

Affordable Housing Stabilization Funds

Affordable housing stabilization funds have emerged as a critical tool to keep existing affordable homes safe, in good condition, and affordable for current residents. Established within the last four years, these funds respond to rising operating costs that are straining affordable housing owners and threatening residents' housing stability. Stabilization funds are a complement to annual funding for affordable housing preservation- an essential resource. They help mission-driven owners bridge financial gaps so they can maintain properties without displacing residents or converting units to higher-rent housing that current tenants cannot afford.

CURRENT CHALLENGES

Operating costs such as insurance, utilities, maintenance, and security have risen sharply in the last seven years. At the same time, higher interest rates make refinancing and recapitalization significantly more expensive for affordable housing operators, which complicates efforts to fund critical repairs and rehabilitation in aging properties that require substantial investment to remain viable. Rental income in regulated affordable housing has not kept pace with rising costs, and wages have not offered residents the ability to comfortably afford even moderately subsidized rents.

These pressures have led to an increase in "economic vacancy", whereby an apartment is economically empty (either through physical vacancy or a resident not paying their rent). On top of these financial pressures, hundreds of thousands of subsidized units will soon lose affordability restrictions over the next several years, heightening the risk of deterioration or

conversion to market-rate housing. For residents, these dynamics translate into deferred maintenance, unsafe or unhealthy living conditions, reduced on-site services, and, in extreme

cases, the loss of homes through displacement or building closure when properties fall into severe distress. When preservation efforts fail and units are lost, communities permanently lose affordable housing, deepening regional shortages and increasing both homelessness and rent burdens for low-income households.

IMPACT OF STABILIZATION FUNDING

Within this context, stabilization funds play a critical role by helping keep existing affordable units viable for the long term. These funds establish a *new* dedicated stream of capital, separate from traditional preservation resources, to allow affordable housing developers and housing agencies to support a pipeline of stabilization, preservation, and production. Stabilization funds are typically designed as specialized pools of capital, often grants, low-cost loans, or flexible subsidies, that provide below-market financing or gap funding in exchange for improved physical conditions of the property. Others may also help existing owners restructuring their property financing.

By intervening early and targeting at-risk properties before they reach outright crisis, these programs offer fast-acting capital on a clear and definitive timeline. Some offer direct support at the property level, and others focus resources at the ownership level; recognizing that portfolio level stabilization can offer greater economies of scale. Stabilization of existing affordable housing properties can also be more cost-effective than replacing lost units through new construction, which is usually slower and more expensive on a per-unit basis. These funds have proven to be



especially important for smaller nonprofit and mission-driven owners, who frequently lack access to high-cost private rescue capital that demands returns misaligned with long-term affordability and resident well-being. When well designed, preservation funds stabilize cash flow, finance capital repairs, and give owners time and resources to restructure debt or layer in longer-term subsidies, all while protecting residents from steep rent increases or displacement.

BEST PRACTICES

Across the four jurisdictions profiled below - Minnesota, Oregon, Illinois, and Seattle - several common principles emerge for effective affordable housing stabilization funds.

1. Early warning systems and communication infrastructure; jurisdictions that track expiring subsidies, signs of physical distress, and meaningfully engage with their affordable housing community are better able to identify at-risk properties before they become emergencies.
2. Programs must offer flexible, low-cost capital that is patient enough to support both immediate repairs and long-term affordability, rather than relying on short-term, high-return investment products that can undermine mission-oriented goals.
3. Strong affordability commitments are essential, with public assistance tied to existing affordability periods or short-term extensions. The primary goal is to provide property stability not new long-term affordability covenants.
4. Finally, prioritizing mission-driven owners such as nonprofits, community land trusts, and mission-oriented for-profits helps align capital with decisions that center resident well-being and neighborhood stability rather than speculative returns.

Each of the jurisdictions profiled below focus stabilization funding on existing subsidized or formally restricted affordable housing properties. However, many struggling operators committed to affordability are holding properties that may be naturally occurring (NOAH) and play a valuable role in the affordable housing ecosystem. Future stabilization funds could be expanded to allow eligibility for these NOAH property owners in order to preserve essential parts of the housing stock. This approach may also offer an opportunity to formalize affordability through recorded use restrictions.

Illinois

In 2022, the Illinois Housing Development Authority (IHDA) created the \$28 million [Capital Bill Preservation Limited Rehabilitation Program](#) (Preservation 1.0) in response to an identified need and advocacy efforts from statewide affordable housing coalitions. The state legislature allocated funding for Preservation 1.0, designed to offer financial support to existing subsidized affordable housing properties in Illinois and with outstanding capital improvement needs that could not otherwise be met through the use of existing operating income and/or property reserves. The program awarded 62 grants to eligible properties on a first come first serve basis. Properties were required to have a Property Needs Assessment completed within the last 12 months to accurately demonstrate capital improvement needs, and were required to meet at least two of the conditions identified below:

- Direct financial risk to IHDA or another funder
 - Funding recapture (HOME, CDBG, NSP, credit enhanced IHDA first mortgages)
- Existing physical needs that, if not repaired threaten the sustainability of the development
 - Code violations
 - Low or failing REAC score
 - Dangerous conditions
 - Failed non REAC physical inspections
- Challenged marketability based on
 - Security issues
 - Physical obsolescence/chronic physical issues
- Loss of affordability due to expiration of use restrictions or loan maturity
- Inability to sustain operations with existing financing and income/rent restrictions

Under Preservation 1.0, a total of 3,831 units were preserved, while developments' use and affordability restrictions were extended by 10 years. Given the success of the program, IHDA announced an additional \$30 million through the Preservation Limited Rehabilitation Program 2.0 (Preservation 2.0) in February 2026. These funds, directly sourced from IHDA, will provide subordinate financing for outstanding capital improvements exclusively in IHDA-assisted developments with existing



income and occupancy restrictions. These funds are not intended to supplement the Low Income Housing Tax Credit Program or other traditional preservation funding, rather, are limited grant funds that will support an affordable housing operator extend their timeline until the next

recapitalization. As with Preservation 1.0, eligible properties must also meet at least two of the aforementioned risk criteria, and awards will be capped at \$475,000 per development.

Preservation 2.0 builds on several lessons learned from internal and external stakeholder feedback and survey results. This includes the introduction of a scoring methodology that prioritizes existing physical needs, where if not repaired, would threaten the habitability of a property. Scoring also weighs direct financial risk to IHDA, ownership type, and preservation allocation goals that offer guidelines for funds to be disbursed across the Chicago Metro, City of Chicago, Non-Metro, Other Metro and Statewide regions. In addition to the new scoring methodology, each Preservation 2.0 grantee will be required to participate in a six-month technical assistance and capacity building training course provided by a third party to increase grantees' organizational capacity and ability to respond to capital planning needs. Finally, developments eligible for Preservation 2.0 funding must have been placed in service a minimum of 14 years prior to application. Applications will be open April 6-May 20, 2026, during which time IHDA is providing increased outreach and education for potential applicants through public information sessions.

Minnesota

Minnesota has advanced two substantial housing packages to support nonprofit and mission-based affordable housing operators across the state that have drawn national attention from affordable housing advocates and operators. This is due in part to the work of the [Minnesota Housing Stability Coalition](#), a collaboration of mission-based affordable housing owners and advocates who came together to address rising operating costs, revenue instability, and mounting repair needs, advocated for financial resources to support the long term viability of deeply affordable housing. The Coalition documented widespread distress among nonprofit and mission-driven owners and helped make the case to state leaders for targeted operating relief and property stabilization tools.

This advocacy led to the creation of the [Stable Housing Organization Relief Program \(SHORP\)](#), a one-time \$50 million state grant program administered in 2023 by Minnesota Housing to support eligible affordable housing operators experiencing significant financial challenges. SHORP awarded grants to qualifying nonprofit owners and tribal or tribally designated housing entities that met statutory criteria and provided supportive services in at least part of their portfolios. Eligible owners used these funds for property maintenance, improvements and security, supportive services for residents, staffing and retention related to services, and forgiveness of rent arrears, all aimed at preserving stable housing for low-income households.

By directing resources toward operating stability and preservation, providing funds to fill budget gaps, stabilize properties, and prevent deterioration or foreclosure at existing affordable developments SHORP underscored that preservation is not only about capital improvements but also about day-to-day operating budgets and resident services that ensure buildings remain safe and sustainable over time. For residents, such operating-focused funding helps avert sudden rent spikes, service reductions, or property disinvestment that can quickly cascade into declining conditions and eventual displacement when owners can no longer cover their costs.

Ongoing advocacy secured in an additional \$50 million legislative funding package in 2025, creating a complementary [Distressed Multifamily Rental Building Program](#) that focuses on at-risk affordable properties with eight or more units, where residents have an income at or below 60 percent Area Median Income (AMI). Program funds can be used for both physical and financial needs, such as but not limited to:

- Debt restructuring, that will stabilize or improve property cash flow;
- Deferred maintenance;
- Property operating costs; and
- Capitalizing replacement, operating, or supporting services reserves.

Debt restructuring offers eligible property owners the opportunity to restructure and forgive amortizing and deferred debt, support the paydown of principal debt and interest, interest rate write-down, deferral of debt payments or mortgage payment forbearance. Funds can also be used to finance the sale or transfer of ownership of the property to an owner equally committed to preserving the long-term affordability of the property. Qualifying properties must demonstrate two or more years of negative net operating income or two or more years with a debt service coverage ratio of less than one, among other risk features. Distressed buildings must also show how the financial infusion will allow the property to stabilize for at least five years.

Together, SHORP and the Distressed Building Program are intended to support operators of existing deeply affordable units at both the enterprise and property level, so they can continue to provide quality affordable housing and prevent displacement of low income households. Early accounts from nonprofit owners describe SHORP as a critical lifeline that allowed them to maintain operations, retain staff, and invest in essential repairs while keeping rents affordable, with award announcements for the Distressed Building Program forthcoming.

Oregon

On the West Coast, the [Property Stabilization Investments \(PSI\)](#) program is an Oregon Housing and Community Services (OHCS) initiative designed to address urgent threats to the financial viability of affordable housing properties in the OHCS portfolio. Rising inflation, insurance costs, and operating expenses have strained properties that were previously kept stable through property reserves, careful management, and planned rehabilitation. OHCS received \$50 million towards its annual preservation efforts through lottery backed bonds, and allocated \$35 million for the PSI program. Due to bond use restrictions, OHCS is not able to use these resources for operating expenses. Therefore, the PSI program has been created as an emergency measure, in addition to its annual preservation resources. OHCS is also tracking portfolio health on an ongoing basis to better understand the impact of stabilization and other preservation funds.

PSI is a flexible tool of last resort, providing long-term, low-interest loans to stabilize distressed properties, primarily through debt buy-down that improves debt service coverage and overall financial performance. Loans are generally offered at 0–1 percent interest for up to 30 years, with principal and interest due at maturity, refinancing, end of the existing affordability period, or re-syndication, whichever comes first. Assistance is targeted to immediate needs that support the property's viability, health and safety, and short- to medium-term financial sustainability. PSI funding is subordinate to primary debt and may be subordinate to other soft debt when justified by project need. Eligible uses focus on debt buy-down, with optional limited repairs and administrative fees. Awards are capped (for example, up to 2 million dollars or a per-unit maximum) and are intended to achieve a near-term debt coverage ratio of 1.15. Given the focus on immediate property stabilization, properties nearing the expiration of affordability restrictions must extend affordability for an additional five years; otherwise, PSI does not impose new affordability requirements.

OHCS received 68 intakes for PSI, underscoring the demand from property owners for this kind of program. Within four-months, OHCS has awarded \$39 million to 30 properties on a first-come first-serve basis through the PSI program, supporting 2,266 units. Twenty-one properties are in the Portland metro area. The vast majority of successful applicants solely requested support for debt-buy down, with only seven requesting support for property repairs. The program also met its internal allocation goals of providing \$5 million to Culturally Specific Organizations, and \$20 million to nonprofit providers. As OHCS begins the process of closing on PSI loans, the team is developing an evaluation framework to assess the impact and success of this stabilization, and identify future opportunities to help stabilize at-risk affordable housing properties, preserving thousands of existing affordable homes and families in Oregon.

Seattle

The Seattle Office of Housing is implementing a multifaceted strategy to provide stability for mission oriented affordable housing providers and support the preservation of existing affordable housing assets organizations for the thousands of residents who depend on a safe and affordable place to live. In the short term, the Office of Housing has awarded \$40.8 million through [the Urgent Operating Support \(UOS\) program](#). These funds were allocated to 22 nonprofit affordable housing providers to support the ongoing operation of over 10,400 affordable homes in 2026, and 24 organizations in 2024. The funds are intentionally flexible in their use, for immediate financial strains that are impacting an affordable housing operator's ability to provide safe and stable housing and include: rent and utility arrears, security, maintenance, repairs and deferred replacement reserve deposits or insurance and other administrative expenses.



In the medium term, as part of the Office of Housing's annual Notice of Funding Availability (NOFA), [\\$58 million was allocated to stabilize 855 rental homes](#) and \$33 million was allocated for the preservation of 822 rental homes. The NOFA is typically focused on new construction; however, the 2025 NOFA committed a historic \$155 million (an increase of \$70 million) in funding while introducing two new funding categories: stabilization and preservation. The stabilization funds provide resources to affordable housing operators to restructure debt, right sizing rent and expense assumptions. The stabilization funds should restore positive property cash flow and help a property achieve a minimum 1.1 debt service coverage ratio (DSCR). The Office of Housing continues to assess the need for additional rounds of stabilization funding in subsequent years. In the long term, the Office of Housing continues to implement preservation planning tools and resources across its housing portfolio for providers and has piloted a redesign of its underwriting standards using more conservative rent levels, while continuing to allow regulatory rent levels to remain at 60 percent AMI.

Both tranches of funding – UOS and stabilization funds - have been limited to affordable housing organizations that have a pre-existing relationship with the Seattle Office of Housing. The Office of Housing hopes that by helping existing affordable housing providers navigate their immediate financial pressures, the UOS serves as a continued investment to preserve and protect essential community assets, and the longer term strategies will set up its housing portfolio for long term sustainability.

CONCLUSION

For residents, the cumulative impact of well-designed preservation and stabilization funds is profound: homes remain affordable, buildings are safer and better maintained, and communities avoid the disruptive churn and trauma of displacement that follows when affordable properties fail. As the housing crisis continues, scaling these funds alongside existing traditional preservation resources will be essential to protect our existing stock of affordable homes and safeguard the families and communities who depend on them.