

# Strategies to Preserve Small Subsidized Affordable Housing Properties

Across the United States, despite efforts to build more affordable rental housing, millions of households lack access to safe, stable and secure housing due in part to the lack of preservation of existing homes. While large-scale affordable housing developments often dominate policy conversations, small subsidized multifamily affordable housing properties - those with 2 to 25 units (known here as “small properties”) - play a critical yet underappreciated role in the affordable housing ecosystem.

These small properties are often deeply affordable, integrated within neighborhoods, and serve as a lifeline for low-income households. Many of these properties are financed through federal affordable housing subsidy programs like the Low Income Housing Tax Credit (Housing Credit) and the HOME Investment Partnerships Program (HOME), often layered with state or local subsidies. However, preserving these small properties is becoming increasingly difficult. As affordability restrictions expire and operating challenges mount, there is a real danger of losing a substantial portion of this essential housing stock.

## Key Strategies for Preservation

- 1. Targeted Financial Products**
- 2. Right of First Refusal or Notification Laws**
- 3. Tax Incentives**

Small properties tend to be owned by mission-driven nonprofits, community-based organizations, or “mom-and-pop” landlords, often with lower operating costs, higher community integration and located in neighborhoods where large affordable housing

developments may face resistance. Despite their size, small properties make up a significant portion of the subsidized housing portfolio in many cities and rural areas.

According to the National Housing Preservation Database, there are over 120,800 subsidized affordable properties around the country. Of these, approximately 23,500 properties are classified as small properties, accounting for 25 – 30 percent of an individual state’s subsidized or rent restricted affordable housing stock.<sup>1</sup> Their loss would not only reduce affordable housing supply but also undermine neighborhood diversity and displacement prevention efforts.

## STRATEGIES AND SOLUTIONS FOR PRESERVATION

Preserving small properties presents a distinct set of challenges. Preservation may involve navigating multiple layers of subsidy programs, each with distinct compliance, monitoring, and reporting requirements. For properties with layered financing, such as the Housing Credit program, HOME, state or local housing trust funds, coordinating compliance across programs can be overwhelming for small property owners. Many of these owners may not have the resources to navigate complex preservation processes and the scale of the transactions make it difficult to pay for expert help. Therefore, preserving these properties requires intentional, tailored strategies that acknowledge their unique characteristics.

Below are three strategies to support the preservation of small properties:

### **1. Create Targeted Financial Products**

Small properties, like all structures and buildings, require ongoing maintenance as well as periodic substantial rehabilitation to ensure quality, long-term, affordable housing. For market-rate housing, the funds to undertake this work often come from net operating income or an external loan. For owners who wish to renovate, traditional lenders often view small properties as too risky or too costly to underwrite, as a smaller net operating income due to the property’s size and low rents may be insufficient to cover the costs of the rehabilitation, as well as any debt service or transaction costs of a traditional bank or CDFI loan. Therefore, a smaller property may only be eligible to receive a small loan that may not cover the rehabilitation needs. Moreover, long-term subsidies like the Housing Credit program are limiting the minimum size of eligible properties, as smaller developments can be inefficient due to the program’s administrative and compliance costs.

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<sup>1</sup> According to the National Housing Preservation Database, accessed March 2026, Pennsylvania’s subsidized stock is 2822 properties, of which 783 are small properties (27%); Colorado’s subsidized stock is 1245 properties, of which 290 are small properties (23%); Indiana’s subsidized stock is 1936 properties, of which 576 are small properties (30%); Washington’s subsidized stock is 1959 properties, of which 522 are small properties (27%). This sample provides an estimate for the national average of small properties.

In response, several public housing agencies and private lenders are closing this market gap and creating loan products that are specifically designed for the needs of small property owners, focusing on low-interest, long-term rehabilitation loans. With limited net operating incomes, small properties are not able to pay back high-cost loans over a short period of time. Often located in softer markets, the cost of repairs and/or preservation may exceed the value of the property or patient capital may be harder to find. Long-term loans that accommodate these limitations, like those offered for up to 30 years, give small property owners the flexibility and time needed to both complete property rehabilitation and pay back the loan.

The [Small-Scale Housing Permanent Loan Program](#) (program) is a targeted financing tool developed by the Colorado Housing and Finance Authority (CHFA) to support small multifamily properties that are often deemed too small to use conventional multifamily financing or may not support large debt burdens. CHFA created the program in 2015 in response to observations that properties under 25 units were not competitive through the state's federal LIHTC program. Aimed at affordable housing developments with 5 to 19 units between 80 to 120 percent of Area Median Income (AMI), the program offers long-term, fixed-rate loans for new construction, acquisition-rehabilitation, and refinancing.

The program helps developers overcome barriers such as low net operating income, high rehabilitation costs, and the absence of suitable financial products. With flexible terms, long maturities, and affordability requirements, the program is a streamlined option tailored for smaller developments. By filling a persistent permanent financing gap, CHFA is helping to stabilize and preserve housing that plays a crucial role in local communities but often falls outside the reach of mainstream capital.

In 2024, CHFA originated three loans, with two closings, averaging \$300,000 per unit.

## 2. Enact Right-of-First-Refusal or Notification Laws

Many properties built or rehabilitated with federal or state subsidy programs like the Housing Credit or HOME have 15 to 30-year affordability restrictions. According to [the 2024 Picture of Preservation Report](#), approximately 20 percent of Housing Credit properties, many of which are small properties, are at risk of loss over the next 10 years due to the expiration of affordability use restrictions. Once these restrictions expire, owners may opt to exit subsidy programs and convert the affordable housing to market-rate housing, particularly in high-demand areas. Smaller owners may lack the financial incentive or technical capacity to pursue necessary preservation pathways. Without sufficient support from states and cities to preserve the affordability of these homes, residents will experience higher rents, the possibility of evictions and displacements, and deteriorating living conditions.

States and cities can take proactive action to prevent the loss of small properties through sale or expiration of subsidies. Policies like preservation notice laws require owners to notify public agencies or mission-driven buyers before selling or converting subsidized properties, as well as prior to the end of their affordability restrictions. Some jurisdictions provide non-profits with a right of first refusal to purchase and preserve affordability on their behalf. With a preservation notice law in place, localities and stakeholders who are committed to the long-term preservation of small properties are notified ahead of subsidy expiration and/or sale of a small property. With a sufficient timeline, this notification offers localities and stakeholders the time to convene and assess the opportunity to respond to the actions of the existing small property owner and can help ensure small properties remain affordable. These laws are especially impactful when paired with funding mechanisms to enable rapid acquisition of small properties.

In 2009, the Commonwealth of Massachusetts established a right of first refusal for the Executive Office of Housing and Livable Communities (EOHLC) or its designee to purchase publicly assisted housing that is placed for sale under [Chapter 40T or an Act Preserving Publicly Assisted Affordable Housing](#) (40T). The policy was created to help stem the tide of low-income properties losing their affordability restrictions in the early 2000's.

Chapter 40T provides EOHLC a right to submit an offer and if, after a certain period of time passes, the owner enters into a purchase agreement with a third-party buyer, EOHLC (or its designated partner) is granted a right of first refusal and can purchase the property under the same terms and conditions as the agreement entered into between the owner and third-party buyer. Under 40T, all acquisitions of existing affordable housing are made at market-rate prices, and do not include a right to purchase. However, by clearly identifying how existing affordable housing properties were being lost from the market, through the sale of housing and subsequent loss of affordability, Massachusetts utilized a valuable triggering event to provide an opportunity for preservation-focused buyers to step in.

In the policy's first 10 years, 40T preserved almost 20,000 units of affordable housing.

### 3. Use Tax Incentives Strategically

Small, subsidized properties share similarities in both financial and physical structure with naturally occurring affordable housing (NOAH), even though their funding sources differ. Both types typically charge below-market rents, with subsidized housing required to do so through federal or state programs, NOAH properties charge lower rents as they are more often older and lack amenities. Since rents are lower, both types often operate with limited net operating income. This can affect the ability of both types of housing to cover maintenance, repairs, and long-term capital needs without outside support. With these similarities in mind, localities can leverage NOAH preservation tools for subsidized small properties too.

One solution implemented in jurisdictions around the country to support the preservation of NOAH, is a short- or medium-term reduction in property taxes offered to affordable housing property owners. A tax exemption or abatement can be used to reduce the assessed value or tax liability of a property, decreasing the costs for an owner over a set period of time. This incentive can be indirectly or directly used to encourage preserving or improving buildings through a reinvestment of the deferred property taxes, in exchange for a period of affordability.

The [Cook County Affordable Housing Special Assessment Program](#) (AHSAP), created in 2022 and co-managed by Community Investment Corporation (CIC) and the Cook County Assessor's Office, incentivizes investment into the rehabilitation of multi-family residential properties and affordability in return for a decreased property tax assessment based on the property's post rehabilitation value.

The AHSAP enrolled 500 properties in its first year. Eligible properties must have seven or more units and the units themselves, once part of the program, are covenanted at or below 60 percent AMI. The program has three tiers based on an owner's investment amount and housing type. Two tiers are aligned with preserving existing NOAH properties and specify investments in terms of both dollar amounts and system upgrades, ensuring that properties receiving the benefit of AHSAP undergo more than cosmetic updates. The third tier is focused on new construction.

The AHSAP has been well received by affordable housing providers and NOAH owners. In addition to the reduction in assessed tax, increases in property value resulting from the AHSAP investments are excluded from a property's tax assessment for the remainder of the affordability period. This creates even greater incentives for owners to invest in the property, as they will not incur increased taxes resulting from improvements.

## CONCLUSION

Unlike larger developments, small properties are often underrepresented in housing data systems, making it difficult for policymakers to monitor at-risk units, plan interventions, or support proactive preservation. While they may be modest in size, their value to communities is immense. They serve as the foundation for housing stability for many low-income households and often offer deeper affordability and community connection than large-scale developments. Yet without targeted preservation strategies, we risk losing these vital units through lack of appropriate financing tools, the cessation of affordability restrictions or limited incentives to preserve affordability. By creating tailored and accessible tools and policies, we can ensure that these small properties continue to serve future generations.