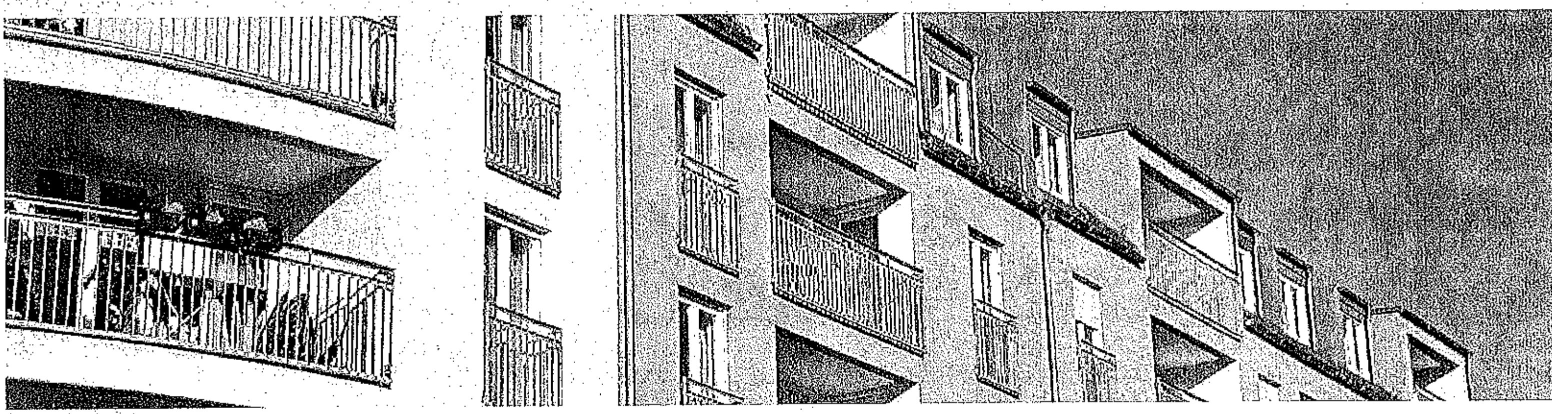

# WHAT HAPPENS TO LOW-INCOME HOUSING TAX CREDIT PROPERTIES AT YEAR 15 AND BEYOND?

PD&R

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

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# FOREWORD

Enacted in 1987, the Low-Income Housing Tax Credit (LIHTC) program has become the most significant federal program for the production and preservation of affordable rental housing in the nation. To date, more than 2 million affordable units have been developed or preserved using the LIHTC, making the tax credit's portfolio substantially larger than the public housing stock at any point of that program's history. At LIHTC's quarter-century mark, however, policymakers are facing a growing challenge: tens of thousands of units have reached or are nearing the conclusion of a compliance period that restricts their affordability to tenants with incomes at or below 60 percent of Area Median Income. As the United States faces growing rental affordability challenges, the release of this study that examines the outcomes of LIHTC properties at the termination of their compliance period could not have come at a better time.

The U.S. Department of Housing and Urban Development (HUD) has a mission to serve low-income families by providing quality affordable housing. Tax credits are administered by the U.S. Department of the Treasury, however, and HUD has a relatively minor role. Nonetheless, policymakers have been concerned about the period of time during which LIHTC properties would continue to provide affordable housing. In response, Congress changed the provision of the law that governs the period of restricted use for LIHTC properties. Thus, properties that received LIHTC allocations before 1990 are subject to a 15-year period during which LIHTC units must remain affordable. For those properties with allocations in 1990 or later, there is an additional 15-year restricted-use period, for a total of 30 years. However, in some circumstances the owner of an LIHTC property with a 30-year restriction can elect to leave the program early. Since 2009, 10,634 LIHTC properties with 374,675 affordable rental units have either reached or passed their 15-year period of restricted use. The owners of these properties may apply for a new round of tax credits, may continue to operate the property as affordable housing without new subsidies, or may opt out of the program and reposition the former LIHTC property as market-rate housing.

HUD commissioned this study, *What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond*, to determine whether properties that reached the end of the 15-year compliance period remain affordable, the types of properties that do or do not remain affordable, and the major factors by which owners reach the decision to remain or leave. Based on in-depth interviews with more than 50 owners, tax-credit syndicators, and brokers, the researchers describe the issues and decisions that LIHTC property owners confront as their tax-credit compliance period ends.

This study's exhaustive review of the multifaceted processes that take place before, at, and after the compliance period is, in and of itself, a major contribution to the slim body of literature that seeks to better understand the effects of the LIHTC's simple conception, yet oftentimes complicated execution. The results of the study's interviews and data analysis are compelling. For instance, the researchers conclude that most LIHTC properties remain affordable after having completed the 15-year compliance period. One possible explanation posited by the authors is that many of these LIHTC property owners are committed to HUD's mission to expand housing options for low- and moderate-income families by preserving the affordability of existing units. There are indeed exceptions to this rule, however, which this paper attempts to examine. Moreover, it is unclear to what extent properties remain affordable for the very neediest of families across this country.

Some LIHTC properties will be recapitalized in the near future with new tax credits. Others will be repositioned as market-rate units in areas where the rental housing market is robust. For the properties that remain affordable, most owners will confront the issue of how to meet substantial capital needs. What happens to those properties is beyond the scope of this study, but should be investigated further, particularly as compliance periods continue to expire.

We trust this study will be of great interest to policymakers and others actively working with the LIHTC program, including syndicators, owners, investors, financial institutions, public agencies, and residents who are interested in evaluating the effectiveness of the program. We also believe that the release of this report comes at a critical time, as policymakers struggle to find ways to meet the ever-growing housing affordability challenge.

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Development and Research

# EXECUTIVE SUMMARY

The Low-Income Housing Tax Credit (LIHTC) program has been a significant source of new multifamily housing for more than 20 years, providing more than 2.2 million units of rental housing. LIHTC units accounted for roughly ***one-third*** of all multifamily rental housing constructed between 1987 and 2006. As the LIHTC matures, however, thousands of properties financed using the program are becoming eligible to end the program's rent and income restrictions, prompting the U.S. Department of Housing and Urban Development's (HUD's) Office of Policy Development and Research to commission this study. In the worst-case scenario, more than a million LIHTC units could leave the stock of affordable housing by 2020, a potentially serious setback to efforts to provide housing for low-income households.

This study demonstrates that the worst-case scenario is unlikely to be realized. Instead, our answer to the question of whether older LIHTC properties continue to provide affordable housing for low-income renters is a qualified "yes." ***Most LIHTC properties remain affordable despite having passed the 15-year period of compliance with Internal Revenue Service (IRS) use restrictions, with a limited number of exceptions.*** These exceptions are closely related to the characteristics of the local housing market, as well as to events that occur at Year 15.

In addition to considering the question of whether older LIHTC properties continue to provide affordable housing for low-income renters, this study also addresses several other questions:

- How many properties leave the LIHTC program at or after reaching Year 15?
- What types of properties leave, and what types remain under monitoring by state housing finance agencies (HFAs) for compliance with program rules?
- What are owners' motivations for staying or leaving?
- What are the implications of properties leaving the LIHTC program for the rental market? To what extent do properties that leave the LIHTC program continue to provide affordable housing?
- How do ownership changes and financing affect whether LIHTC properties continue to provide affordable rental housing and whether they perform well?

THROUGHOUT THE REPORT, **AFFORDABLE HOUSING** REFERS TO HOUSING WITH RENTS AT OR BELOW THE LIHTC MAXIMUM FOR THE AREA.

In answering these questions, we focused on properties that would have reached Year 15 by 2009—properties placed in service under LIHTC between 1987 and 1994. Over the course of this study, we conducted interviews with a number of industry participants, including syndicators, direct investors, brokers, owners, and HFA staff, as well as experts on multifamily finance and the LIHTC program. We also collected property-level records provided by syndicators, brokers, and owners. Sources of quantitative data used for this study include HUD's LIHTC database of properties and units placed in service each year; HUD's Public Housing Information Center database of units rented under the Housing Choice Voucher Program; and a survey conducted for this study of rents of a sample of LIHTC properties no longer monitored by HFAs.

Our interview sources reported remarkably consistent impressions of the real estate outcomes for Year 15 properties:

- *The vast majority of LIHTC properties continue to function in much the same way they always have, providing affordable housing of the same quality at the same rent levels to essentially the same population, without major recapitalization.* These properties may have some rehabilitation done at or shortly after Year 15, often in connection with a change of ownership or refinancing, but the amount of work done is not extensive enough to be characterized as recapitalization.

- *A moderate number of properties are recapitalized as affordable housing with a major new source of public subsidy.* This new subsidy is most typically new tax credits, either 4 or 9 percent. These properties usually undergo a substantial program of capital improvements.
- *The smallest group of properties is repositioned as market-rate housing and ceases to operate as affordable.* The risk of this shift occurring is greatest in strong housing markets.

## WHAT ARE THE OUTCOMES AT YEAR 15?

Which of the three outcomes will be realized is linked to events that happen at Year 15 and that affect the likelihood that a property will continue to serve as affordable housing in the years to come. These outcomes include whether the property's use restrictions change, whether the property is sold to a new ownership entity, and whether the property became financially or physically distressed before Year 15. The outcome may also be affected by market conditions where a property is located.

### CHANGE IN USE RESTRICTIONS

During the first 15 years of a LIHTC property's compliance period, owners must report annually on compliance with LIHTC leasing requirements to both the IRS and the state monitoring agency. After 15 years, the obligation to report to the IRS on compliance issues ends, and investors are no longer at risk for tax credit recapture. For properties built before 1990, this requirement also marked the end of the affordability period required by federal law. Beginning in 1990, federal law required tax credit projects to remain affordable for a minimum of 30 years, for the 15-year initial compliance period and a subsequent 15-year extended use period.

In addition to complying with federal affordability restrictions, many LIHTC developments, including those placed in service between 1987 and 1994, are subject to other use restrictions that last well beyond Year 15. Some sources of such restrictions include mortgage financing from housing finance agencies or other mission-oriented lenders; subordinate debt or grant financing from state or federal sources (including HOME and Community Development Block Grants) that bear requirements for long-term use restrictions; and land-use agreements with states or municipalities that have contributed resources to the projects in exchange for long-term affordability commitments.

Properties subject to an extended LIHTC use restriction may seek to have that restriction removed. The legislation that extended LIHTC use restrictions from 15 to 30 years also established a Qualified Contract (QC) process under which owners may request regulatory relief from use requirements any time after Year 15. In the QC process, the owner requests the state agency to find a buyer for the property, and the state agency then has one year to find a potential buyer who will maintain the property as affordable housing. If the state is unsuccessful in finding a buyer, then the owner is entitled to be relieved of LIHTC affordability restrictions, and those restrictions phase out over 3 years.

In practice, each state agency can define its own regulations for implementing the QC, so there are in practice "fifty flavors of process." The process ranges from relatively simple and straightforward to so complex and difficult—perhaps intentionally—that the process is essentially unworkable. Furthermore, a number of states either require or persuade developers seeking LIHTC to waive their right to use the QC process in the future. In these states, no QC applications are likely to be submitted. Therefore, QC sales tend to be concentrated in a few states and are not common.

## CHANGE IN OWNERSHIP

A change in ownership for a LIHTC property can happen at any time. The ownership change is most likely to take place around Year 15, however, because it is in the interest of limited partners (LPs) to end their ownership role quickly after the compliance period ends. They have used up the tax credits by Year 10, and after Year 15 they no longer are at risk of IRS penalties for failure to comply with program rules.

By far the most common pattern of ownership change around Year 15 is for the LPs to sell their interests in the property to the general partner (GP) (or its affiliate or subsidiary) and for the GP to continue to own and operate the property. This pattern is overwhelmingly the case for properties with nonprofit developers, but also true in many cases of for-profit developers.

The minority of GPs who end their ownership interest at Year 15 almost always do so by selling the property. Almost always these are for-profit owners selling to for-profit buyers. These buyers, usually interested in larger LIHTC properties, appear to be motivated by the economies of scale they can achieve through expanding their portfolios. Other buyers who are also property managers reportedly may buy LIHTC properties mainly for the chance to earn management fees, and they may also be interested in smaller LIHTC properties. Still other buyers, the minority, aim to refinance and recapitalize a property with a new allocation of LIHTC credits or other subsidy funds. Owners proceed with these transactions with the goal of earning developer fees and positioning the property for at least 15 more years of physical and financial health.

## FINANCIAL DISTRESS AND CAPITAL NEEDS

While the strong majority of LIHTC projects operate successfully through at least the first 15 years after they are placed in service under the tax credit, some properties fall into financial distress by the time they reach Year 15. Poor property or asset management practices, a problematic financial structure, poor physical condition of the property, and a soft rental market are the most common reasons for the rare instances of failure.

LIHTC properties tend to operate on tight margins both because of the stiff competition to obtain these subsidies initially and because of allocating agencies' obligation to ensure that they are providing the minimum amount of subsidy necessary to render the deals feasible. Given these tight margins, the percentage of foreclosures is surprisingly small, in the range of 1 to 2 percent. Both LPs and GPs are anxious to avoid foreclosure, because it would be considered premature termination of the property's affordability and subject them to recapture of tax credits, with interest, and forfeiture of all future tax credit benefits from the property. GPs most typically, but also investors and even syndicators, may fund operating deficits to avoid this consequence.

LIHTC properties are usually required to fund replacement reserves annually, out of operating income, to pay for capital repairs and renovations. The experts we interviewed agreed that these reserves are usually insufficient after 15 years, however, to cover current needs for renovation and upgrading. Nevertheless, we did not find a consensus about the extent of renovation and repair needs across LIHTC properties at Year 15. Probably the most important determinant of physical condition at Year 15 is whether the property was newly constructed or rehabilitated when it was placed in service, and, if rehabilitated, the scope of the renovation work that was done then. If a property was new construction or a gut rehabilitation when initially placed in service under LIHTC, it is less likely to need significant upgrades at Year 15 than if it had only moderate renovations initially.

Market conditions may also affect property conditions over time. Properties in strong housing markets that can be rented at or near the maximum LIHTC rents are more likely to have high occupancy rates and to generate more operating funds that can be used for maintenance and repairs than can be obtained from housing in a weaker market, and thus enter Year 15 with fewer deferred repair and maintenance needs. Other factors that may be important are the target tenant population, property size, and the efficiency and skill of the property manager.

The extent and nature of a property's financial and physical distress will inevitably shape its Year 15 outcomes. For example, owners may be more likely to seek a new allocation of LIHTC or other major financial assistance to rescue a property with major capital needs, or with a problematic financial structure. If a property is continuing to operate at LIHTC rents, it may have to compete for tenants with new LIHTC properties, and the property in better physical condition will likely win out. Finally, if properties do fall into foreclosure, they may leave the affordable portfolio altogether as a consequence of the property sale to a buyer without affordable housing obligations.

## OUTCOMES AFTER YEAR 15

After Year 15, properties take one of three paths: they remain affordable without recapitalization, remain affordable with a major new source of subsidy, or are repositioned as market-rate housing.

### REMAIN AFFORDABLE WITHOUT RECAPITALIZATION

All the information gathered for this study shows that most LIHTC properties that reached Year 15 through 2009 are still owned by the original developer and that most are operating the properties as affordable housing, either with LIHTC restrictions in place or with rents that nonetheless are at or below LIHTC maximum levels. Even for properties subject to extended use restrictions, many owners reported that it simply was not worth the effort to try to leave the tax credit program through the QC process, because they could not increase rents outside the program or could increase them only marginally.

At least two types of properties will continue to provide housing at or below LIHTC rents despite the absence of use restrictions: properties with owners committed to long-term affordability and properties for which market rents are no higher than LIHTC rents. Nonprofit owners usually continue to operate properties as affordable housing beyond the term of any regulatory requirements because it is their mission to do so. Some for-profit owners interviewed for this study also described their missions as providing high-quality affordable housing, long-term.

When a property is not subject to use restrictions and does not have a mission-driven owner, the owner may still charge rents that are within the LIHTC standard of affordability, because the market will not support higher rents. Properties in which owners are able to charge rents higher than the LIHTC maximum have to be in locations where local rental market standards will support higher rents.

This pattern of properties remaining affordable with their original owners and without major recapitalization is common in strong, weak, and moderate markets alike. However, the specific financial condition of properties may vary. Properties able to achieve high occupancy levels and high rents—even if restricted below market levels—can generate significant cash flow and have real market value. So, although it is apparently true that most post-Year 15 LIHTC developments from the program's early years have slipped into the mainstream of properties with rents around the middle of the market, over time these developments will continue to fare quite differently depending on where they are located.

Among the minority of LIHTC Year 15 properties sold to new ownership entities, most were sold to buyers willing to accept the LIHTC affordability restrictions and, at the same time, not buying for the purpose of recapitalizing the property with additional tax credits. These buyers describe the projects' LIHTC history as more or less irrelevant to their business decisions and operations, regardless of whether they have to continue complying with LIHTC rules.

Both continuing and new owners typically refinance at Year 15, and low interest rates have enabled them to fund modest renovations at Year 15 without recapitalizing with new tax credits. Properties needing more extensive renovation have sometimes been able to obtain other sources of subsidy such as a new soft loan or an exemption from local real estate taxes.

## REMAIN AFFORDABLE WITH NEW SOURCES OF SUBSIDY

Some LIHTC properties are recapitalized as affordable housing at Year 15 or shortly thereafter with a new allocation of tax credits. In addition to obtaining new tax credits, LPs typically refinance the mortgage and may also obtain new sources of soft debt. The new equity and debt are used to pay for renovation costs that often are substantial.

When deciding whether to seek a new allocation of tax credits to recapitalize a property—and accept a new period of use restrictions—owners weigh a variety of factors. At a minimum, the property must have some capital needs, because in order to qualify for a new LIHTC allocation, owners must complete rehabilitation of at least $6,000 per unit per federal regulation (and, in many states, more extensive renovation per state requirements). Other factors internal to the property include: the need for modernization to compete with new affordable housing, whether an infusion of additional equity appears to be the only way to bail out a distressed property, whether it appears that the deal will generate substantial profits for the property's owners such as new developer fees, and whether the owners might do even better by selling the property after current use restrictions have ended rather than extending them further.

State LIHTC policies and priorities also affect the decision to seek a new allocation of tax credits. Some states reserve 9-percent LIHTCs for creating additional units of affordable housing rather than preserving existing units. For some properties, 4-percent credits may be a good alternative because they may be more readily accessed than 9-percent credits for preservation projects. Analysis of the HUD LIHTC database to identify properties that appear to have been resyndicated with additional tax credits shows a gradual rise in the second use of tax credits.

## REPOSITION AS MARKET RATE

By far the least common outcome for LIHTC properties is conversion to market-rate housing. Some properties are repositioned as market rate after a QC process, although this shift is not common. In cases where properties are repositioned as market rate, one owner told us that this option avoided the costs of reporting requirements rather than to raise rents. Some HFAs are using the QC process as a way to help properties in weak housing markets, such as parts of the Midwest, remain financially viable. With use restrictions lifted, the owner of the property is able to reach a slightly expanded pool of potential tenants and, sometimes, to charge rents that are slightly higher than the LIHTC maximum. For these properties, local conditions will limit rents to affordable levels for the foreseeable future.

Another outcome sometimes seen for a few LIHTC properties in weak markets is financial failure. Foreclosure of the loan on the property is followed by a property disposition by the lender to a new owner who will operate the property as market-rate housing at higher rents if the market will bear them.

The most likely properties to have been repositioned as unaffordable, market-rate housing are properties in low-poverty locations. We conducted a survey of the rents of a sample of a properties no longer reporting to an HFA and found that, even for this group of properties that should be at particularly high risk of becoming unaffordable, nearly one-half had rents less than the LIHTC maximum, and another 9 percent had rents only slightly more than LIHTC rents (see the exhibit that follows).

**Affordability of Properties in Low-Poverty Census Tracts and No Longer Monitored by Housing Finance Agencies**

| Property Rents | | |
|---|---|---|
| Greater Than 105 Percent of LIHTC Rent | Between 100 and 105 Percent of LIHTC Rent | Less Than LIHTC Rent |
| 42% | 9% | 49% |

Source: HUD National LIHTC Database

## LATER YEAR PROPERTIES

Approximately 1.5 million housing units, in more than 20,000 LIHTC properties, were placed in service from 1995 through 2009 and will reach their 15-year mark between 2010 and 2024. How likely are those properties to follow the patterns that we observed around Year 15 for the early year LIHTC properties? The later year LIHTC properties appear to be at even lower risk of being repositioned as market-rate housing with unaffordable rents than the early year LIHTCs. A key factor is the very existence of extended use restrictions through Year 30, with the only possibility of relief being a QC process that some states have required owners to waive, while others make it procedurally difficult to succeed. Another factor is the much larger percentage of later LIHTC properties than early LIHTC properties that have nonprofit sponsors. Key differences between early year LIHTC properties and later year properties are summarized in the exhibit that follows.

One potentially offsetting factor is the lower share of later year properties that combined LIHTC with Section 515 loans from the Rural Housing Service (RHS), which have extended affordability restrictions that are difficult to remove. In addition, higher shares of later year properties are in high-value locations.

Later year LIHTCs typically have more complex financial and rent structures, which may mitigate repositioning as market-rate housing. These structures may also make it more difficult for later year LIHTC properties to use simpler conventional refinancing to join the mainstream of housing with affordable rents. More likely, many of the later year properties will continue to be part of a self-conscious industry of affordable housing providers. Although the greater proportion of later year LIHTCs that were either newly built or substantially renovated when placed in service may suggest a lower need for recapitalization at or around Year 15, both ongoing and new owners of tax credit properties may try to use a second round of tax credits.

**Key Characteristics of LIHTC Properties Placed in Service, 1987 Through 1994 and 1995 Through 2009**

| | Early Year Properties: 1987–1994 | Later Year Properties: 1995–2009 |
|---|---|---|
| Number of projects | 11,543 | 20,567 |
| Number of units | 411,412 | 1,521,901 |
| Average project size | 36.4 | 74.8 |
| Construction type | | |
| New construction only | 56.7% | 63.3% |
| Rehabilitation | 43.3% | 36.7% |
| | 100% | 100% |
| Nonprofit sponsor | 10.1% | 27.6% |
| RHS Section 515 | 31.1% | 9.0% |
| Tax exempt bond financing | 3.1% | 21.7% |
| Location type | | |
| Central city | 46.6% | 45.1% |
| Suburb | 25.9% | 30.9% |
| Nonmetropolitan | 27.5% | 24.0% |
| | 100% | 100% |
| Poverty rate of 10 percent or less | 24.9% | 29.8% |
| Percent of units with two or more bedrooms | 54.5% | 64.4% |

RHS = Rural Housing Service.

## LIHTC PROPERTIES AT YEAR 30

The three patterns observed at or somewhat after Year 15 will continue beyond Year 30: (1) some properties will continue to provide affordable rental housing, despite the absence of LIHTC use restrictions; (2) some will be recapitalized with public subsidies that bring new use restrictions; and (3) some will be repositioned with rents substantially greater than LIHTC-restricted rents or will no longer be rental housing. The balance among those three outcomes will shift after Year 30 in favor of the third pattern—repositioning and no longer affordable—but by how much?

Several types of properties will nearly certainly not be repositioned. These include properties with a mission-driven owner, a location in a state or city with use restrictions beyond Year 30, and the presence of restrictions associated with financing. Of the latter two groups, some of these properties will have agreed to rents less than the LIHTC maximum for some or all units and may be able to raise rents to something closer to the LIHTC maximum. These units would still provide affordable housing to households with incomes around 60 percent of Area Median Income and still potentially be available to households using tenant-based vouchers.

Owners of the remaining properties—for-profit owners of properties with no use restrictions continuing beyond Year 30—are likely to make a financial calculation about what to do with the property that depends on the housing market. The key consideration is whether the location will support market rents substantially higher than LIHTC rents. Properties likely to no longer provide affordable rental housing are those for which market equivalent rents—or the value of converting the property to homeownership or commercial use—will be substantially higher than LIHTC rent. However, the large portion of LIHTC developments that have rents similar to unrestricted rents at about the middle of the housing market will continue to operate as affordable housing after the end of their use restrictions.

Some of these properties may have a difficult time producing enough cash flow to meet their operating needs and remain in even passable condition. Properties in rural areas and in other places with declining populations are most likely to fall into this category. Unmet capital needs may induce many of these properties to apply to their HFAs for additional allocations of LIHTC, although how HFAs will respond to this demand and assess its priority compared with other potential uses of LIHTC is difficult to predict.

## CONCLUSIONS AND RECOMMENDATIONS FOR POLICYMAKERS

Most older LIHTC properties are not at risk of becoming unaffordable, the notable exceptions being properties with for-profit owners in favorable market locations. Maintaining physical asset quality turns out to be a larger policy issue for older LIHTC properties than maintaining affordability. Older LIHTC properties likely will follow one of three distinct paths: (1) some will maintain their physical quality through cash flow and periodic refinancing, in much the same way that conventional multifamily real estate does; (2) some will maintain their physical quality through new allocations of LIHTC or another source of major public subsidy; and (3) some will deteriorate over the second 15 years, with growing physical needs that will ultimately affect their marketability and financial health. This implies that an increasing number of owners, however, will apply for new tax credit allocations, either for 9-percent tax credits or for bond financing and 4-percent credits.

Given both of these kinds of needs, state HFAs will come under great pressure as the large stock of LIHTC housing ages. Restricted by finite resources, state policymakers are going to have to make choices. We recommend that those choices be made on the basis of a set of guiding principles and on careful examination of the housing markets in which the older LIHTC stock within their state operates. We suggest that HFAs place the highest priority on the developments that are most likely to be repositioned in the market—as higher rent housing or conversion to homeownership or another use. HFAs could benefit from additional data and tools from HUD to help identify the most appropriate properties. Having made a list of high-risk properties, HFAs should then make clear that resources will be available to preserve those properties as affordable housing—for example, additional allocations of 9-percent tax credits and other subsidies under the control of the HFA or other state agencies.

Some properties not at risk of being repositioned should still have high priority for investment in meeting their capital needs. These needs include—

- Properties that serve a special-needs population.
- Properties that have committed—or are willing to commit—to rent tranches of units below the LIHTC maximum, if the property is financially sustainable over the long term.
- Properties in a neighborhood where substantial public resources have been committed to a multifaceted revitalization effort and only if rehabilitation of the older LIHTC property is needed to prevent it from blighting the neighborhood.

In general, state policymakers should recognize that the majority of older LIHTC properties will, over time, become mid-market rental properties indistinguishable from other mid-market rental housing, and that this result is good.

We do not recommend that states extend use restrictions beyond 30 years because of the tradeoffs required. First, the longer the use restrictions last, the higher the initial subsidy needs to be. Second, under some market conditions, inflexible use restrictions may undermine the goal of preserving affordable housing in good condition by overly restricting the rental market for those properties.

We also suggest that federal policymakers take actions—specifically by revising Qualified Allocation Plan standards—that will create a high priority for preserving those older LIHTC properties that are at greatest risk of no longer being affordable, as well as those that serve a special-needs population. Federal policymakers should also recognize that LIHTC developments at risk of being lost to the affordable housing stock are not evenly distributed across the United States in proportion to population. Instead, they are most likely to be in states with high housing costs and limited housing supply, suggesting that LIHTC should be allocated on the basis of a measure of housing need, rather than per capita. Short of this change, which could weaken support for LIHTC, an alternative would be to enact a pool of bonus LIHTC funding to be used by the Treasury to reimburse states that allocate tax credits to carefully defined at-risk properties.

Additional research is essential for making policy about the future of the older LIHTC housing stock. One important area is research that focuses on the role of LIHTC in creating mixed-income housing, both by making housing available to low-income renters in locations where it otherwise would not be and by creating housing that has a mixed-income character within the development itself. Another recommendation is for research to understand better the role that adding new units of subsidized rental housing such as LIHTC plays in transforming—or weakening—a neighborhood. A better understanding of how to use LIHTC for special-needs housing and how to best link units with supportive services is also important.

A final set of issues is suggested by our observation that HFAs and other policymakers will have to make decisions about the LIHTC stock within constrained resources. HUD-sponsored research on the development and operating costs of LIHTC housing and how they vary around the country could be very useful for informing HFA policy standards, as well as for allocating tax credits and underwriting specific properties.