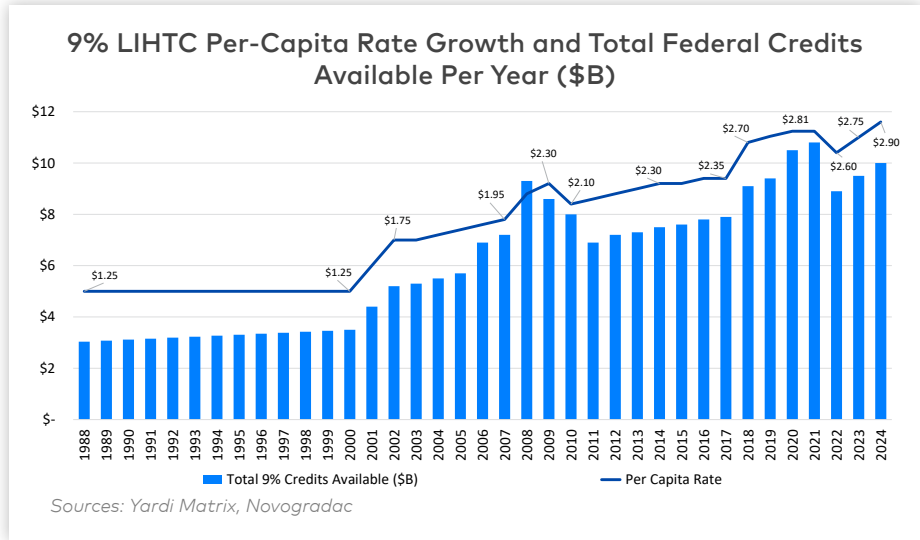
not meet the standards set in the first 15 years, which is the compliance period.

Affordable housing developers get a tax credit equivalent to 9% of the property's cost each year for 10 years, in what amounts to about 70% of the property's capitalization. The balance is a mixture of debt and equity, which can be syndicated to banks, private investors, public housing agencies or non-profits focused on social housing. The general partner typically syndicates the tax credits to limited partners, usually passive investors whose ranks include private investors looking to offset tax gains on other income sources, banks looking to meet Community Reinvestment Act obligations, or non-profits that focus on social welfare. Deal structures are often complex, with different layers of equity and debt subsidies, which vary from state to state but all come with their own set of regulations and requirements.

The end of the 15-year compliance period ushers in a recapitalization that is allowed under the "Qualified Contract" provision that became part of the LIHTC law in 1989 to give investors an exit. The original investors, who receive the full benefit of the tax credits in 10 years, can apply to state or local jurisdictions to sell their stakes. If a buyer can

be found, the property is sold and the building will continue to be operated as affordable. If not, the building can be converted to market-rate housing.

Rehabilitation of affordable properties can be financed with another form of LIHTC, a 4% credit that can be deployed for construction but typically is used for rehabilitation and preservation. In this program, property owners get an annual tax credit for 10 years equal to 4% of the building's value, the equivalent of 30% of the building's cost. Preservation properties financed with 4% LIHTC credit often have



a financing gap that must be filled in with other debt and equity instruments, which are more readily available in some states than others.

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