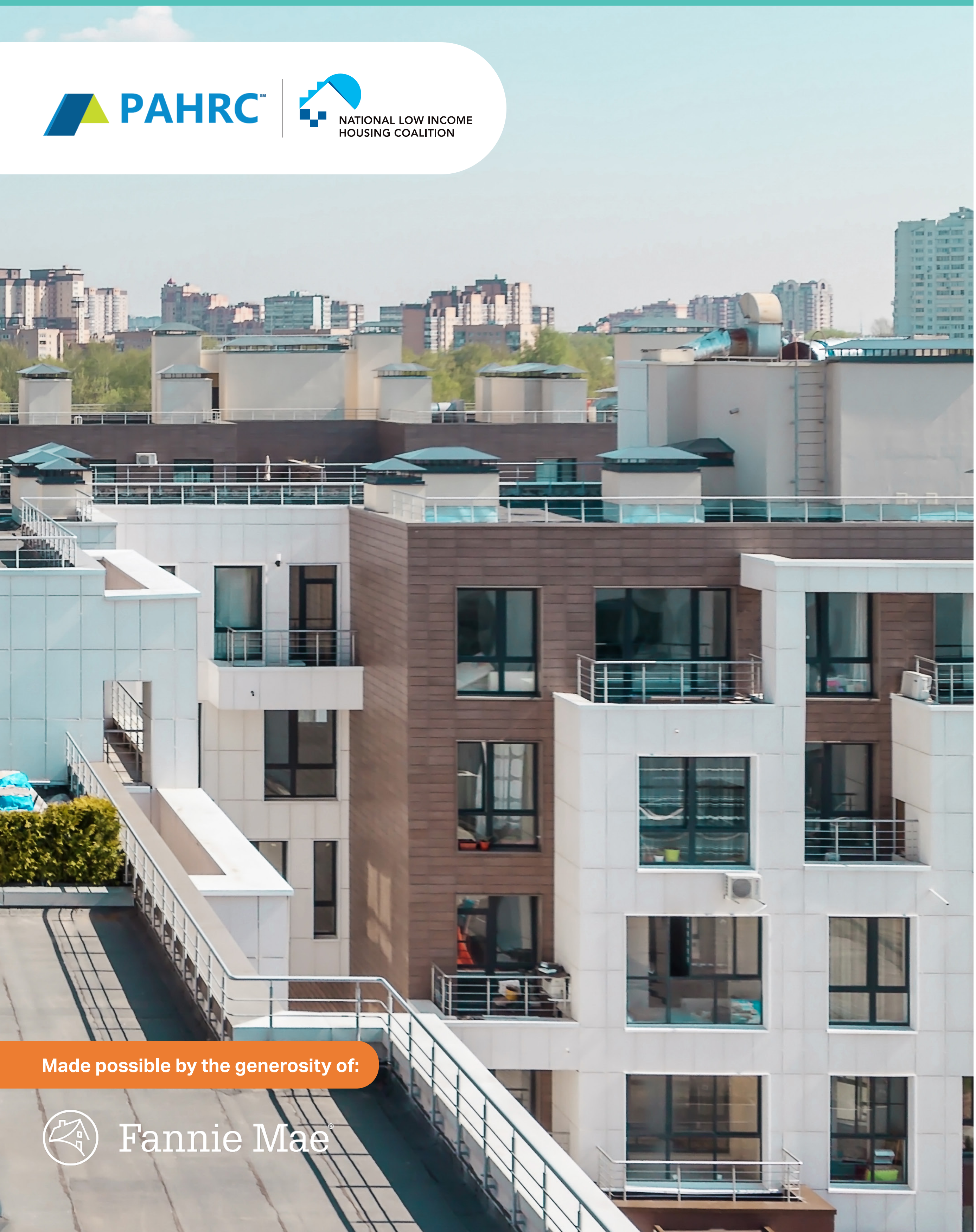
2020 **Picture of Preservation**

A joint report by

Public and Affordable Housing Research Corporation &
National Low Income Housing Coalition



PAHRC

NATIONAL LOW INCOME HOUSING COALITION

Made possible by the generosity of:

Fannie Mae

Contents

Picture of Preservation 2020 3

Introduction 4

Preservation Risks **5**

The Case for Preservation **6**

Federally-Assisted Housing Stock 8

Federally-Assisted Housing Stock at Risk 12

Exit Risk **13**

Depreciation Risk **17**

Appropriation Risk **19**

Trends in Preservation 20

Preservation of Federally-Assisted Homes **20**

Your Role in Preservation 24

Adequately Fund Affordable Housing Development Programs **25**

Adopt Policies in Support of Long-Term Affordability **26**

Develop a Preservation Strategy **26**

Boost Capacity for Affordable Housing Preservation **27**

Conclusion 28

Appendix A: Data Notes, Sources, and Methodology 29

Citations 32

Andrew Aurand, PhD., MSW
NLIHC Vice President for Research

Dan Emmanuel, MSW
NLIHC Senior Research Analyst

Keely Stater, PhD.
PAHRC Director of Research and Industry Intelligence

Kelly McElwain, MPP
PAHRC Research Analyst III

About NLIHC

Established in 1974 by Cushing N. Dolbeare, the National Low Income Housing Coalition is dedicated solely to achieving socially just public policy that ensures people with the lowest-incomes in the United States have affordable and decent homes. NLIHC educates, organizes, and advocates to ensure decent, affordable housing for everyone.

NATIONAL LOW INCOME HOUSING COALITION

The National Low Income Housing Coalition
1000 Vermont Avenue, NW Suite 500
Washington, DC 20005
202-662-1530
www.nlihc.org

About PAHRC

The Public and Affordable Housing Research Corporation (PAHRC) is a non-profit research center dedicated to conducting research that promotes the national conversation about the importance of affordable housing. PAHRC spotlights the impact, outcomes, and value affordable housing brings to the families it serves and to the communities it supports, delivering data and tools that assist researchers, practitioners, and advocates to build an evidence-based case for why affordable housing matters.

PAHRC℠

Public and Affordable Housing Research Corporation
189 Commerce Court
PO Box 189 Cheshire, CT 06410
203-272-8220
www.pahrc.org

2020 Picture of Preservation Was Made Possible by the Generous Support of Fannie Mae

Fannie Mae®

Introduction

The United States faces a shortage of approximately seven million rental homes affordable and available to the lowest-income households (NLIHC, 2020). Absent public intervention, the private market is unable to produce new rental housing affordable to these households, and an insufficient supply of aging private market housing filters down to a price these households can afford. The private market has lost more than three million low-cost rental homes between 2012 and 2017 alone (JCHS, 2020). Public subsidies are needed to make housing affordable to the lowest-income renters. Yet, there is chronic underinvestment in federal affordable housing programs, which are the primary source of housing subsidies in the US. We must increase federal investments to expand the supply of rental housing affordable to the lowest-income renters and preserve the existing supply of federally assisted housing. Using data from the National Housing Preservation Database (NHPD), this report focuses on the challenge of preserving the existing, albeit limited, federally assisted affordable housing stock in the face of the national affordability crisis and chronic underfunding.

The fact that quality affordable housing is foundational to one's health has rarely been clearer than during the current coronavirus crisis. Yet, thousands of affordable rental homes require a renewed and sustained commitment of resources to ensure their future affordability as buildings age and existing rent and tenant eligibility requirements come up for renewal or extention.

Federal subsidies for affordable rental housing can be tenant-based or project-based and are administered across several federal agencies, including: the US Department of Housing and Urban Development (HUD), the US Department of Agriculture (USDA), and the US Department of Treasury. Tenant-based subsidies, such as Housing Choice Vouchers (HCVs), are demand-side subsidies allocated directly to tenants to subsidize their rents in the private market up to a modest payment standard. Project-based subsidies, such as the Low Income Housing Tax Credit (LIHTC) and Public Housing, are supply-side subsidies that provide affordable housing owners with capital or operating support to create and maintain the affordable housing stock. Capital support provided to property owners can include tax credits, grants, mortgage insurance, or low-interest loans to build or rehabilitate affordable housing. Operating support is most commonly provided in the form of rental assistance contracts with property owners, which help bridge the difference between what tenants can afford to pay and what owners require to operate the property. Table 1 provides a brief overview of federal project-based subsidies. Approximately 4.9 million rental units receive federal project-based subsidies, which amounts to 10% of the rental housing stock in the United States. ■

Table 1: Federally Funded Project-Based Subsidy Programs Included in This Report

Program	Assistance	Allowable Rent	Homes Assisted in 2019
Section 8 Project Based Rental Assistance (PBRA)	Operating subsidy	30% of tenant's income	1,403,603
HOME Investment Partnerships Program (HOME)	Block grant that can be customized by area	30% of 65% AMI	261,718
Low Income Housing Tax Credit (LIHTC)	Tax credit	30% of 50% AMI or 60% AMI	2,413,156
Public Housing	Operating subsidy and capital grants	30% of tenant's income	948,021
Section 515	Low-interest loan	30% of tenant's income	383,520
Section 521	Operating subsidy	30% of tenant's income	270,812
Section 538	Low-interest loan	Budget-based rent	54,540
State Housing Finance Agency (HFA) Funded Section 236	Interest rate subsidy	Rent can't exceed 30% of 115% AMI and average rent can't exceed 30% of 100% AMI	35,284
Section 202 Direct Loan	Low-interest loan	Budget-based rent	39,737
HUD insured mortgages	Mortgage insurance	None	176,097

Note: Multiple programs can assist federally-assisted homes. The estimates above may differ from other sources due to data reporting lags for property level data. Community Development Block Grants (CDBG), national Housing Trust Fund (HTF), Housing Opportunities for Persons with AIDS (HOPEWA), and project-based vouchers (PBVs) are not included in this report.

Preservation Risks

Federal project-based subsidies often provide a one-time upfront allocation of capital for development, or a time-limited operating subsidy (e.g. rental assistance contracts). Yet, affordable rental housing receives limited rental revenue from tenants to finance future capital needs or ongoing operating costs when operating subsidies end. Ongoing capital and operating support are needed to preserve both the affordability and quality of the federally assisted housing stock. Reina (2018) identifies three basic types of risks for preservation: expiration or exit risk, depreciation, and appropriations. The applicability and extent of each risk varies across federal project-based subsidy programs, and the risks can be interrelated.

The most recognizable risk for preservation is exit risk. Exit risk refers to the degree to which federally subsidized housing is at risk of no longer being subject to the program requirements that distinguish it from housing in the private market. All federal project-based subsidies, with the exception of Public Housing, carry restrictions on affordability and eligibility that are limited in duration. The duration of these restrictions are specified prior to the awarding of a one-time capital subsidy, tied to the payment of a mortgage, or subject to the renewal of a rental assistance contract. Exit risks are a function of an owner's motivations, property-level factors, and neighborhood or market conditions. Research suggests, for example, that a for-profit owner of a rental property with a Section 8 Project Based Rental Assistance (PBRA) contract in a tight, or tightening rental market is more likely to not renew their subsidy contract and, to reposition the property as higher cost housing (Ray, Kim, Nguyen, & Choi, 2015).

Depreciation risk refers to the degree to which the financial stability and physical quality of federally subsidized housing can deteriorate over time. The risk of depreciation can be a greater threat than exit risk to the preservation of federally assisted housing. The limited rental income resulting from the eligibility and affordability requirements essential to affordable housing programs mean that owners of federally assisted housing typically require ongoing operating or subsequent capital support, or sometimes both, to maintain the financial stability and physical viability of such housing. Absent continued public investment, federally assisted housing can become physically outdated, or even fall into disrepair, posing a threat to habitability. Failed physical inspections can lead to the removal of assisted housing from federal programs. Centralized data on the physical condition of the federally assisted stock are, however, only available for some federal programs, significantly limiting our knowledge of depreciation risk.

Appropriations risk refers to the degree to which federally subsidized housing depends on Congress to provide continual funding in order to continue to operate as affordable housing. Federally assisted housing is not a one-time cost. Funding for rental assistance contracts or operating assistance must not only be continually renewed by Congress, but also be expanded to keep pace with inflation. Failing to do so means rental assistance contracts might not be renewed, or assistance might fail to keep pace with increasing operating costs, creating the potential for loss of affordable units through exits or depreciation. Capital subsidies must also continue to be made available by Congress after initial construction to ensure the availability of funds for physical preservation to prevent depreciation. In some programs, such as LIHTC, subsequent allocations of capital subsidies might present the only way to extend eligibility and affordability restrictions within a program.

Public Housing is a good example of how inadequate Congressional appropriations can lead to a loss of units. Between 2000 and 2015, Congress cut the Public Housing capital fund by more than 50% and it has only twice provided adequate funding levels for the operating fund since 2002 (CBPP, 2017). This chronic underfunding of the Public Housing capital and operating funds has contributed to a loss of more than 250,000 Public Housing units since the mid-1990s and an estimated capital backlog of approximately $70 billion in FY2019 (CBPP, 2017; NLIHC, 2019). Of the remaining Public Housing units, 15% have failing physical inspection scores and are in need of immediate reinvestment.

The Case for Preservation

Preservation is essential for any realistic approach to protecting the lowest-inome renters and also expanding the supply of affordable housing for them. Preservation stops displacement and housing instability for current tenants, prevents the loss of difficult-to-replace housing in desirable neighborhoods, mitigates further disinvestment from distressed communities, presents an opportunity to reduce greenhouse gas emissions through energy retrofitting, and prevents the further decline of the already limited federally subsidized housing stock.

The failure to preserve federally subsidized housing can lead to unaffordable rents, a loss of habitability, or evictions for current tenants. Preservation directly addresses these sources of housing instability. Though some federal housing programs have displacement protections, new research questions their efficacy and such protections are entirely absent from the largest federal housing production program.

The Tenant Protection Vouchers (TPVs) offered to tenants of properties exiting Section 8 PBRA are an example of displacement protection for renters when federal subsidies expire. Reina and Winter (2018), however, found that less than half of tenants in properties exiting Section 8 PBRA were willing or able to use their TPVs as a safety net, losing an average $464 a month in benefit (Reina & Winter, 2018). TPVs, moreover, offered a weaker safety net protection for households headed by someone who was Black or over the age of 62 than for other households. While this study did not demonstrate that preservation improves housing stability, it strongly suggests there might be significant negative consequences if we fail to preserve housing for tenants even with a safety net in place. Section 542 Tenant protection vouchers, another displacement protection program, provides vouchers to tenants of properties with prepaid Section 515 mortgages, however, these protections are weaker than the TPV program.

LIHTC, the largest affordable housing production program, does not assist tenants of properties exiting the program, though some of these tenants already possess an HCV or other form of portable rental assistance (NLIHC and PAHRC, 2018). Preservation might be the only existing option to ensure housing stability for many LIHTC tenants so long as existing eligibility and affordability requirements are maintained in the process.

Replacing federally assisted housing lost from neighborhoods offering a high degree of amenities such as access to transportation, good schools, and employment opportunities is also difficult, if not impossible. The cost of land, regulatory barriers, and 'Not in My Backyard' mentality (NIMBYism) can present significant barriers to new development in such neighborhoods. Preservation of affordable homes provides continued access to these neighborhoods for low-income households and combats displacement and further residential segregation. The same issues that make it difficult to replace housing in high-cost and exclusionary neighborhoods could also make preservation more cost-effective than new construction. In disadvantaged neighborhoods, preservation has the potential to prevent further disinvestment.

Preservation also presents a clear opportunity to retrofit older federally assisted housing for energy-efficiency, lowering greenhouse gas emissions and figuring in a larger national strategy to combat climate change. These efforts could also lower utility costs. The residential sector, when including emissions from electricity use, accounted for 14.9% of US greenhouse gas emissions in 2017 (EPA, 2019). Further research is needed to fully compare the environmental impact of new construction and preservation (specifically rehabilitation).

Finally, preservation prevents the loss of units from the federally assisted stock. Given the current shortage of approximately seven million affordable and available units for the lowest-income renter households and chronic underfunding for federal programs, preventing the loss of the already limited assisted stock is critical. The stock will remain the same or shrink if the loss of units equals or exceeds new production. Preservation, for all of these reasons, must play a central role if we are to expand federal resources and meet the challenges of the affordable housing crisis.

Using the NHPD, the remainder of this annual report quantifies the type and scope of preservation challenges across project-based federal affordable housing programs, as well as examines trends in what has been preserved or potentially lost from the affordable housing stock in recent years. All estimates in the report are based on data retrieved from the NHPD as of January 2020, except where noted. Appendix A describes the data notes and methodology for this report. We conclude with policy recommendations for addressing the growing challenge of preservation.

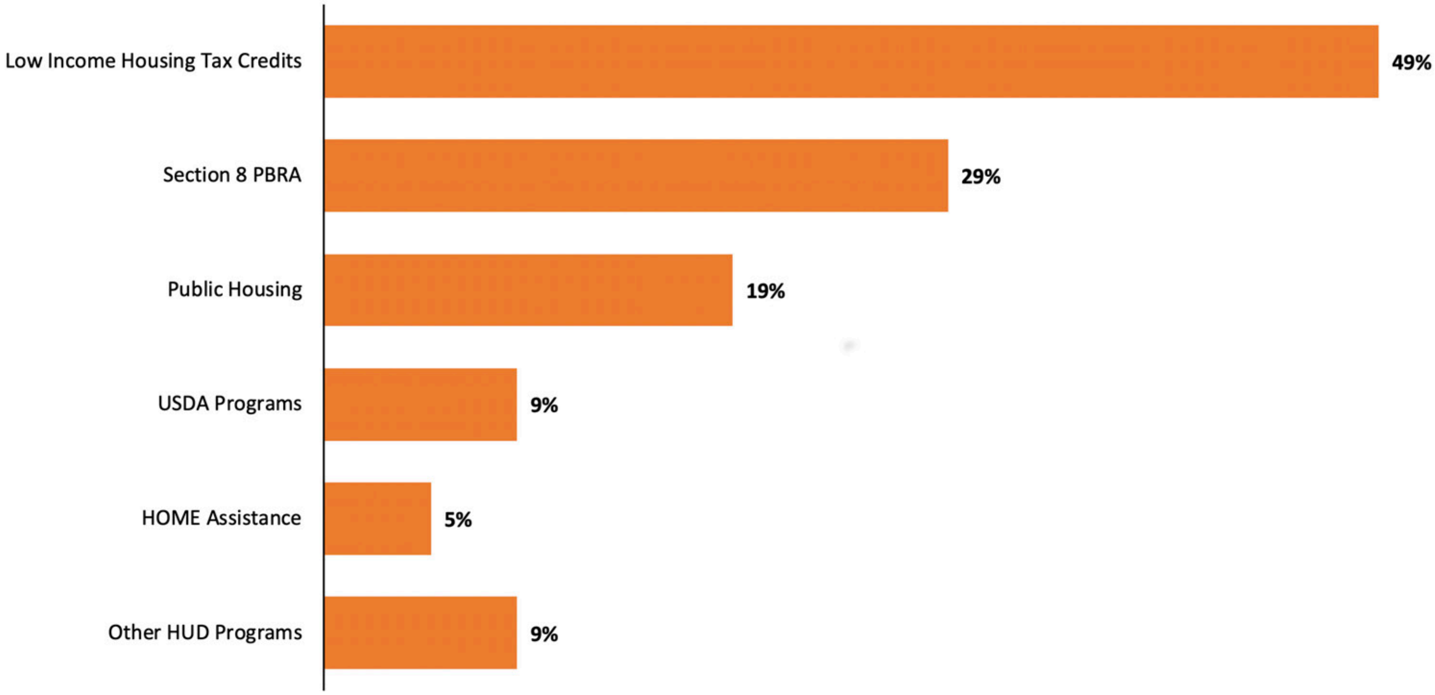
Federally-Assisted Housing Stock

In 2019, 81,007 federally-assisted properties, comprising 4.9 million homes, received federal project-based assistance to serve low-income families. These estimates include properties assisted by HUD Section 8 PBRA, Section 202 direct loans, HUD insurance programs, State Housing Finance Agency (HFA) Funded Section 236, LIHTC, HOME Assistance, Section 515 rural rental housing loans, Section 514 direct loans, rural development Section 538, and Public Housing. These estimates do not include properties funded by Community Development Block Grants (CDBG), national Housing Trust Fund (HTF), Mod Rehab, McKinney Vento Permanent Housing, Housing Opportunities for Persons with AIDS (HOPWA), Tax Exempt Multifamily Housing Bonds, and Project Based Vouchers (PBVs).

LIHTC supports 49% of all project-based federally-assisted rental homes making it the largest affordable housing subsidy program, followed by Section 8 PBRA (29%), Public Housing (19%), and USDA loan programs (9%) (See Figure 1). Since many of these programs only provide a portion of the assistance needed to build or operate affordable housing, 38% of federally-assisted rental homes relied on funding from multiple federally funded project-based subsidies in 2019. Tenants also frequently use HCVs at project-based federally-assisted rental homes, further boosting the reliance on multiple funding sources (HUD, 2018; USDA, 2019).

Figure 1: LIHTC assisted nearly half of all federally-assisted homes in 2019.

Federally-Assisted Homes by Program in 2019



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Note: Other HUD programs includes HUD insured mortgages with affordability restrictions, state HFA funded Section 236, and Section 202 Direct Loans, state funded subsidies in CT, FL, and MA. Percentages do not add up to 100% because multiple programs can assist properties.

The rents tenants in federally-assisted housing pay differ based on the type of project-based subsidy the owner receives. Fifty-three percent of project-based federally-assisted homes base tenants' rent contributions on their specific incomes. These programs, such as Public Housing, Section 521, and Section 8 PBRA, are essential to housing the nation's lowest-income families, because tenants with lower incomes pay a lower contribution toward rent. The remaining 47% of federally-assisted homes charge rents based on the maximum rent a household eligible for the home could afford to pay. Rents are typically set to be affordable for a hypothetical renter with income between 50% and 65% of the area median income. These rents are not affordable to the lowest-income households. Households awarded HCVs, however, can use their voucher to afford rents at these properties. Many households are unable to obtain HCVs to fill this affordability gap since the waiting list for HCVs is frequently closed and households wait an average of 29 months to receive assistance[1] (PAHRC, 2017a).

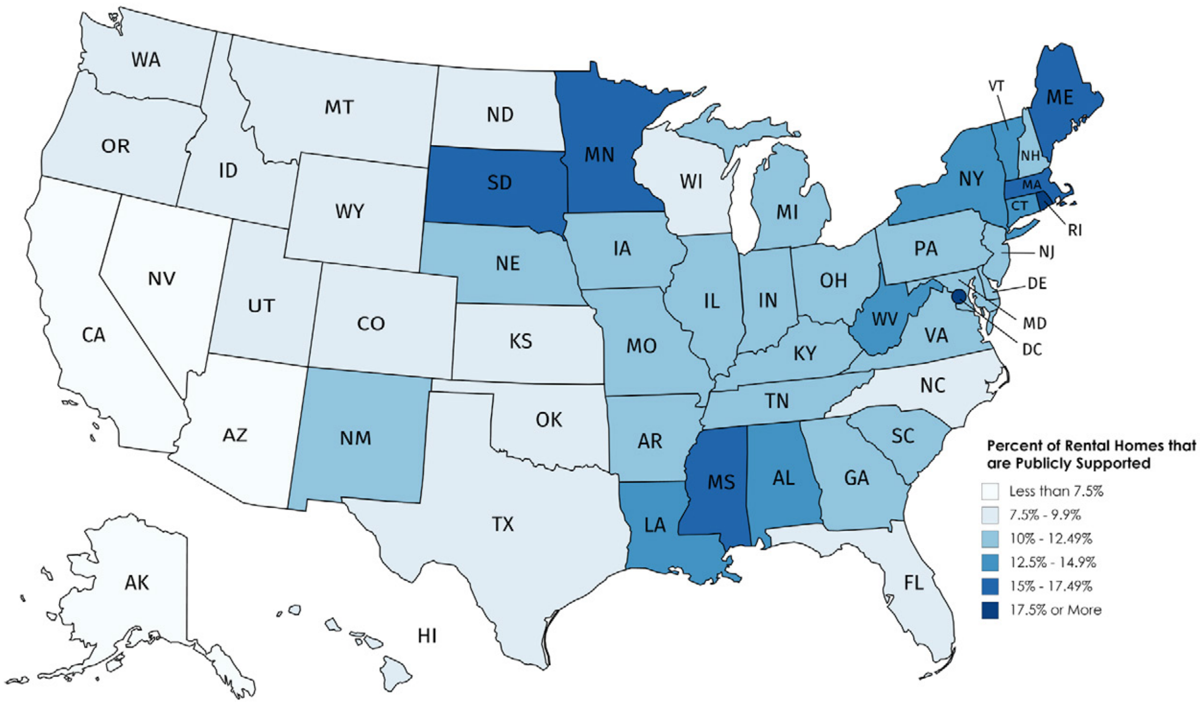
Ownership of federally-assisted rental housing has varied overtime. Before the 1960s, Public Housing Authorities (PHAs) exclusively owned federally-assisted rental homes. Beginning in the 1960s, the federal government began creating new programs to shift ownership to private for-profit and non-profit organizations. In 2019, non-profits and public entities, such as PHAs, owned or were affiliated with approximately 40% of federally-assisted homes. Meanwhile, profit-motivated organizations owned 50%. The remaining 10% are missing data on ownership type.

Project-based subsidy programs assisted 10% of the rental stock across the country in 2019, but the share varies by state and region. Federally-assisted rental homes make up a larger portion of the housing stock in the northeast and a smaller portion of the rental homes in the west, which tend to use HCVs at a higher rate (see Figure 2).

1 PAHRC and NLIHC tabulation of Picture of Subsidized Households (POSH) (2019).

Figure 2: Federally-assisted rental homes make up a larger percentage of the rental stock in the Northeast and Midwest in 2019

Percent of Rental Stock that is Federally-Assisted by State in 2019



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020 and ACS (one-year estimates) 2017.

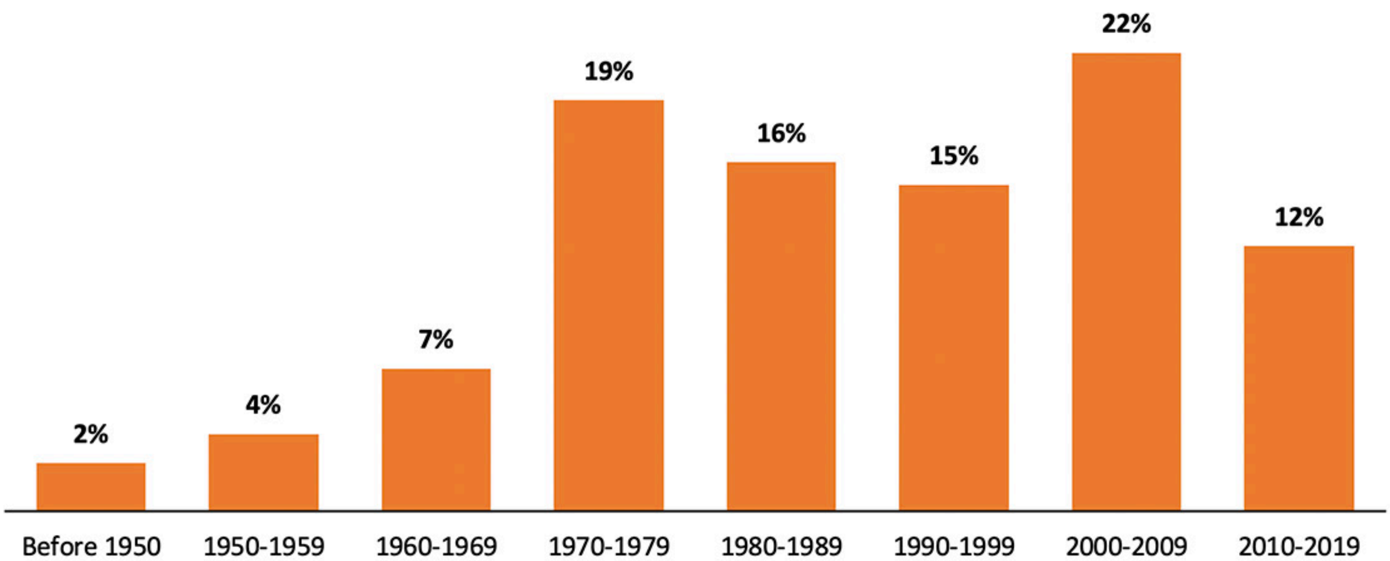
Affordable housing subsidy programs provide a critical foundation for the nation's families with special needs. At least 1.46 million (30%) federally-assisted homes are explicitly reserved for elderly or disabled households. The actual number is likely higher, since tenant-targeting data are only available for the Section 8 PBRA, LIHTC, and Section 515 programs.

LIHTC, HOME, CDBG, and the national HTF are the only federally funded programs that actively finance the new construction of affordable housing. LIHTC funded the construction of 39,065 new affordable rental homes in 2014, HOME funded the creation of 7,025 new affordable rental homes in 2016, national HTF funded the creation of about 739 homes in 2016 (NLIHC, 2018b), and CDBG funded the creation of 1,957 affordable homes in fiscal year 2019 (HUD, 2019). These programs, however, face increasing pressure to preserve the nation's aging federally-assisted homes, limiting the development of new affordable housing.

While the remaining project-based subsidy programs are no longer producing new affordable homes, the properties these programs funded must remain affordable until their original affordability commitments expire. These affordability commitments were generally set at 20 to 40 years from when the subsidy was awarded. After the subsidy expires, another subsidy program can refinance the property if funding is available. Otherwise, the property could be lost from the affordable stock. Overall, 63% of federally-assisted homes have been in the affordable housing portfolio for at least 20 years (see Figure 3).

Figure 3: 63% of federally-assisted homes have been affordable for at least 20 years in 2019

Earliest Start or Occupancy Year for Federally-Assisted Rental Homes in 2019



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Note: 2% of homes were excluded from the chart because they are missing a subsidy start date or occupancy year. Percentages do not add up to 100% due to rounding.

Federally-Assisted Housing Stock at Risk

Federally-assisted rental homes that are reaching the end of their affordability restrictions, are in disrepair, or are underfunded are at risk of being lost from the affordable housing stock (Reina, 2018). This section describes the exit, depreciation, and appropriation risks that impede the preservation of federally-assisted homes.

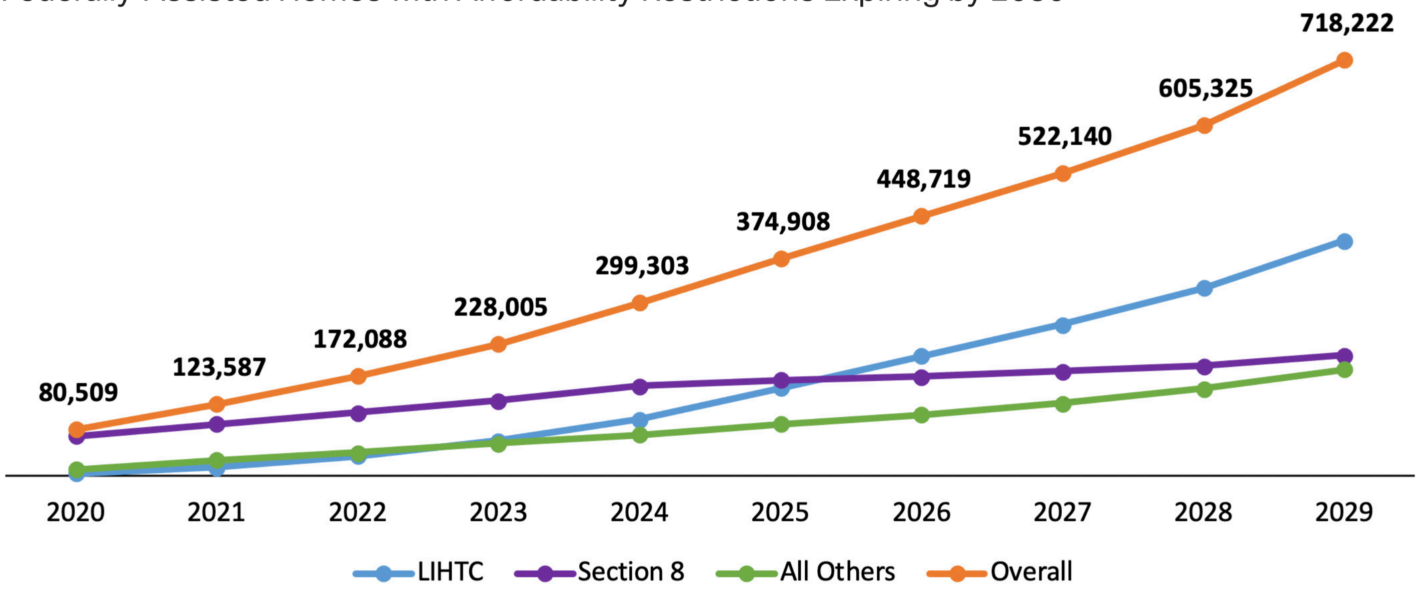
Exit Risk

Exit risk, caused by expiring affordability restrictions or policies that enable property owners to exit their affordability restrictions early, can threaten the long-term affordability of federally-assisted homes. Affordability restrictions are set to expire for 299,303 (6%) federally-assisted rental homes between January 2020 and December 2024. In the coming years, the number of properties with expiring affordability restrictions will increase as the affordability restrictions of the earliest properties assisted by the LIHTC program begin to expire (see Figure 4). The share of federally-assisted housing with affordability restrictions expiring in the next five years differs by state (see Figure 5). North and South Dakota see the greatest percentage of their assisted housing expiring. A larger portion of North Dakota's assisted housing expiring in the next five years is assisted by Section 8 PBRA, which tends to have shorter renewal periods, while a larger portion of assisted homes expiring in the next five years are assisted by USDA programs. Overall, federally-assisted homes with subsidies expiring in the next five years are concentrated in California (34,215), New York (30,410), Florida (16,373), and Texas (16,121).

While many federally-assisted properties with expiring subsidies renew their assistance or recapitalize using a newly awarded subsidy, property and neighborhood risk factors can influence the likelihood that property owners opt out of rental assistance programs (Ray, Kim, Nguyen, & Choi, 2015).

Figure 4: Affordability restrictions are set to expire for 299,303 federally-assisted homes in the next five years

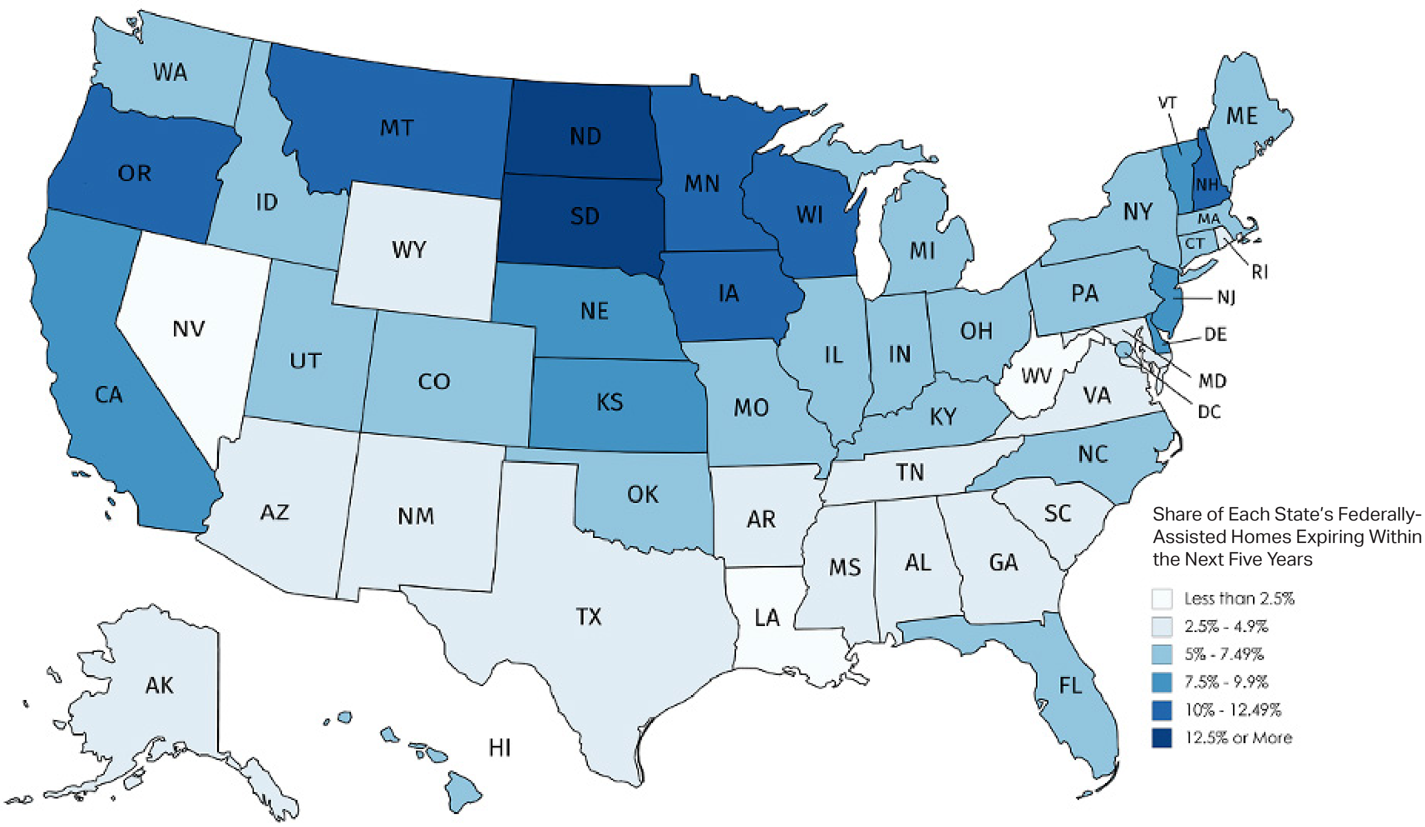
Federally-Assisted Homes with Affordability Restrictions Expiring by 2030



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Note: All others includes units funded by Section 515, Section 514, Section 538, state HFA funded Section 236, Section 202 direct loans, state subsidies, HOME assistance, and units funded by multiple programs. Properties are excluded if their latest subsidy end date is after 2029.

Figure 5: The share of federally-assisted homes with subsidies expiring in the next five years differs by state, being led by the Midwest



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Ownership type is a key factor that influences whether properties will continue to operate as affordable housing after subsidies expire. Non-profits or mission-driven owners may be more interested in protecting and expanding the availability of affordable housing for low-income families, while for-profit owners may be more interested in maximizing the return on their investment. Research finds that for-profit ownership is a strong risk factor for market-rate conversion in multiple housing subsidy programs (Ray, Kim, Nguyen, & Choi, 2015; Reina & Begley, 2014; Finkel, Hanson, Hilton, Lam, & Vandawalker, 2006; Meléndez, Schwartz, & Montrichard, 2008). Among homes with subsidies set to expire in the next five years, non-profits own 26% and are likely to continue operating as affordable housing given adequate support. Fifty-three percent of homes expiring in the next five years have for-profit owners.

Local housing market conditions can also influence whether a property can convert to market-rate housing and accrue adequate rental income to keep up with maintenance costs. Profit-minded owners with properties in tight housing markets or desirable neighborhoods have a strong incentive to exit after their affordability restrictions expire and increase their rent revenue. Among all homes set to expire in the next five years, 7% have profit-minded owners and are located in neighborhoods with high or very high desirability, suggesting that these homes may face heightened exit risk[2]. Compared to the overall federally-assisted rental stock, homes with subsidies set to expire in the next five years are more frequently located in neighborhoods with greater opportunity relative to their region[3]. This suggests these properties may be at a greater risk of owner opt out to the private rental market. Meanwhile, owners with properties in weaker housing markets may have challenges earning enough rent revenue to keep up with maintenance costs.

However, even if an owner would like to keep housing affordable, many rental housing subsidies are not renewable. Section 8 PBRA contracts only assist 52% of homes with subsidies set to expire in the next five years. Approximately 4% of properties assisted by Section 8 PBRA contracts opted out of the program between 2005 and 2014 (Ray, Kim, Nguyen, & Choi, 2015), suggesting that these properties pose low exit risk. Nonrenewable housing subsidies assist the other 48% of homes expiring in the next five years. These homes may require new investments to keep the property affordable after their subsidies expire.

Additionally, federally-assisted homes that are older and haven't received recent capital investments may be more likely to exit. Federally-assisted rental homes operate on tight margins and face challenges covering growing maintenance expenses as the property ages absent new capital investment. Indeed, 79% of federally-assisted homes set to expire in the next five years have not received a new capital infusion in the past 20 years. Additionally, 7% of expiring homes assisted by Section 8 PBRA have failing REAC inspection scores.

Compared to the overall federally-assisted rental stock, homes with subsidies set to expire in the next five years more frequently demonstrate two or more known exit risk factors (see Figure 6). Fifty-eight percent of federally-assisted homes with affordability restrictions expiring in the next five years demonstrate two or more known risk factors, compared to 39% of homes without upcoming affordability restrictions expirations. Known risk factors include a lack of capital subsidies received in the past 20 years, for-profit ownership, a pre-1975 construction date, and failing REAC scores for Section 8 PBRA units. Federally-assisted homes with expiring affordability restrictions less frequently received a capital subsidy within the past 20 years and more frequently have failing Section 8 PBRA REAC inspection scores, suggesting these property owners may have received less assistance to keep up with their capital needs[4]. On a positive note, renewable subsidies more frequently assist federally-assisted rental homes expiring in the next five years, suggesting many of these properties are positioned to remain affordable given adequate support.

"58% of federally-assisted homes with affordability restrictions expiring in the next five years demonstrate two or more known exit risk factors."

---

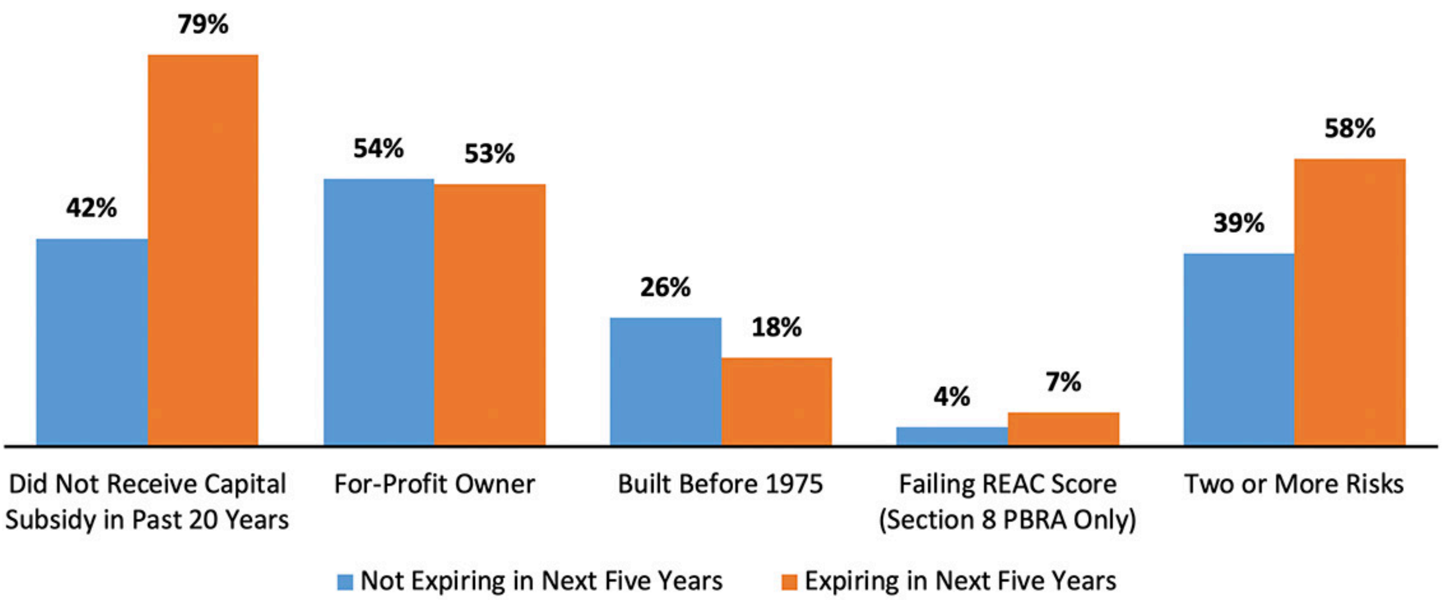
2 Neighborhood desirability was determined using methodology described in NLIHC & PAHRC. (2018). Balancing priorities: Preservation and neighborhood opportunities in the LIHTC program beyond Year 30.

3 Neighborhood opportunity was determined using methodology described in NLIHC & PAHRC. (2018). Balancing priorities: Preservation and neighborhood opportunities in the LIHTC program beyond Year 30. P value < .000.

4 P value < .000

Figure 6: Many federally-assisted homes expiring in the next five years demonstrate factors that can increase exit risk

Percent of Federally-Assisted Homes Demonstrating Exit Risk Factors



PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Note: REAC scores are only available for properties assisted by Section 8 PBRA contracts. Properties with multiple owner types were classified as having a for-profit owner if one of their owners was a for-profit organization.

Provisions that enable property owners to opt out of their affordability restrictions early also threaten the preservation of affordable homes and increase exit risk. For instance, owners of LIHTC-assisted properties can submit a qualified contract (QC) in some states after 15 years of affordability. After the owner submits a QC, the state HFA has one year to find a buyer for the property at the QC price who will continue operating the property as affordable. The affordability restrictions phase out if the HFA is unable to find a buyer after one year. Overall, nearly 1.2 million homes assisted by LIHTC with active affordability restrictions are past year 15 and may be eligible to submit QCs.

LIHTC properties in states with weak policies that do not support long-term affordability face higher exit risk due to QC opt-out. A survey of agencies responsible for allocating 70% of tax credits found that the number of QC requests increased from 2014 to 2016. The volume of QC requests, however, varied by state. States with policies limiting the use of QCs can protect the long-term affordability of properties assisted by tax credits (Kincer & Shelburne, 2017). Overall, the National Council of State Housing Finance Agencies (2019) estimates that approximately 65,500 homes assisted by LIHTC have been lost through the QC process and that over 10,000 LIHTC assisted homes are lost annually (NCSHA, 2019).

Older properties assisted by Section 515 and Section 202 loans may be eligible to prepay their mortgage and prematurely end their affordability restrictions. Between 2001 and 2016, 1,564 Section 515 loans were prepaid, causing 28,475 homes to be lost from the federally-assisted affordable rental stock in rural areas. As of 2016, 38% of properties assisted by Section 515 loans, representing over 150,000 federally-assisted rental homes, are eligible to prepay their mortgages (HAC, 2018). When Section 515 mortgages mature or are prepaid, they also lose any Section 521 rental assistance tied to the property, further threatening the long-term affordability of these properties. Meanwhile, 5% of homes assisted by Section 202 direct loans in 2012 are no longer affordable as of 2019, resulting in the potential loss of 4,724 affordable homes targeted towards seniors[5]. Eighty-seven percent of these homes were prepaid before the mortgage end date.

Depreciation Risk

The aging federally-assisted rental housing stock paired with continued federal disinvestment increases depreciation risk. Federally-assisted homes generally have tight operating margins (Khadduri, Climaco, Burnett, Gould, & Elving., 2012; Blumenthal, Jordan, Clark, Handelman, & King, 2016), which can make maintenance difficult to afford when costs are higher than expected, rental income is lower than expected, or appropriated funding is insufficient. Properties often require significant capital expenses after ten years to maintain the buildings (Kim, Lee, & Ahn, 2018; National Apartment Association, 2016), making properties vulnerable to disrepair if operating or capital funds fall short.

Reina (2018) finds that older federally-assisted homes assisted by Public Housing, Section 8 PBRA, Section 515 direct loans, and LIHTC are at risk of loss due to depreciation risk. Between the mid-1990s and 2010, 200,000 Public Housing units were demolished due to disrepair stemming from funding shortfalls (NLIHC, 2017). They were not replaced. Additionally, 23,689 homes assisted by Section 8 PBRA contracts had their rental assistance terminated due to foreclosure or poor property conditions between 2005 and 2014, representing 1.6% of all homes supported by Section 8 PBRA contracts (Ray, Kim, Nguyen, & Choi., 2015).

Annual housing inspections conducted by the Real Estate Quality Center (REAC) provide insight on the depreciation risk of Public Housing and properties assisted by Section 8 PBRA. Inspectors examine the building exterior, building systems, and a sample of units at each property for housing quality and safety deficiencies and assign each property a REAC score based on the frequency and severity of deficiencies. Properties with failing REAC scores below 60 likely require additional funding to help property owners make critical investments to provide safe and healthy living conditions for residents.

Overall, 15% of Public Housing homes and 4% of homes assisted by Section 8 PBRA failed their last REAC inspection as of 2019. These properties likely require immediate investment to cover outstanding maintenance and prevent the property from being lost due to disrepair. While most property owners fix deficiencies identified during failed REAC inspections by the next inspection, a handful of properties continue to fail multiple inspections. Among properties with

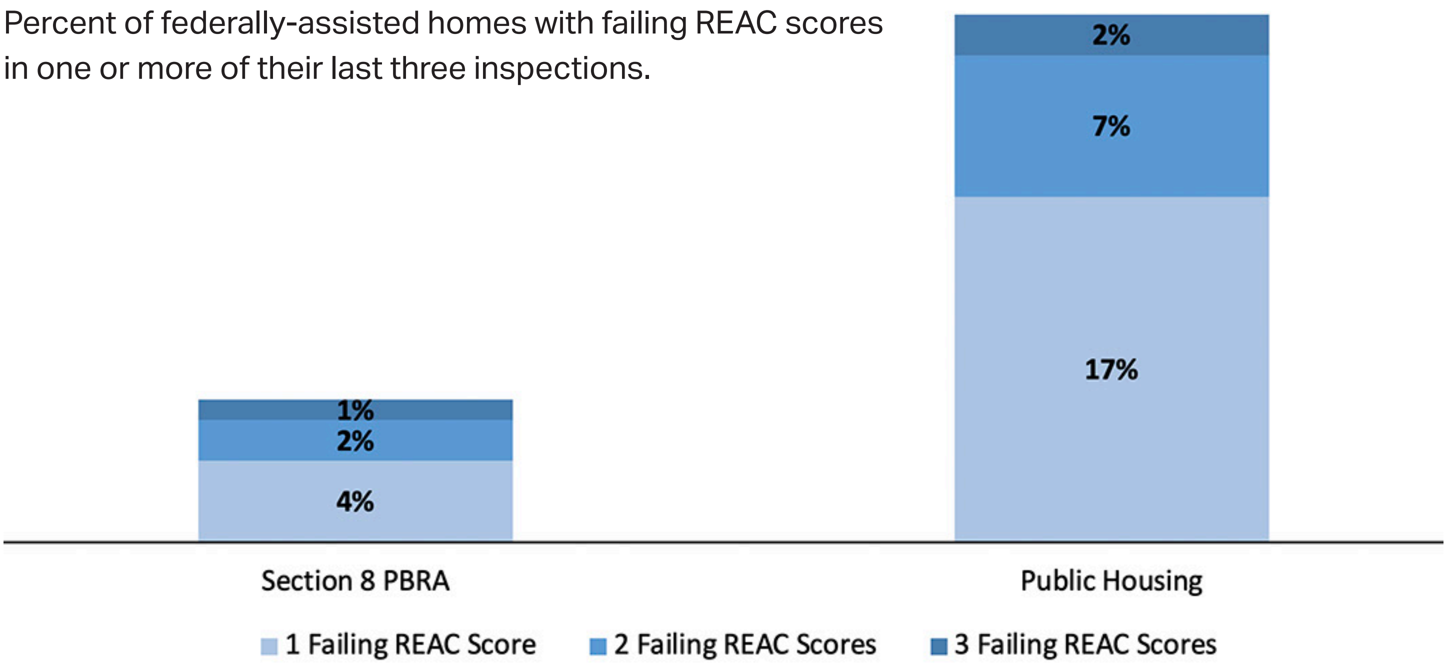
5 PAHRC and NLIHC tabulation of Section 202 Direct Loan Database. See Appendix A for more information.

at least three REAC scores available, 9% of Public Housing homes and 3% of homes assisted by Section 8 PBRA failed two out of three of their past inspections and likely face high depreciation risk. Most concerning, 2% of Public Housing homes and 1% of homes assisted by Section 8 PBRA failed all three of their past inspections and risk losing their rental assistance (see Figure 7). Nonetheless, Newman & Holupka (2017) find that housing quality for the nation's assisted housing stock is comparable to the quality of unassisted rental housing, evidence that HUD's inspection process helps ensure residents living in federally-assisted homes live in adequate housing.

While REAC data provide insight into the depreciation risk among Public Housing and Section 8 PBRA assisted properties, other federally-assisted housing programs, including LIHTC, HOME, and Section 515, are not required to collect housing quality data. Federally-assisted homes assisted by programs that do not require the collection and reporting of data on housing conditions represent 50% of all federally-assisted homes. This data gap limits program oversight and the understanding of depreciation risk across the entire affordable housing inventory. Studies examining samples of properties and property owners assisted by these programs suggest that many older properties assisted by LIHTC and Section 515 face mounting repair and preservation needs (Khadduri, Climaco, Burnett, Gould, & Elving, 2012; Housing Assistance Council, 2008; RSM & CoreLogic, 2016; Belsky & Nipson, 2010). For instance, RSM & CoreLogic (2016) examined a sample of 394 properties assisted by Section 515, 514, and 538 and extrapolated that properties assisted by these programs will have a nationwide reserves deficit of $5.6 billion over the next 20 years, which will likely lead property owners to defer maintenance.

Figure 7: Nine percent of Public Housing units and 3% of Section 8 PBRA units failed two out of three of their last REAC inspections between 2011 and 2019

Percent of federally-assisted homes with failing REAC scores in one or more of their last three inspections.



PAHRC and NLIHC tabulation of Public Housing and Section 8 PBRA scores, retrieved 2011, 2015, 2016, 2018, and 2019. Only includes properties with at least three REAC scores.

Appropriation Risk

Inadequate and unpredictable federal appropriations also threaten the long-term affordability of the federally-assisted rental stock.

Affordable housing assisted by operating subsidies, such as Section 8 PBRA and Public Housing, rely on annual appropriations from Congress to fund their operating costs. If Congress fails to appropriate funds that fully cover the operating costs of these properties, these properties will operate at a deficit and may fall behind on maintenance and be unable to remain affordable to the lowest-income families (Blumenthal, Jordan, Clark, Handelman, & King, 2016).

Appropriation risk for Public Housing properties is particularly acute, since Congress has continually underfunded Public Housing operating and capital grants causing some of these properties to fall into disrepair. Relative to other rental housing programs, CDBG, Public Housing, and HOME have seen the largest funding cuts between 2010 and 2020. Congress' 2020 appropriations were 18% less than in 2010 for the Public Housing Operating Fund and 1% less for Public Housing Capital Fund. The Public Housing capital needs backlog was estimated to be $26 billion dollars in 2010 and by 2019 was likely between $35 and $70 billion, since funding has continued to lag behind mounting repair needs (Finkel et al., 2010; Stout et al, 2019). Additionally, nearly every year since 2002 Congress has failed to appropriate adequate Public Housing operating funds, further compounding the capital needs backlog and depreciation risk of these properties (CBPP, 2017).

Appropriations risk is a smaller, but growing, risk for properties assisted by Section 8 PBRA. Historically, properties assisted by Section 8 PBRA were appropriated adequate operating funds. RAD conversions, however, will place a greater strain on appropriations for Section 8 PBRA (Reina, 2018). There must be adequate funding for both existing PBRA renewals and growing needs due to RAD. Shifts in contract renewal practices for Section 8 PBRA also increase appropriation risk for these properties. Congress authorized operating funds for Section 8 PBRA for 20 to 40-year periods when the contracts were first awarded. After this initial period, most property owners renewed their Section 8 PBRA contracts for shorter one to five-year periods. These short contract periods increase the opportunities owners have to opt out and also may put downward pressure on funding levels by increasing the opportunities for HUD to change the contract terms. Short contract terms can also increase the likelihood Section 8 PBRA contract renewals are delayed during government shutdowns, eroding the trust of private affordable housing property owners.

Federally-assisted rental homes assisted by capital subsidies for the initial construction of the property also indirectly face appropriations risk if enough funding isn't made available to support the recapitalization of these properties as they age. For instance, funding for Section 202 Capital Advances, which can support the preservation of properties assisted by the Section 202 program, are not always appropriated (NLIHC, 2019a). In recent years, the Trump administration has proposed, but failed to achieve, significant funding cuts to CDBG and HOME. If successful, these cuts could have negatively impacted resources for preservation projects (NLIHC, 2018b).

While LIHTC funds are not subject to appropriations by Congress, tax reform and policy changes can make it more difficult to use tax credits to build and preserve affordable housing. Through the LIHTC program, investors finance housing development by making a capital contribution to a developer in exchange for tax credits awarded to the property over ten years. Corporate tax reductions, such as those enacted through the *2017 Tax Cuts* and *Jobs Act*, can drive down the capital contributions investors are willing to pay for tax credits, reducing the number of homes the LIHTC program can build and preserve absent an increase in available credits.

Trends in Preservation

Ensuring adequate funds for the preservation of existing federally-assisted properties can keep these homes affordable to extremely low-income families for years to come and can save construction costs in the long run. Recent research estimates that the cost to build and maintain the number of new units equal to those projected to be lost from the federally-assisted housing inventory over the next five years would be $6.4 billion, compared to $4.8 billion to preserve and maintain the already-existing homes for 50 years (PAHRC, 2017b). This section describes how federally funded programs are preserving the nation's federally-assisted affordable housing stock.

Preservation of Federally-Assisted Homes

Programs that provide funding to meet the capital needs of properties and incentives for owners to renew their rental assistance contracts (i.e., not exit the affordable housing stock) support the preservation of affordable homes. This section reviews federally funded programs, some of which are listed in Table 2, that support preservation efforts.

Table 2: Federally Funded Preservation Tools

Preservation Tool	Description	Number of Previously Affordable Units Preserved	Number of Previously Unsubsidized Units Preserved
Low Income Housing Tax Credit (LIHTC)	Tax credit program that finances the construction, rehabilitation, and preservation of affordable housing for low-income households.	22,939 units in 2014	10,395 units in 2014
HOME Investment Partnership (HOME)	Block grant that finances activities to increase and preserve the supply of affordable housing for low-income households.	3,619 units in 2016	3,307 units in 2016
National Housing Trust Fund	Block grant that finances the construction, rehabilitation, and preservation of affordable housing for extremely low-income households.	593 units in 2016	85 units in 2016
Community Development Block Grant (CDBG)	Block grant that finances activities benefiting households with low and moderate incomes that improve housing, living environments, and economic opportunity.	At least 11,217 publicly owned units in FY 2019	-
Mark-to-Market	Mortgage restructuring program that targets FHA-insured properties with expiring Section 8 PBRA with contracts contract rents that exceed market rents.	373 units in 2018	-
Multifamily Housing Preservation and Revitalization (MPR) demonstration program	Mortgage restructuring program for properties with Section 515 and 514 mortgages. This program can provide grants, no interest loans, and debt deferral to property owners.	Not available	-
Section 515	Low-interest loan for multifamily properties in rural areas.	Not available	-
Project Based Vouchers (PBVs)	Rental assistance tied to a unit at a property.	Not available	Not available
Section 202 Capital Advance	Capital advance funds that finance the construction, rehabilitation, and acquisition of supportive rental homes for very low-income elderly households.	Not available	Not available
Section 811 Capital Advance	Capital advance funds that finance the construction, rehabilitation, or acquisition of supportive rental homes for very low-income disabled households.	Not available	Not available

Note: multiple programs assist many federally-assisted homes.

Approximately 98% of Section 8 PBRA contracts that expired in 2018 were renewed for 2019[6]. While only 10% of these contracts were renewed for 10 years or more, 74% of the renewed contracts are required to keep renewing their contracts for at least 10 years due to additional affordability restrictions imposed on the property owner. While renewed operating subsidies help sustain affordable housing, they do not directly finance rehabilitation costs incurred by aging properties unless paired with another project-based subsidy. Programs that position Section 8 PBRA property owners to make long-term capital improvements include Section 202 or 811 Capital Advance and Mark-to-Market restructuring. Funding for new Section 202 capital advances, however, was not available between FY12 and FY18 and funding for Section 811 capital advances was not available between FY11 and FY18.

RAD provides PHAs with more stable funding sources and flexibility to acquire private capital. As of January 2020, 129,002 rented homes closed through RAD and converted from Public Housing to Section 8 PBRA or PBV funding streams[7]. While RAD does not directly provide new funding to support preservation efforts and can involve additional challenges, RAD allows PHAs to leverage private debt and equity and acquire funding from other housing subsidy programs to rehabilitate public housing. Research suggests RAD enables PHAs to leverage $1.59 in other public funds for every dollar appropriated to Public Housing and reduce the short-term capital needs of their properties (Stout et al., 2019).

LIHTC and HOME, two of the largest active federally funded subsidy programs, provide resources for preserving the existing affordable rental housing stock in need of capital investment. Depending on the year, 35% to 62% of units financed by the LIHTC program between 2003 and 2012 were existing federally-assisted rental properties (Schwartz et al., 2016). The most recent available data indicate that, 44% of tax credits awarded in 2014 and 56% of HOME assistance awarded in 2016 preserved affordable homes. This resulted in the preservation of 22,939 previously subsidized homes in 2014 through the LIHTC program and 3,619 previously subsidized homes in 2016 through the HOME program.

PBVs stabilize the operating income of affordable rental properties and can make affordable housing preservation financially feasible. PBVs are an especially useful preservation tool in high-cost housing markets and for affordable housing designated for hard-to-serve populations. While many PHAs report that they selectively award PBVs to property owners as a preservation tool (ChangeLab Solutions, 2015; CEDAC, 2014), national data on this practice is not available.

CDBG funds provide communities with block grants that can be used to improve housing, living environments, and economic opportunity. Some communities use this funding to provide small grants to support property repairs of federally-assisted rental homes. In FY 2019, at least 11,217 previously subsidized homes received CDBG funds to support preservation efforts (HUD, 2019). An additional 63,265 homes, including homeowners and renters, received CDBG funds in FY 2019 to support rehabilitation, energy improvements, lead abatement, and historic preservation efforts (HUD, 2019)[8]. However, these funds do not require the property owner to provide affordability restrictions and

---

6 PAHRC and NLIHC tabulation of HUD's Section 8 Contract Database. See Appendix A for more information.
7 PAHRC and NLIHC tabulation of [Properties Participating in RAD Program data](), retrieved February 2020.
8 Includes households assisted by single and multi-unit residential rehabilitation, energy efficiency improvements, acquisition for rehabilitation, lead-based paint testing and abatement, and residential historic preservation.

target low and moderate-income households, limiting the program's ability to preserve housing for the lowest-income households.

The national HTF is also beginning to provide funds to support preservation efforts. While the program was established in 2008, funds did not become available until 2016. Approximately 48% of national HTF awards in 2016 supported preservation efforts, preserving 593 previously subsidized homes and 85 previously unsubsidized homes (NLIHC, 2018b).

Section 515, the Multifamily Housing Preservation and Revitalization (MPR) demonstration program, and Section 521 can also be used to preserve affordable rental housing in rural areas. MPR can provide owners of Section 515 and 514 properties with grants, no-interest loans, debt deferral, and the option to restructure their mortgage. MPR is a critical resource for rental housing preservation in rural areas, assisting nearly 6% of all federally-assited homes with Section 515 mortgages (HAC, 2018). Meanwhile, Section 515, which provides low-interest loans to preserve and build affordable housing in rural areas, can also be used to preserve affordable housing. Section 521, a type of project-based rental assistance, can be offered to properties with Section 515 mortgages to stabilize their operating revenue and incentivize owners to keep their properties affordable. Limited data is available on how many properties have been awarded Section 521 rental assistance as a preservation tool.

Given limited resources, communities often struggle to meet their preservation needs while also building new affordable homes. Developers and property owners must compete against each other for limited funding and generally rely on funding from numerous programs since no subsidy program covers 100% of construction or preservation costs. If resources designated towards preservation projects is insufficient, existing federally-assisted homes may become unaffordable or uninhabitable. HUD estimates that over the past ten years, for every three affordable units built, two have been lost (HUD, n.d.).

Estimating changes in the affordable rental housing stock from year to year is challenging because of data reporting lags that vary by housing program, changes in reporting standards overtime, and limited or poor-quality data. Despite these challenges, comparing the NHPD from year to year can provide a glimpse into how the affordable housing stock is changing overtime[9]. Even though 103,629 federally funded federally-assisted rental homes were added to the NHPD between 2018 and 2019, 100,623 homes were lost during the same time, leaving a net gain of only 3,000 new affordable homes from 2018 to 2019. While some properties added to the NHPD in 2019 were likely built or preserved a few years earlier, tracking changes in the NHPD can indicate general trends in the federally funded housing stock. Overall, this suggests that funds for our housing programs are insufficient to meet current preservation needs and build new housing to significantly increase the supply of affordable rental homes.

Your Role in Preservation

Adequate funding, policies in support of long-term affordability, informed preservation strategies, and greater capacity for affordable housing preservation and development are necessary to preserve and expand access to federally-assisted affordable housing (Table 3). Several toolkits are available to help communities adopt these housing preservation strategies and policies (Change Lab Solutions, 2015; National Housing Conference, 2016; Treskon & McTarnaghan, 2016; National Association of Counties, 2019). Fulfilling these strategies requires action from Congress, state and local governments, and regional government agencies. Tenants, housing providers, and other concerned stakeholders can propel these agencies and governments to action through advocacy.

Table 3: Strategies to Position Communities to Expand and Preserve Affordable Housing

Adequately Fund Affordable Housing Development Programs	Fully fund the national HTF
	Expand the LIHTC program, incorporating key reforms
	Fully fund Public Housing capital and operating funds
	Expand funding for rural housing programs, including Section 521, 515, and MPR
	Expand state and locally funded subsidy programs
Adopt Policies in Support of Long-Term Affordability	Require LIHTC properties to waive right to Qualified Contracts
	Increase the notification requirements when an owner opts out
	Incentivize or require owners to keep their property affordable beyond the federally mandated minimum
	Prioritize funding opportunities for mission-driven developers committed to preserving long-term affordability.
	Establish right-of-first-refusal policies
Develop a Preservation Strategy	Build a database of at-risk properties
	Create a preservation plan
Boost Capacity for Affordable Housing Preservation	Build preservation networks
	Provide technical assistance on preservation
	Award pre-development funds

Adequately Fund Affordable Housing Development Programs

Preserving and expanding access to federally-assisted homes first and foremost requires adequate funding at the federal, state, and local level. Most federally funded programs responsible for preserving the existing affordable housing stock are also responsible for financing the construction of new affordable housing, as well. Limited funding for these programs forces allocating agencies to grapple with conflicting funding priorities between preservation and new production. Limited access to capital also prevents mission-driven organizations from maintaining the long-term affordability of federally-assisted homes.

Congress should expand funding for preserving existing affordable housing and for building new affordable housing to reduce the shortage of housing affordable and available to extremely low-income families. This funding should include the national HTF, the Public Housing capital and operating funds, and USDA rural rental assistance and preservation programs (Section 521, Section 515, and MPR). Members of Congress increasingly recognize the need to make significant and sustained investments in rental housing for low-income renters. Numerous bills introduced during this Congressional session have included funds for the national HTF. Meanwhile, the *Housing is Infrastructure Act* introduced this session includes more than $100 billion for the Public Housing capital fund, the national HTF, and funds to meet the severe housing needs on tribal lands. Additionally, the *Strategy and Investment in Rural Housing Preservation Act*, introduced in 2019, authorizes and funds the MPR program, provides preservation technical assistance programs, authorizes housing vouchers for tenants after mortgages have been prepaid, and decouples Section 521 rental assistance from the mortgage. Decoupling Section 521 rental assistance from Section 515 mortgages would allow these properties to continue to receive federal operating support for low-income tenants' units after their mortgages mature.

Congress should also expand LIHTC. *The Housing Credit Improvement Act* includes a 50% expansion of LIHTC and important reforms to target these resources to the families most in need of housing assistance. Key reforms in the current bill include incentives to set aside at least 20% of units for extremely low-income households and to serve rural and tribal communities. Expansion of LIHTC, however, should also include additional reforms, discussed in the next section, to promote long-term affordability of LIHTC funded properties.

State and local governments should also expand their own resources to improve the viability of preservation activity (Treskon & McTarnaghan, 2016). State and locally funded housing programs can equip PHAs and mission-oriented non-profits to play a bigger role acquiring and maintaining affordable rental homes (Kleit, Airgood-Obrycki, Yerena, 2019). Many states and cities have established locally funded programs, including tax-exempt bonds, tax abatements, and state and local housing trust funds (NLIHC, 2014). As of 2019, 47 states, 588 cities, and 159 counties have established housing trust funds (Center for Community Change, 2019). State governments can expand these efforts by passing legislation to expand revenue sources for trust funds and enabling local governments to establish and generate revenue sources for local housing trust funds.

Adopt Policies in Support of Long-Term Affordability

Cost-neutral policy reforms can support the long-term affordability of federally-assisted homes. Reforms described in this section focus on the LIHTC program because it is the largest funder of affordable housing construction and preservation efforts. Many of these principles, however, are applicable to state and locally funded housing subsidy programs as well.

Congress should implement reforms to the LIHTC program to promote long-term affordability. Most notably, Congress should close the qualified contract loophole that allows LIHTC properties to end their affordability restrictions prematurely. Additionally, Congress should increase the role of mission-oriented non-profits in LIHTC property ownership structures by requiring more tax credits be awarded to non-profits and strengthening non-profits' rights in LIHTC ownership structures. Greater involvement of non-profits in the LIHTC program will increase the likelihood that owners are committed to long-term affordability from the get-go.

Congress should also improve data collection and transparency standards for the LIHTC program to help communities identify and resolve preservation risks in their local housing stock. This includes collecting timely and accurate data on LIHTC resyndicatons, QC opt outs, tenant demographics, and affordability restriction extensions. While HFAs are required to report information on tenant demographics, much of these data are missing (HUD, 2018).

State HFAs can adopt additional reforms to their Qualified Allocation Plans (QAPs) to support long-term affordability. QAPs set the criteria by which states award development proposals with tax credits. States could require right-of-first-refusal policies, which require owners to give organizations committed to the long-term affordability the first opportunity to purchase a federally-assisted property when the owner decides to exit their affordability restrictions. Lengthened notification requirements for owners choosing to exit the program could also give HFAs more time to locate a buyer who will maintain the property's affordability restrictions and support residents who are at risk of displacement. HFAs can also incentivize or require owners to keep their LIHTC property affordable beyond the federally mandated minimum. To reduce depreciation risk, however, the HFA and state government must commit that funding will be available to meet the long-term capital needs of these properties as they age. Finally, until Congress eliminates the QC process by which owners can exit the LIHTC affordability requirements early, states should require owners to waive their rights to it.

Develop a Preservation Strategy

Agencies responsible for distributing affordable housing funds, such as HFAs, HOME Participating Jurisdictions (PJs), and CDBG grantees, can also develop a preservation strategy to address their aging housing stock. This strategy can describe how funding for preservation initiatives will be prioritized and policy changes or incentives that should be adopted to encourage owners to maintain their properties as affordable. These agencies can leverage the NHPD to analyze the number of homes facing expiring affordability restrictions, to inform their community-wide planning efforts, and to target resources to at-risk properties. Agencies can also build their own local preservation databases that include additional information regarding the funding characteristics and physical conditions of properties to understand the needs of their local housing stock.

Boost Capacity for Affordable Housing Preservation

Affordable housing preservation is complex. Developers building or preserving federally-assisted homes may need to coordinate with numerous partners and funding sources that likely have different application and reporting requirements (Treskon & McTarnaghan, 2016). Policy networks, pre-development funds, and technical assistance can boost capacity for affordable housing preservation by equipping owners and developers to address these challenges.

Non-profits organizations, developers, local governments, and other affordable housing stakeholders can form policy networks to share best practices and challenges related to affordable housing preservation and replicate successful strategies. These networks can also help stakeholders establish and vet new policies and programs to support affordable housing and advocate for affordable housing preservation as a unified voice (Treskon & McTarnaghan, 2016; Howell, 2014). A nationwide policy network is the National Housing Trust's Preservation Working Group, while regional policy networks include Colorado's Housing Preservation Network, The Preservation Compact in Chicago, and the DC Preservation Network.

Government agencies, such as HUD, state HFAs, and local governments, should expand technical assistance to help owners of federally-assisted homes preserve and maintain their properties. Technical assistance can help housing providers preserve their housing by training them on what funding sources are available, how to apply, and how to remain compliant with program requirements. While many policy networks and non-profits have taken the initiative to provide training and technical assistance to housing providers, these resources may not be available in all communities across the country.

Congress, state, and local governments can also boost capacity for affordable housing development by appropriating pre-development funds. Pre-development funds help cover costs developers incur while doing the necessary legwork to investigate whether a development or preservation project is feasible and to build community support.

Conclusion

Federally-assisted affordable housing provides stability for 4.9 million low-income renter households. The need for affordable rental homes, however, still far outweighs the supply. Fewer than four affordable rental homes are available to every 10 extremely low-income renter households, leaving a national shortage or seven million affordable rental homes. (NLIHC, 2020). This shortage could increase as exit, depreciation, and appropriation risk continue to threaten the existing supply of federally-assisted rental housing. Preserving and expanding the nation's federally-assisted housing stock will require adequately funding affordable housing programs, adopting policies that support long-term affordability, developing local preservation strategies, and boosting capacity for affordable housing preservation. These strategies are essential to closing the affordable housing gap. ■

Appendix A: Data Notes, Sources, and Methodology

Appendix A describes the data used in Picture of Preservation. All estimates below use the NHPD, retrieved January 2020 unless otherwise noted.

Federally-Assisted Homes

Federally-assisted homes include properties that have at least one likely active subsidy as of January 1, 2020. These estimates include properties assisted by HUD Section 8 PBRA, Section 202 direct loans, HUD insurance programs, State HFA Funded Section 236, LIHTC, HOME rental assistance, Section 515 rural rental housing loans, Section 514 direct loans, rural development Section 538, and Public Housing. These estimates do not include properties funded by CDBG, national HTF, Mod Rehab, McKinney Vento Permanent Housing, HOPWA, Tax Exempt Multifamily Housing Bonds, and PBVs. Subsidies were considered likely active if:

1) The subsidy status in the NHPD was active,
2) The subsidy status was inconclusive because it was missing an end date, or
3) The subsidy was a Section 8 PBRA contract that has expired by less than one year.

The number of assisted units for all likely active subsidies at each property was summarized to estimate the number of assisted units at each property. If a subsidy was missing an assisted unit value, the total unit value was used instead. HUD-insured mortgages that were not affiliated with Section 236 were updated to have an assisted unit value of 0. The number of federally-assisted units was capped at the property's total units.

Property Ownership Type

Properties were affiliated to non-profits if they were ever funded by Public Housing or Section 202 Direct Loans, have non-profit ownership, or were a LIHTC-funded property with a non-profit sponsor. Properties have some profit motivation if their owner type was for-profit, limited dividend, or limited profit and they were not affiliated to a non-profit. 468,245 units were missing owner type information.

Properties Affordable for 20 or More Years

Properties were considered affordable for 20 years or more if their earliest subsidy start or occupancy date in the NHPD was before 2000.

Properties that Received a Capital Infusion in the Past 20 Years

Properties were considered to receive a capital infusion the most recent year they received any of the following subsidies in the past 20 years: Section 202 direct loans, Section 202 capital advance, Section 811 capital advance, HUD insurance programs, State HFA Funded Section 236, LIHTC, HOME rental assistance, Section 515 rural rental housing loans, Section 514 direct loans, and rural development Section 538.

Target Tenant Type

Target tenant type information was available for properties assisted by LIHTC, Section 8 PBRA, Section 202 direct loans, HOME Assistance, Section 515, and Section 538. Properties were considered to target elderly families if any of the subsidies attached to the property stated that the property owner targeted elderly populations. 1.89 million federally-assisted homes were missing information on target tenant type.

Newly Constructed LIHTC Units

Properties with tax credits that were placed in service in 2014 and were listed as new construction or awarded to a property with no prior subsidies in the NHPD were classified as newly constructed LIHTC units.

Newly Constructed HOME Units

Properties with HOME that were awarded in 2016 and were listed as new construction or awarded to a property with no prior subsidies in the NHPD were classified as newly constructed HOME units.

Expiring in the Next Five Years

Properties were considered as expiring in the next five years if they were affordable as of December 31, 2019 and their latest active subsidy was set to expire between January 1, 2020 and December 31, 2024. Properties expiring in the next five years also include 19,466 homes assisted by Section 8 PBRA contracts that expired between January 1, 2019 and December 31, 2019 that haven't been renewed yet. Public housing properties that received a tax credit through HOPE VI were excluded from these estimates.

Section 202 Direct Loans No Longer Affordable

Properties with Section 202 Direct Loans that were no longer affordable as of 2019 were identified by matching the Section 202 Direct Loan Database as of September 1, 2019, March 28, 2017, September 24, 2015, and December 12, 2012 to active contracts in Section 8 Contracts Database as of November 15, 2019. Properties assisted by Section 202 direct loans that were paid off, but have active rental assistance contracts were classified as affordable. Section 202 loans were classified as prepaid if they were removed from the Section 202 Direct Loan Database before their maturity date.

Failing REAC Scores

Public Housing and Section 8 PBRA assisted properties with failing REAC scores were identified by matching the NHPD to REAC data from 2011, 2015, 2016, 2018, and 2019. Properties with REAC scores below 60 were classified as failing. Properties missing REAC scores were excluded from analyisis and properties with fewer than three recent REAC scores were excluded when examining the percent of Public Housing and Section 8 PBRA assisted homes with two or more failing REAC scores.

Public Housing in Need of Immediate Investment

Public Housing units were classified as in need of immediate investment if their most recent REAC score was below 60.

Previously Affordable Units Preserved

Properties were considered previously affordable and preserved if HOME or LIHTC subsidies were awarded to properties that received another federal subsidy in the NHPD five years earlier or more.

Previously Unsubsidized Units Preserved

Properties were considered previously unsubsidized and preserved if HOME or LIHTC subsidies were awarded to properties that did not receive another subsidy five years earlier or more, but had a construction type equal to rehabilitation.

Section 8 Contract Renewals

Section 8 contracts renewals were determined by matching HUD's Section 8 Contract Database as of November 15, 2019, November 28, 2018, November 28, 2017, November 30, 2016, December 22, 2015, and September 2, 2014 by property ID. Contracts were classified as expiring in 2018 if their overall contract end date was in 2018 at any point during the study period. Contracts were considered renewed if their latest overall contract expiration date was 2019 or later. Contracts were considered not renewed if the contract number was removed from HUD's database, if the contract was listed as terminated or suspended, or if the contract wasn't yet renewed as of November 15, 2019. Properties with additional affordability restrictions imposed include properties that received Section 811 capital advances, Section 202 capital advances, or underwent full Mark to Market conversions.

Net Gain and Loss of Units from NHPD

Using the NHPD to examine changes in the federally funded affordable housing stock requires that reporting lags, update intervals, and data quality across housing subsidy programs tracked by the NHPD be similar across compared years. To meet these criteria, the 2019 NHPD was retroactively standardized to increase comparability to the 2020 NHPD.

To estimate the number of units gained and lost from the NHPD between 2018 and 2019, NHPD data retrieved January 2020 was matched to NHPD retrieved February 2019 using HUD subsidy ID, HUD property ID, and subsidy name. If a HUD subsidy ID was not available, the NHPD subsidy ID took the place of the HUD subsidy ID. Any records with duplicate HUD subsidy ID, HUD property ID, and subsidy name was removed from the analysis. Once the 2020 and 2019 NHPD subsidy data was matched, the 2019 data was updated to reduce differences due to administrative changes:

1) Subsidies were re-classified as active if their subsidy was set to expire after January 1, 2019, unless the subsidy was made inactive for another reason (i.e. missing from subsequent updates, or listed as terminated).
2) LIHTC subsidies were reclassified as inactive if they were allocated before 1990 or were listed as non-programmatic in 2018.
3) HUD terminated mortgages that were previously excluded from the NHPD were retroactively added to the 2019 data.
4) Public Housing subsidies were re-classified as active if they were listed in HUD's Picture of Subsidized Households project level 2017 data and inactive if they were not.
5) Section 515 subsidies in 2019 were re-classified as active if they were listed in USDA's Active Section 515 property data as of 11/1/19 and inactive if they were missing.
6) HOME subsidies that were previously excluded from the NHPD were retroactively added to the 2019 data if they were awarded before 2019.
7) All subsidies that were identified as duplicates and were deleted from the NHPD between 2019 and 2020 were removed from the analysis.

After these standardizations were applied, 2020 and standardized 2019 NHPD data were aggregated to the property level. The difference between the active assisted units in 2020 and 2019 NHPD data was used to estimate the number of units added and lost in between 2018 and 2019.

Citations

Belsky, E. & Nipson, M. (2010). Long-term Low Income Housing Tax Credit policy questions. Harvard Joint Center for Housing Studies. Retrieved from https://www.jchs.harvard.edu/sites/default/files/long-term_low_income_housing_tax_credit_policy_questions.pdf

Blumenthal, P., Jordan, R., Clark, A., Handelman, E., & King, R. (2016). The cost of affordable housing: Does it pencil out? Urban Institute and National Housing Conference. Retrieved from https://apps.urban.org/features/cost-of-affordable-housing/

Center for Community Change. (2019). State and local housing trust funds. Retrieved from https://housingtrustfundproject.org/housing-trust-funds/

Center on Budget and Policy Priorities (CBPP). (2017). Policy basics: Public Housing. Retrieved from https://www.cbpp.org/research/policy-basics-public-housing

Community Economic Development Assistance Corporation (CEDAC). (2014). MTW agencies' expiring use preservation programs: An innovative effort to preserve affordable housing in Massachusetts. Retrieved at https://cedac.org/wp-content/uploads/2016/06/MTW-Expiring-Use-Exec-Summ-Report-August-12-Final-1.pdf

ChangeLab Solutions. (2015). Preserving, protecting, and expanding affordable housing. Retrieved at https://kresge.org/sites/default/files/Preserving-affordable-housing-policy-tools-April-2015.pdf

Environmental Protection Agency (EPA). (2019). Inventory of US greenhouse gas emissions and sinks. Retrieved from https://www.epa.gov/sites/production/files/2019-04/documents/us-ghg-inventory-2019-main-text.pdf

Finkel, M., Hanson, C., Hilton, R., Lam, K., & Vandawalker, M. (2006). Multifamily properties: Opting in, opting out and remaining affordable. Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.huduser.gov/Publications/pdf/opting_in.pdf

Finkel, M., Lam, K., Blaine, C., de la Cruz, RJ. DeMarco, D., Vandawalker, M., & Woodford, M. (2010). Capital needs in the Public Housing program. Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.hud.gov/sites/documents/PH_CAPITAL_NEEDS.PDF

Howell, K. (2014). Preservation from the bottom-up: affordable housing, redevelopment, and negotiation in Washington, DC. *Housing Studies*, 31(3), 305-323.

Housing Assistance Council. (2008). A guide to best practices in rural rental preservation. Retrieved from http://www.ruralhome.org/storage/documents/preservguidebestprac08.pdf

HAC. (2018). Rental housing for a 21st century rural America. Housing Assistance Council. Retrieved from http://www.ruralhome.org/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf

HAC. (2019). USDA rural development housing activity: April FY 2019. Retrieved from http://www.ruralhome.org/storage/documents/rd_obligations/fy2019/combined_apr_19.pdf

HUD. (n.d.). Partners in housing: Multifamily preservation training. Retrieved from https://www.hud.gov/sites/documents/PARTNERS_MF_PRES_TRAINING.PDF

HUD. (2019). CDBG accomplishment reports. Retrieved from https://www.hudexchange.info/programs/cdbg/cdbg-accomplishment-reports/

HUD. (2018). Understanding who the LIHTC serves: data on tenants in LIHTC units as of December 31, 2015. Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.huduser.gov/portal/publications/LIHTC-TenantReport-2015.html

Joint Center for Housing Studies (JCHS). (2020). America's rental housing 2020. Retrieved from https://www.jchs.havard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf

Kim, S., Lee, S., & Ahn, Y. (2018). Evaluating housing maintenance costs with loss-distribution approach in South Korean apartment housing. *Journal of Management and Engineering*, 35(2).

Kincer, B., & Shelburne, M. (2017). Qualified Contracts volume: Policies vary widely by state. National Housing and Rehabilitation Association.

Khadduri, J., Climaco ,C., Burnett, K., Gould, L., & Elving, L. (2012). What happens to Low Income Housing Tax Credit properties at Year

15 and beyond? Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.huduser.gov/portal/publications/what_happens_lihtc_v2.pdf

Kleit, R. Airgood-Obrycki, W., & Yerena, A. (2019). Public housing authorities in the private market. *Housing Policy Debate*, 29(4), 670-692.

Meléndez, E., Schwartz, A., & Montrichard, A. (2008). Year 15 and preservation of tax credit housing for low-income households: An assessment of risk. *Housing Studies*, 23(1), 67–87.

National Apartment Association. (2016). 2016 NAA survey of operating income and expenses in rental apartment communities. Retrieved from https://www.naahq.org/news-publications/units/august-2016/article/2016-naa-survey-operating-income-expenses-rental

National Council of State Housing Finance Agencies (NCSHA). (2019). The Save Affordable Housing Act of 2019. Retrieved from https://www.ncsha.org/wp-content/uploads/Updated-Qualified-Contract-Proposal-11.15.19.pdf

Newman, S. & Holupka, S. (2018). The quality of assisted housing in the United States. *Cityscape*, 20(1), 89-112.

NLIHC. (2020). The Gap: A shortage of affordable homes. Retrieved from https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2019.pdf

NLIHC. (2019a). HUD announces Section 202 capital advance NOFA. Retrieved from https://nlihc.org/resource/hud-announces-section-202-capital-advance-nofa

NLIHC. (2019b). FY20 budget chart for selected HUD and USDA programs. Retrieved from https://nlihc.org/sites/default/files/NLIHC_HUD-USDA_Budget-Chart.pdf

NLIHC & PAHRC. (2018). Balancing priorities: Preservation and neighborhood opportunity in the Low Income Housing Tax Credit program beyond Year 30. Retrieved from https://preservationdatabase.org/wp-content/uploads/2018/10/Balancing-Priorities.pdf

NLIHC. (2018b). Getting started: First homes being built with 2016 National Housing Trust Fund awards. Retrieved from https://nlihc.org/sites/default/files/NHTF_Getting-Started_2018.pdf

NLIHC. (2017). Advocates guide: Public Housing. Retrieved from https://nlihc.org/sites/default/files/AG-2017/2017AG_Ch04-S04_Public-Housing.pdf

NLIHC. (2014). State and city funded rental housing programs. Retrieved from https://nlihc.org/state-and-city-funded-rental-housing-programs

PAHRC. (2017a). Housing agency waiting lists and the demand for housing assistance. Retrieved from https://www.housingcenter.com/wp-content/uploads/2017/11/waiting-list-spotlight.pdf

PAHRC. (2017b). How sustainable communities create resilient people: 2017 PAHRC Report. Retrieved from https://www.housingcenter.com/wp-content/uploads/2017/11/2017-pahrc-report.pdf

Ray, A., Kim, J., Nguyen, D., & Choi, J. (2015). Opting in, opting out a decade later. Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.huduser.gov/portal/sites/default/files/pdf/508_MDRT_Opting%20In_Opting%20Out.pdf

Rice, D. (2016). Chart Book: Cuts in federal assistance have exacerbated families' struggles to afford housing. Center on Budget and Policy Priorities. Retrieved from https://www.cbpp.org/research/housing/chart-book-cuts-in-federal-assistance-have-exacerbated-families-struggles-to-afford

Reina, V. (2018). The preservation of subsidized housing: What we know and need to know. Lincoln Institute of Land Policy. Retrieved from https://www.lincolninst.edu/sites/default/files/pubfiles/reina_wp18vr1.pdf

Reina, V., & Begley, J. (2014). Will they stay or will they go: Predicting subsidized housing opt-outs. *Journal of Housing Economics*, 23, 1–16.

Reina, V. & Winter, B. (2018). Safety net? The use of vouchers when a place-based rental subsidy ends. *Urban Studies*, 56(10), 2092–2111.

RSM US LLP & CoreLogic, Inc. (2016). USDA Rural Development multi-family housing comprehensive property assessment. Retrieved from https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf

Schwartz, H., Bostic, R., Green, R., Reina, V., Davis, L. & Augustine, C. (2016). Preservation of affordable rental housing: evaluation of the MacArthur Foundation's window of opportunity initiative. Santa Monica, CA: The RAND Corporation. Retrieved from https://www.rand.org/content/dam/rand/pubs/research_reports/RR1400/RR1444/RAND_RR1444.pdf

Stout, D., Clogston, F., Thackeray, A., Stoloff, J., Anthony, B., & Hayes, C. (2019). Final report: evaluation of HUD's Rental Assistance Demonstration (RAD). Washington, DC: HUD, Office of Policy Development and Research. Retrieved from https://www.huduser.gov/portal/sites/default/files/pdf/RAD-Evaluation-Final-Report.pdf

Treskon, M. & McTarnaghan, S. (2016). Anatomy of a preservation deal. Urban Institute. Retrieved from

https://www.urban.org/sites/default/files/publication/83631/2000904-anatomy-of-a-preservation-deal-innovations-in-preserving-affordable-housing-from-around-the-united-states_2.pdf

USDA. (2019). Multi-family housing occupancy statistics as of September 2018. Retrieved from http://www.ruralhome.org/storage/documents/rd_obligations/mfh-occupancy/occupancymfh2018.pdf