Preservation & Housing Quality

Ensuring the Preservation of Quality Housing Credit Properties

2025

We face a shortfall of more than 7 million housing units available to the lowest-income households in the United States. We can only address this crisis by preserving existing affordable housing while also building new housing that is more affordable for lower-income households. Housing Finance Agencies (HFAs) utilize Low Income Housing Tax Credits (Housing Credits) to create new housing stock, but also have a critical role to play preserving existing housing.

Preserving a physical Housing Credit property asset and ensuring that an owner is providing quality housing is equally important as ensuring that the housing remains affordable. This prevents displacement of existing residents and limits disinvestment in communities, therefore providing a stable home for low-income households – an essential precondition for their economic, physical, and mental well-being. Preserving existing housing assets is a critical component to growing our affordable housing supply.

The following analysis, which is the result of NHT's examination of 53[1] Qualified Allocation Plans (QAPs) released before June 2024, provides insight into how HFAs encourage preservation and housing quality in their QAPs.

For more information on how HFAs require or incentivize affordability, read NHT's Infobrief on Long Term Affordability here.

Definitions of Preservation

There is no clear or single definition of preservation. At least **41 HFAs specifically define preservation** in their QAP, with at least 30 HFAs considering existing assisted housing in their definition. (Even within these 30, what type of housing is considered assisted differs, with some HFAs considering only existing Housing Credit properties, some considering only HUD programs, some only considering USDA programs, and some considering a combination of these.)

41 OUT OF 53 HFAs

explicitly define preservation.

[1] All 50 states, plus DC, New York City and Chicago

Other definitions of preservation consider unassisted affordable housing, various definition of "at-risk," and the age of the building:

- To qualify as an "at-risk" project in California, a project must be at-risk of losing affordability on at least 50 percent of the restricted units due to market or other conditions. A project will not be deemed at-risk of losing affordability if it is subject to a rent restriction with a remaining term of at least five years that restricts incomes and rents on the restricted units to an average no greater than 60 percent of area median income the project.
- The Tennessee QAP defines preservation as a multifamily development that will preserve affordable housing units that are rent and income restricted or, through rehabilitation of units that were not previously affordable, create affordable housing units.
- To qualify as rehabilitation in South Carolina, all buildings must be at least 15 years old and not be deteriorated to the point of requiring demolition.
- In order to qualify for the preservation/rehabilitation points in the Delaware QAP, a project must be existing affordable housing in need of substantial rehabilitation and at risk of losing its affordability (within 5 years for existing Housing Credit properties and within 2 years for subsidized housing).

The table below illustrates the variety of approach HFAs take when defining preservation. Please note that these categories are not exhaustive, with many HFAs defining preservation in a variety of ways.

TABLE 1: Definitions of Preservation in QAPs

Definition of Preservation (not mutually exclusive)	Number of HFAs	HFAs
Mentions Rehabilitation or Preservation without any clarification	7	AZ, CT, ID, IN, MT, ND, NM, RI
Preservation includes existing assisted housing (with some specificity about whether LIHTC / HUD / other)	30	AL, CA, Chicago, CO, DC, DE, FL, GA, HI, ID, IN, KS, KY, LA, MI, MO, MN, MS, NC, NE, NH, NY, NYC, OH, OR, PA, SD, TN, TX, UT, VA, VT, WA, WI, WY
Preservation includes existing unassisted housing	8	Chicago, DC, HI, KY SD, TN, UT, WY
Preservation includes projects "at-risk" (market conversion, physical deterioration, financial feasibility, etc)	10	CA, IL, MA, MN, MS, NJ, NY, NYC, PA, TX, VT
Preservation includes rehabilitation or projects in need of rehabilitation	10	AK, DE, IA, KS, LA, MI, MS, NJ, NV, SD, TX, UT, WV
Preservation includes maintaining affordability or extending affordability	4	NY, OR, PA, WY

Preservation considers the age of the building	5	AR, FL, KY, NC, SC
Preservation considers years until Loss of Affordability	13	CA, CO, DE, IN, KS, MI, MO, MN, MS, NC, NYC, OR, WA, WI
Preservation includes specific qualifiers, such as AMI of units or percentage of total units that must be part of preservation	11	CA, DC, FL, IN, ME, NC, NJ, OH, OK, OR, RI,

Incentives for Preservation

While not all HFAs define preservation the same way, they do, however, incentivize preservation in their QAPs. There are two primary ways through which an HFA can incentivize preservation in the QAP – set-asides and incentive points. At least **30 allocating agencies** have a preservation set-aside or pool, meaning that a specific percentage or dollar amount of the jurisdiction's annual Housing Credit allocation is reserved specifically for preservation projects.

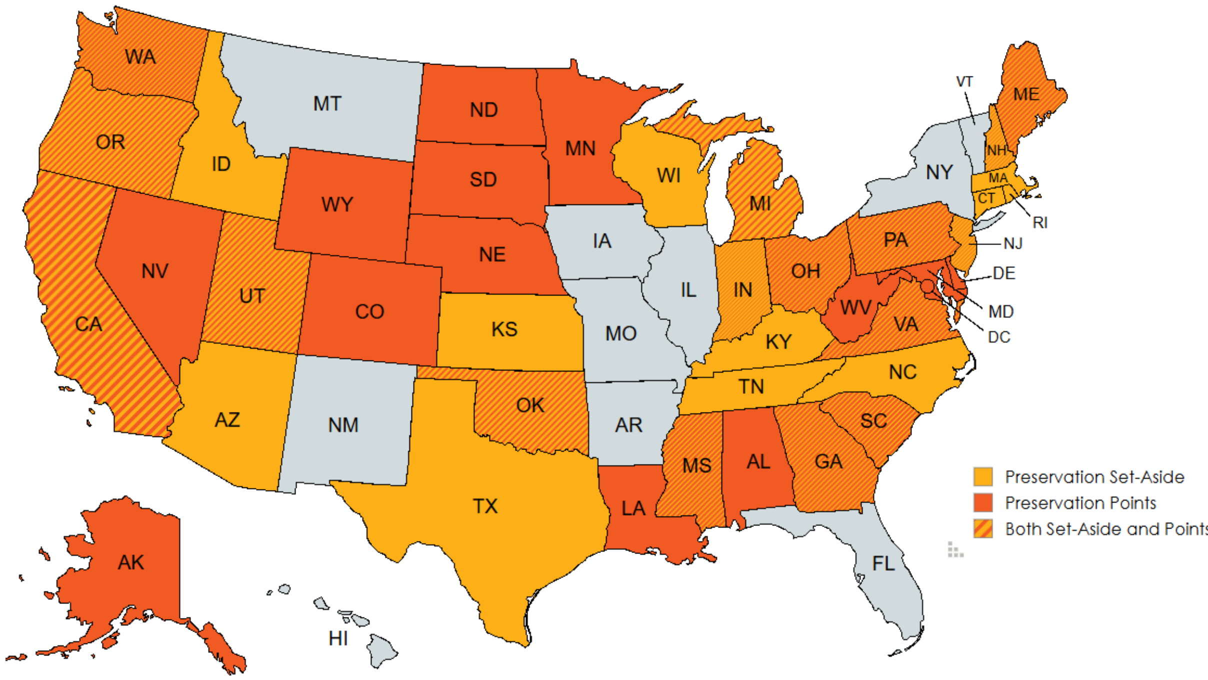
30 OUT OF 53 HFAs

prioritize preservation through a set-aside.

This approach guarantees that preservation projects, which may not otherwise be competitive in the QAP, receive Housing Credits. The number of credits reserved in a set-aside, however, varies across jurisdictions, ranging from a 5 percent preservation set-aside in California to a 42 percent preservation set-aside in Mississippi. Among the 30 HFAs prioritizing preservation with a set-aside, the average set-aside is 20 percent. The most common preservation set-aside is 10 percent, which appears in six QAPs. Though less common, HFAs may choose to prioritize preservation by setting aside a specific dollar amount of Housing Credits, rather than a percentage: Georgia reserves $1,105,000 for preservation while Maine reserves $300,000 to go to a single preservation project, and New Hampshire reserves up to a maximum of $450,000 for preservation. Chicago, Delaware, and Louisianna's QAPs each contain a preservation pool, but do not specify the exact amount of Housing Credits.

Another way to prioritize preservation in the QAP is by awarding incentive points. Awarding points for preservation, which at least **32 HFAs** do, makes it more likely that preservation projects will receive competitive Housing Credits. Points awarded for preservation range from one to 100 and, for the purposes of this analysis, include preservation *and* rehabilitation points, though does not include points for extending the length of affordability, historic preservation, or points of per unit rehabilitation costs.

FIGURE 1: Preservation Incentives in QAPs



In addition to defining and incentivizing the preservation of existing Housing Credit properties, as the examples above demonstrate, HFAs can support mission-driven owners in their preservation efforts through several additional policies in the QAP. These topics, discussed below, focus on the costs associated with preserving and maintaining the physical housing stock and ensure owners are providing quality housing for low-income residents.

Minimum Per Unit Rehabilitation Budget

A minimum per unit rehabilitation budget refers to the minimum dollar amount an HFA expects to be spent to repair or renovate each unit to preserve an affordable housing property. As of May 2024, at least 40 HFAs explicitly mention a minimum per unit rehabilitation budget requirement. Further, 32 HFAs explicitly require the rehabilitation budget to cover only hard costs. Hard costs are those associated with the construction of a physical building or unit and can include the materials or equipment used or installed in a unit as well as the labor to do so.

40 OUT OF 53 HFAs

explicitly mention a minimum per unit rehabilitation budget requirement.

The cost of rehabilitating an existing affordable housing property depends on the scope of work, which is a function of the existing physical condition of each dwelling unit and the larger structure too. The average minimum per unit rehab budget across the 40 HFAs is approximately $30,537, with HFA budgets ranging from $5,000 per unit in Minnesota to up to $90,000 per unit in Utah. In Utah, the rehabilitation budget requirement is based on the age of the building, with older properties requiring a greater rehabilitation budget as they are assumed to be in greater need of a larger renovation:

- Pre-1940 buildings have a minimum per unit rehabilitation budget of $90,000 per unit;
- Properties built between 1940-1970 are expected to receive an infusion of $85,000 per unit; and
- Those properties built after 1971 are required to have a minimum rehabilitation budget of $80,000 per unit.

A higher minimum per unit rehabilitation budget can ensure that developers are spending sufficient money to preserve and maintain existing housing and can also incentivize developers to preserve existing affordable housing that is currently in greater need of improvement. Arizona, Mississippi, Ohio, and Tennessee are the at least four states that incentivize deeper minimum per unit rehabilitation budgets, above and beyond the minimum requirements, through points.

Additionally, Hawaii and North Dakota base their minimum per unit rehabilitation budget on the Capital Needs Assessment (CNA)[2]. North Dakota, allows for a minimum rehabilitation budget below its $15,000 per unit requirement, if the CNA demonstrates existing quality affordable housing that does not require an intensive renovation.

Total Development Cost

Anecdotally, most mission-driven developers spend more than the minimum per unit rehabilitation costs required by HFAs to renovate existing properties and provide quality housing for residents. Instead, what constricts the ability of a developer to acquire, rehabilitate, and preserve a property is the total development cost. As the term implies, the total development cost includes all of the costs to develop or preserve existing affordable housing. This includes, but is not limited to, the costs of construction (materials and labor), site acquisition, project management and other administrative costs, planning and architectural fees, demolition and infrastructure upgrades. Infrastructure costs may even include work that is completed nearby but technically off-site, such as sidewalk improvements or building a bus stop.

16 OUT OF 53 HFAs

explicitly mention a limit on the total development costs.

At least 16 HFAs explicitly mention a limit on the total development cost. These limits are categorized in three ways:

1. *A maximum total development cost is defined as an explicit dollar amount.* The dollar amount is often based on the number of units in a development and ranges from $229,999 in Arizona to $350,000 in Montana.

2. *The total development cost is based on the building height or location.*

[2] Capital Needs Assessments (CNA), also known as Physical Needs Assessments, are property inspection reports that estimate the future costs of property maintenance, as well as determining the cost to repair any parts of a property that must be fixed urgently. From https://www.hud.loans/hud-loans-blog/what-is-a-capital-needs-assessment/ (accessed Aug 5, 2024)

HFAs in Washington, D.C. and New Jersey provide different total development cost limits for projects, based on the building height or number of stories. Several HFAs may also base the total development cost limit on the location of the property, due to the variance of costs between counties or urban areas vs rural areas.

3. *Total development costs are compared across all applications during an allocation year to determine cost reasonableness.*
   Applicants may be ranked based on their total development costs, with additional points awarded to those applications that have a lower total development cost compared to others.

Limiting the total budget requires a developer to weigh the costs of each element in the preservation of existing affordable housing such as providing amenities, design features, building materials and green building certifications to name a few. HFAs also consider the effect of QAP priorities – both requirements and incentives – on a developer's total development cost when determining this policy.

Required Operating Expenses per Unit

Once an existing affordable housing property has been acquired and rehabilitated, it is up to the owner to maintain the property for the full affordability period. The costs to maintain the property can be divided into two categories: fixed or variable. Fixed costs include property taxes, property management, and insurance. These may change each year but are generally the same regardless of how many units are occupied and the number of residents. Variable costs can include the marketing and advertising of vacant units as well as repairs and maintenance, both of which are determined by property occupancy rates. Cumulatively, these are known as operating expenses and HFAs often determine these operating expenses on a per unit basis.

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$4,119

is the average annual minimum required operating expense per unit, based on the at least 13 HFAs that explicitly mention a minimum required dollar amount.

At least 18 out of 53 HFAs require minimum operating expenses per unit. These minimums may be statewide requirements established in the QAP or they may be regional requirements published on the HFA website. Thirteen of the 18 HFAs establish statewide requirements in the QAP. Among these 13 HFAs, the average minimum required amount of operating expenses per unit is $4,119. In addition to the statewide requirements, Connecticut, New Jersey, and Utah also establish differing operating expense requirements based on a property's number of units and number of bedrooms per unit, recognizing that economies of scale may make the operations of a property more cost-efficient. Conversely, instead of using statewide requirements, Michigan and Kentucky have either a county or regional average requirement that allows the HFA to estimate a reasonable minimum operating expense for future Housing Credit applications. An additional 15 HFAs opt not to require minimum operating expenses per unit but instead include language in the QAP on "cost reasonableness".

Conversely, at least eight states include allowable maximum operating expenses per unit in the QAP. Maryland allows developers to seek a waiver to their maximum operating expenses, specifically for small projects of up to forty units, projects with master-metered utilities (i.e. project paid), or other unusual circumstances. Arizona and South Carolina also allow developers to seek waiver to their maximum operating expense requirements if special circumstances apply.

Conclusion

Affordable housing developers and Housing Finance Agencies work in close partnership to develop and preserve existing affordable housing. It is important for HFAs to acknowledge their role in a developer's decision to pursue the preservation of existing affordable housing and ability to provide quality housing to low-income households. Specifically, the effects of requirements and incentives in the QAP can sway not only the choice to preserve, but also how much a developer is able to spend to acquire, rehabilitate, and maintain affordable housing in the long-term. While there are many intertwined policies, those included in this Infobrief stand out as informative and helpful.