The Role of the Low-Income Housing Tax Credit in Preserving Affordability

BACKGROUND

The Low-Income Housing Tax Credit (“LIHTC” or “Housing Credit”) is the largest federal funding program for expanding and preserving the stock of affordable rental housing in the United States. Beyond increasing affordable options, the housing produced with Housing Credits provides social and economic benefits for North Carolinians, from better educational outcomes and improved health to increased economic opportunities and community investment.[1]

Since 1987, Housing Credits have helped create and preserve 121,950 affordable apartments in 2,702 properties across North Carolina.[2] In the last five years alone, the Agency has awarded Housing Credits to create and preserve an average of 5,500 rental homes annually. The credit allows developers and investors to claim a deduction on their federal tax liability for a 10-year period in exchange for keeping rents at levels affordable for low-income households. Developers can apply for 9% credits, a limited resource which are allocated annually to states on a per-capita basis and cover 70% of eligible development costs, and 4% credits, which are not limited and cover 30% of eligible costs.[3]

Although early properties were only subject to a 15-year affordability period, properties built after 1989 must remain affordable for 30 years once they are placed in service.[4] At the end of this 30-year period, properties may remain affordable to low-income residents—unsubsidized or due to extended affordability requirements[5]—or reposition as market-rate housing. As the program matures and the 30-year affordability requirements for the early generation of Housing Credit-funded properties continue to reach their expiration, understanding this pivotal transition becomes increasingly important.

Figure 1 | Economic Impact of LIHTC in NC (1987-Sept 2025)

POTENTIAL OUTCOMES FOR YEAR 30

Research has found that several factors influence whether a property financed with Housing Credits continues to operate as affordable housing or converts to market-rate housing. Market pressures can provide an economic incentive for Housing Credit properties to reposition as market-rate once affordability requirements expire, especially if located in neighborhoods where owners might be able to charge rents greater than the LIHTC maximum. In contrast,properties located in lower cost communities—where unrestricted rents are similar to LIHTC rent limits—could continue to provide affordable rents, despite the absence of LIHTC affordability requirements.[6]

Other considerations include the physical and financial condition of the property, property ownership, ability to recapitalize and presence of subsidies with additional affordability restrictions. Properties approaching the end of their affordability requirements may have significant need for repair, renovation and refinancing and can be at risk of physical deterioration without additional investment. For properties in economically distressed areas where rents are set at lower levels, financing maintenance and rehabilitation can be especially challenging.[7] Research on the LIHTC program suggests that properties that are owned by entities with an affordability mission are more likely to remain affordable beyond the regulatory requirements.[8] In addition, other affordability requirements from leveraging additional forms of public financing through rental, operating and other assistance may extend a property's affordability beyond the Housing Credit's 30-year period.

For example, a number of existing Housing Credit properties in North Carolina have recapitalized with a new allocation of credits, which triggers a new 30-year affordability period. In addition, many Housing Credit-financed apartments in North Carolina have additional public subsidies that serve as essential gap financing or rental subsidy—such as subordinate debt or grant financing from local municipalities, state (including Agency-provided gap financing) or federal sources (including US Department of Housing and Urban Development [HUD] and US Department of Agriculture [USDA] Rural Development). These additional subsidies can extend a property's affordability restrictions beyond the Housing Credit's 30-year affordability term.

WHAT HAS HAPPENED TO NORTH CAROLINA'S HOUSING CREDIT DEVELOPMENTS THUS FAR?

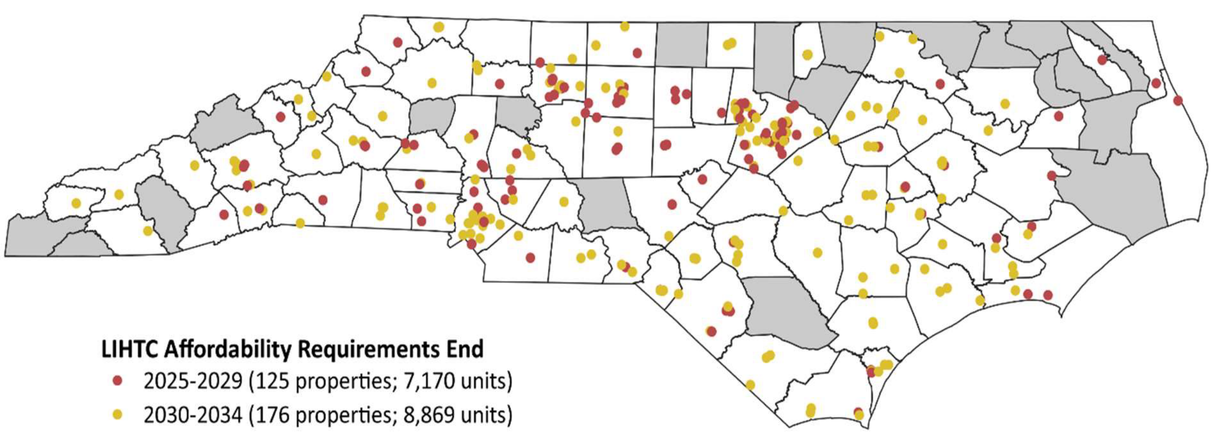
Although annual new construction has offset losses, the net increase in affordable properties financed with Housing Credits from year to year has been smaller due to those with expiring requirements. Since the program's inception, North Carolina has seen approximately 11% of apartments (or 12,500 units in 1,074 properties) leave the program due to expiring affordability requirements or early exits from the program due to foreclosures and qualified contracts, a regulated early sale option that is effectively no longer available in North Carolina.[9] Having federal subsidies in addition to Housing Credits has helped extend the affordability restrictions of approximately 4,000 apartments with expired LIHTC affordability requirements. Most of these apartments (3,400) are in properties in rural communities with USDA 515 financing mandating longer rent restriction terms, with the remaining properties receiving locally-administered HOME funding, USDA 538 funding or are public housing.

Preservation policies and financing tools have helped prevent the wholesale loss of Housing Credit-financed apartments, even as many properties have reached the end of their LIHTC affordability terms. In the three years since the Agency published its 2022 white paper on Housing Credit affordability expiration trends, 75 properties (2,585 units) have seen their LIHTC affordability restrictions expire. Of these, 5 properties (121 units) have recapitalized with a new allocation of credits in the last three years, which triggers a new 30-year affordability period; 5 properties (194 units) have an additional Agency loan that was extended or still governing affordability; and 44 properties (1,343 units) still have active affordability restrictions from a known federal subsidy. The remaining 21 properties (927 units) have seen their LIHTC affordability expire without these other mechanisms to maintain rent affordability—half of these properties are in metro counties and half are in non-metro.[10]

WHAT IS AT RISK OF LOSING AFFORDABILITY IN THE NEXT DECADE?

Within the next decade, an additional 16,000 affordable apartments across 301 properties (16% of the active Housing Credit portfolio) could see their LIHTC affordability restrictions expire if no additional preservation efforts are made. Nearly half of these apartments are in metro counties (49%) with the highest concentrations in Wake (17%), Mecklenburg (10%) and Durham (8%) counties. By contrast, 22% of apartments are in eastern counties, 19% in central counties and 9% in western counties (Figure 2).[11]

Figure 2 | Properties* with Expiring Housing Credit Affordability Requirements, 2025-2034**



Source: NC Housing Finance Agency analysis of LIHTC affordability restrictions in Agency data; US Housing and Urban Development subsidized multifamily properties; US Department of Agriculture Section 514, 515 and 538 rural properties; and public housing developments. Data accessed February 25, 2025.

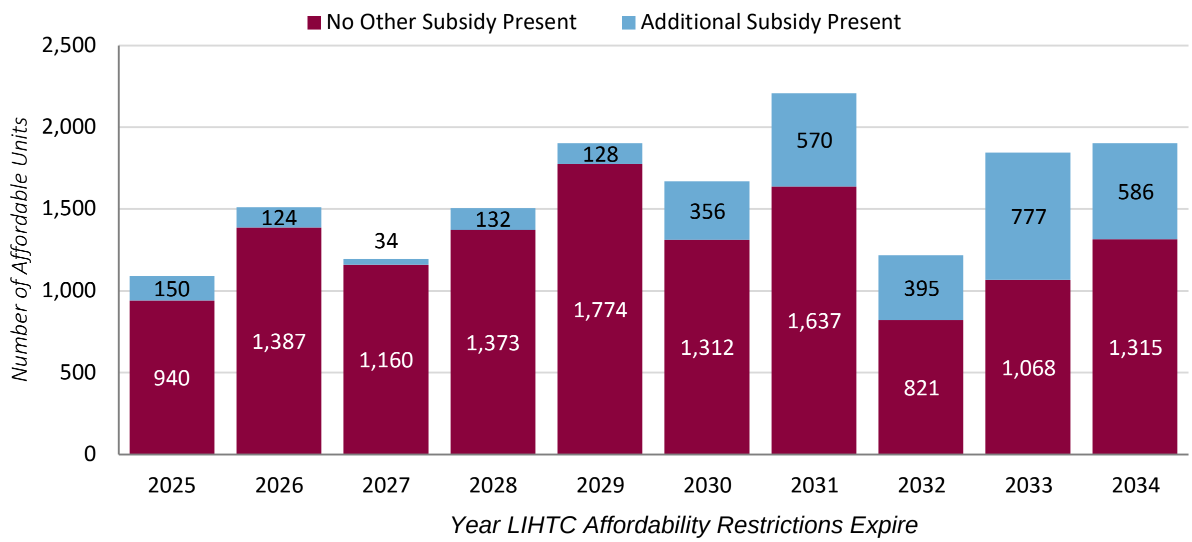
**Excluded are LIHTC properties with additional federal subsidies with affordability restrictions that end after 2034.*

***The affordability requirement end date is based on the property's LIHTC affordability expiration date, not the expiration date of any additional, known federal subsidies.*

Three in four (76%) Housing Credit apartments with affordability restrictions expiring in the next decade are in communities that have experienced large rent increases in recent years—69% saw the median rent in the property's zip code increase by 25% to 49% from 2019 to 2023 and 7% saw an increase of 50% or more. Affordable properties in high-cost areas, where property values and rents are rapidly increasing, can be at heightened risk of losing affordability once restrictions expire because it can be both more attractive for owners to sell or reposition the housing as market-rate and challenging to finance maintenance and rehabilitation. An additional 4% of apartments with upcoming expiring affordability restrictions are located in neighborhoods that saw a decrease in median rent during this same five-year period or saw only a modest increase (less than 10%). These properties may face greater challenges with physical deterioration without additional investment opportunities.

In addition, most affordable apartments (79%) with affordability restrictions expiring in the next decade have for-profit owners (12,600 units in 215 properties), while 21% (3,400 units in 86 properties) have nonprofit owners. The majority of affordable apartments (78%; 12,500 units in 208 properties) have no additional known federal subsidies that could extend affordability but may have other provisions, like a local government loan, that could require a longer affordability period. See Figure 3 below.

Figure 3 | Affordable Units* with Expiring Housing Credit Affordability Requirements, 2025-2034**



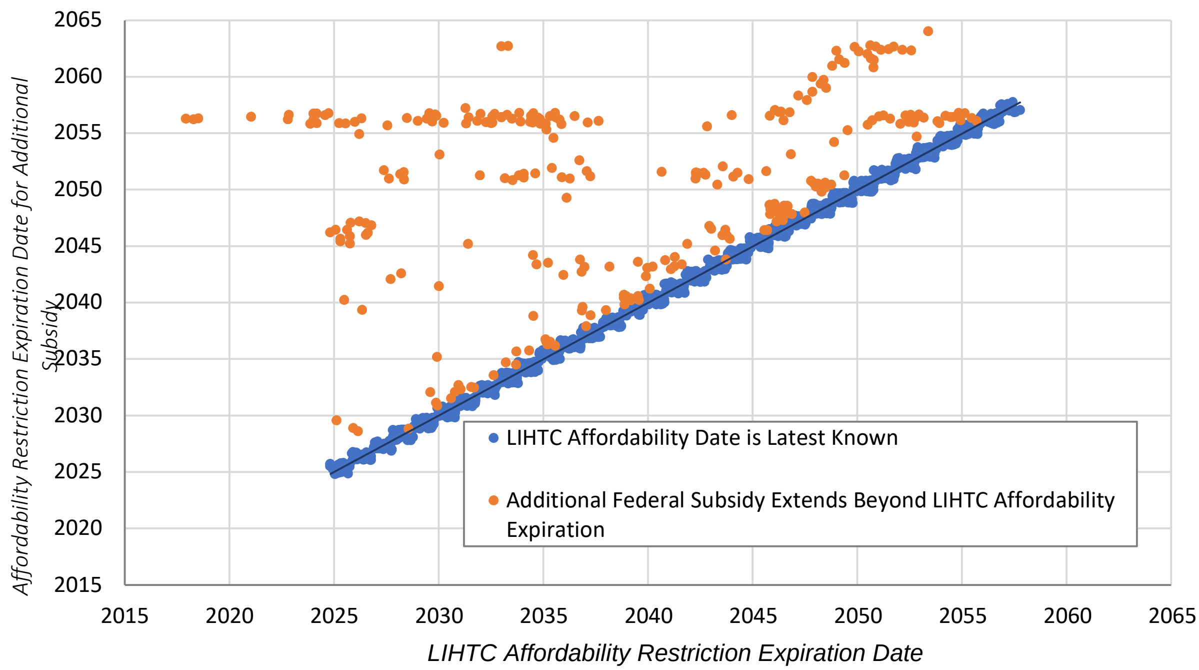
Source: NC Housing Finance Agency analysis of LIHTC affordability restrictions in Agency data; US Housing and Urban Development subsidized multifamily properties; US Department of Agriculture Section 514, 515 and 538 rural properties; and public housing developments. Data accessed February 25, 2025.
**Excluded are units in LIHTC properties with additional federal subsidies with affordability restrictions that end after 2034.*
***The affordability requirement end date is based on the property's LIHTC affordability expiration date, not the expiration date of any additional, known federal subsidies.*

OUTCOMES BEYOND THE NEXT DECADE

At least 2,300 affordable apartments that would otherwise be included in this group of properties with LIHTC affordability requirements expiring in the next decade have additional federal subsidies that extend their affordability requirements beyond 2034. Nearly 40% of these apartments are in public housing properties owned and operated by local public housing authorities—most of these properties have participated in the Rental Assistance Demonstration (RAD) program, a powerful tool to preserve affordable housing whereby properties receive a long-term rental assistance contract. The remaining 60% are properties with USDA 515 financing or HUD multifamily subsidies. In 2025 alone, seven properties (more than 200 units) with LIHTC affordability periods ending in 2025 have USDA 515 financing with affordability requirements that do not end until 2045 or 2046.

Even beyond the next decade, federal subsidies can come with affordability terms beyond the 30-year LIHTC extended use period, helping properties remain affordable even after the Housing Credit affordability expires. Nearly one in five (18%) of the affordable apartments financed with Housing Credits have at least one federal subsidy that extends the affordability term beyond what the Housing Credit alone requires. For 2% of affordable apartments, the extension is just one year; 6% gain between two and ten extra years of affordability; and 10% remain affordable for more than a decade longer. Figure 4 illustrates this trend, with each dot representing a single Housing Credit property. The horizontal axis shows the Housing Credit affordability expiration date, while the vertical axis shows the expiration date of any additional, known federal subsidies. Blue dots represent properties where no known subsidies extend affordability beyond the Housing Credit term. Orange dots indicate properties where an additional federal subsidy extends affordability beyond the 30-year Housing Credit term. The farther a dot falls above the 45-degree line, the longer the property's affordability is extended beyond the Housing Credit affordability period.

Figure 4 | Year of Affordability Expiration for Housing Credit Properties* in North Carolina



Source: NC Housing Finance Agency analysis of LIHTC affordability restrictions in Agency data; US Housing and Urban Development subsidized multifamily properties; US Department of Agriculture Section 514, 515 and 538 rural properties; and public housing developments. Data accessed February 25, 2025.
**Excluded are units in public housing properties, including RAD conversions and HOPE VI properties.*

THE HOUSING CREDIT AS A TOOL FOR RECAPITALIZATION AND PRESERVATION

In North Carolina, Housing Credits are used not only to produce new affordable housing but also to preserve existing housing, including Housing Credit-financed properties in need of recapitalization. To acquire a new Housing Credit allocation, owners must commit to a new,30-year affordability period. Since the program's inception, 20% of Housing Credit properties (543)—and 26% of apartments (30,800)—have been rehabilitation projects. Of these, at least 122 properties previously financed with Housing Credits—with 6,600 affordable apartments—have recapitalized with a new allocation of credits.[12] Preserving existing homes is often less costly than new construction, promotes stability for residents and can increase access to high cost or high opportunity neighborhoods.[13]

Many housing finance agencies, including in North Carolina, incentivize preservation in their Qualified Allocation Plans (QAPs), which outline the threshold requirements and selection criteria for Housing Credit allocations. Since 2003, North Carolina has set aside a portion of its competitive Housing Credit allocations (9% credits) for preservation and rehabilitation activities—currently set at 10%.[14] The rehabilitation set-aside can be leveraged to meet a range of preservation needs from recapitalization of previously awarded Housing Credit properties to redevelopment of public housing to preservation of unsubsidized affordable housing (sometimes referred to as “naturally occurring affordable housing”).

Beyond the rehabilitation set-aside, preservation in the Housing Credit program is most commonly accomplished with 4% credits, which are allocated to projects financed with tax-exempt private activity bonds (PABs) and are considered a "non-competitive" credit in North Carolina, meaning they are automatically available when bond financing is used. While the 4% credit is worth about half as much as the 9% credit, it is a crucial tool for preservation when paired with other subsidies. In fact, 55% of affordable apartments rehabbed with Housing Credits were awarded the 4% credit.

In future years, the volume of both 9% and 4% credits used for rehabilitation will likely increase due to recent changes passed by Congress as part of the 2025 reconciliation bill, namely expanding the 9% credit and lowering the amount of bond financing required to qualify for 4% credits. Both provisions will provide more opportunities for states to allocate credits for preservation projects, which often compete with new constructions for these limited resources.

CONCLUSION

Housing finance agencies have some flexibility and administrative power to incentivize preservation of existing properties. The North Carolina Housing Finance Agency has taken proactive steps to promote preservation by setting aside 10% of its Housing Credit allocation for rehabilitation, limiting the use of the qualified contract process and preserving previously awarded affordable properties with a new reservation of Housing Credits or rehabilitation loans. The Agency is also committed to continued analysis of program data to identify properties where affordability requirements are expiring and to help local and state stakeholders better understand preservation needs. This research brief provides an initial window into the existing Housing Credit portfolio. Additional research to better understand which risk factors most impact North Carolina properties, what resources already exist for preservation and how to best engage property owners and tenants will inform ongoing preservation strategies.

REFERENCES AND NOTES

[1] NYU Furman Center. (2017). “The Effects of the Low-Income Housing Tax Credit.” Available from: https://furmancenter.org/files/NYUFurmanCenter_LIHTC_May2017.pdf
[2] This figure only includes affordable housing properties and units awarded LIHTCs by the North Carolina Housing Finance Agency.
[3] The major difference between the 9% and 4% LIHTC is that the 9% credit can generate more tax credits and, thus, more investor equity. As a result, 9% LIHTCs are limited and allocated through a competitive process.
[4] LIHTC projects allocated credits prior to 1990 were subject to a minimum 15-year affordability period. The extended use period was established by Revenue Reconcilation Act of 1989.
[5] Extended affordability requirements often come from other subsidies or recapitalization. Recapitalization refers to the process of securing new funding for an existing LIHTC-financed affordable housing properties, typically after the initial 15-year compliance period, to ensure its long-term affordability and address any repair/rehab needs. This can include a new allocation of LIHTCs, refinancing existing mortgages, or obtaining new soft debt.
[6] See, for example: NLIHC and PAHRC. (2018). “Balancing Priorities: Preservation and Neighborhood Opportunity in the Low-Income Housing Tax Credit Program Beyond Year 30.” Available from: https://nlihc.org/sites/default/files/Balancing-Priorities.pdf; Khadduri, J., Cilmaco, C. & Burnett, K. (2012). “What happens to Low-Income Housing Tax Credit properties at year 15 and beyond?” Office of Policy Development and Research, US Department of Housing and Urban Development. Available from: https://www.huduser.gov/portal/publications/what_happens_lihtc_v2.pdf
[7] PAHRC and NLIHC. (2024) “2024 Picture of Preservation.” Available from: https://preservationdatabase.org/picture-of-preservation/
[8] Meléndez, E., Schwartz, A.F., & Montrichard, A.D. (2008). “Year 15 and Preservation of Tax-Credit Housing for Low-Income Households: An Assessment of Risk.” Housing Studies, 23, 67 - 87.
[9] This figure only represents the number of LIHTC-awarded properties with expired affordability requirements or formal owner opt-outs. North Carolina has only had 3 properties go through qualified contract and has required potential developer and owners to forfeit the right to a qualified contract. Not all properties in the extended use period are being actively monitored by the IRS or NCHFA and therefore could have converted to market-rate.
[10] Definitions of geography correspond with regions listed in the 2025 NC Qualified Allocation Plan, available at https://www.nchfa.com/rental-housing-partners/rental-developers/qualified-allocation-plan.
[11] As above, definitions of geography correspond with regions listed in the 2025 NC Qualified Allocation Plan, available at https://www.nchfa.com/rental-housing-partners/rental-developers/qualified-allocation-plan.
[12] The first LIHTC properties reached the end of their affordability periods in 2003; 2007 was the earliest year for which resyndication data was available, so this figure is likely an underestimate.
[13] Reina, Vincent. (2018). “The Preservation of Subsidized Housing: What We Know and Need to Know.” Lincoln Institute of Land Policy. Available from: https://www.lincolninst.edu/sites/default/files/pubfiles/reina_wp18vr1.pdf
[14] Adaptive re-use projects, entirely vacant residential buildings, and proposals to increase and substantially reconfigure residential units are considered new construction.

APPENDIX A | AFFORDABLE UNITS AND PROPERTIES BY LIHTC AFFORDABILITY REQUIREMENT EXPIRATION DATE* IN NORTH CAROLINA

When LIHTC Affordability Requirements Expire	Presence of Additional Subsidies	# of LIHTC Properties	# of LIHTC Units	% of LIHTC Portfolio
LIHTC Requirements Expire in <1 Year	No Other Subsidy Present	19	940	0.9%
	Additional Subsidy Present	13	451	0.5%
LIHTC Requirements Expire in 1-5 Years	No Other Subsidy Present	88	5,694	5.7%
	Additional Subsidy Present	27	846	0.8%
LIHTC Requirements Expire in 5-10 Years	No Other Subsidy Present	108	6,153	6.1%
	Additional Subsidy Present	84	4,209	4.2%
LIHTC Requirements Extend Beyond 10 Years	No Other Subsidy Present	657	50,719	50.7%
	Additional Subsidy Present	468	31,063	31.0%

Source: NC Housing Finance Agency analysis of LIHTC affordability restrictions in Agency data; US Housing and Urban Development subsidized multifamily properties; US Department of Agriculture Section 514, 515 and 538 rural properties; and public housing developments. Data accessed February 25, 2025.
**Unlike Figures 2 and 3 above, the data in this table is based exclusively on the LIHTC affordability expiration date, regardless of if there is an additional subsidy extending the property's affordability term.*