



Expirations and early exits of LIHTC units: Implications for the affordable housing stock

Maxwell Jaffe, research assistant, and Dustin Ingram, senior community development specialist

The Low-Income Housing Tax Credit (LIHTC) is the nation's [largest source of financing for the development and preservation of affordable rental housing](#). The program provides tax credits to developers that may cover a portion of their acquisition, construction, and rehabilitation costs. In exchange for these credits, developers must ensure affordability for tenants whose earnings are at or below specific percentages of the area median income (AMI) with rental rates that do not exceed 30% of their gross income. LIHTC affordability requirements last for 30 years at a minimum. The earliest LIHTC projects are reaching the end of their mandated affordability periods. In addition, [many LIHTC property owners are pursuing early exits](#) from LIHTC affordability requirements amid [rising market rents](#). In this article, we examine these trends while evaluating their potential effects on the supply of LIHTC-supported housing.

Employers have described how [rising housing costs have affected their ability to attract workers](#), and residents and employees report having to [navigate the impacts of rising rents](#) on the availability and affordability of housing. In line with these broader trends, when LIHTC affordability requirements lapse, some families with low incomes may face higher rents and fewer available units to choose from—which might affect where they live and work. So, given the Federal Reserve's dual mandate to promote maximum employment and price stability, we focus on current and emerging trends in LIHTC-supported housing in this article.

The Federal Reserve Bank of Chicago serves the [Seventh Federal Reserve District](#), made up of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin. Throughout the Seventh District, Chicago Fed community development staff have consistently heard concerns about rising housing costs and the lapse of LIHTC affordability requirements.

Here are the four key results from our examination of the expirations of, and early exits from, LIHTC affordability requirements:

- As the LIHTC program nears its 40th anniversary, unprecedented numbers of LIHTC units are reaching their scheduled expiration dates.
- Without accounting for early exits, roughly one-third of all currently active LIHTC units are set to expire by 2035; this figure far eclipses the number of units that left the program previously.

- When accounting for early exits through the *qualified contract* (QC) process (which is covered later), we find that the number of units set to expire by 2035 increases to roughly 40%.
- Annually, some LIHTC units will leave as new units enter the program; provided new additions follow historical averages, we expect the total volume of LIHTC units to stagnate or decline depending on the scale of exits due to QCs.

How LIHTC works

The federal government allocates LIHTC funds to states based on population. For example, the Iowa Finance Authority received \$9.6 million in LIHTC credits in 2025, while the Michigan State Housing Development Authority received \$30.4 million. State housing finance agencies (HFAs) and, in some cases, urban HFAs award credits to applicants according to their qualified allocation plans (QAPs). Each QAP sets rules, processes, and priorities for selecting applicants; some QAPs have protections that prevent early exits from LIHTC affordability requirements (which we discuss later).

Generally, HFAs award two types of LIHTC credits:

- *9% credits*. These credits are awarded through a competitive application process; they are typically awarded for new construction or substantial rehabilitation. These credits are funded by the federal government through state allocations.
- *4% credits*. These credits are automatically awarded for those meeting the 50% bond financing test; they are typically awarded for rehabilitation and preservation projects.

LIHTC projects are often structured as partnerships—with the developer acting as the general partner and private investors acting as limited partners. The economic deal tends to have developers sell the credits to private investors in exchange for upfront capital. Investors then use the credits to offset their federal income tax liabilities.

The LIHTC program does not require affordability for all units within a single building, but a portion of the units must be set aside for tenants who earn at or below specific percentages of AMI. Traditionally, developments had to meet either the 20/50 rule (20% of units affordable for renters earning less than or equal to 50% of AMI) or the 40/60 rule (40% of units affordable for renters earning less than or equal to 60% of AMI). However, 2018 legislative changes allow developers to meet the affordability threshold so long as the average income of all tenants does not exceed 60% of AMI.

Affordability periods

Once the LIHTC property is placed in service, the owner is expected to maintain affordability requirements for at least 30 years, although some HFAs mandate longer timelines. The affordability duration consists of two periods:

- *Initial 15-year compliance period*. Owners maintain affordability, renting units to households with low incomes whose earnings are at or below certain percentages of the AMI (traditionally 50% or 60%) at rates that do not exceed 30% of gross income. Owners must maintain the property in good condition. Noncompliance can trigger credit recapture.
- *Extended use period (16th year through scheduled expiration)*. The affordability requirements remain, but oversight shifts from federal to state agencies. As permitted, owners can request an early exit from the affordability requirements through a QC.

When a property exits LIHTC affordability requirements, developers can charge market rate rents without consideration of household incomes unless the units are tied to non-LIHTC subsidies or policies that impose their own requirements.

There are several ways LIHTC units can exit their affordability requirements:

- *Scheduled expiration.* Once the owner fulfills its LIHTC obligations through the full extended use period, the unit ages out of the program.
- *Qualified contract.* Unless there are QAP protections, a project can exit affordability requirements during the extended use period through a QC (see, e.g., the Illinois Housing Development Authority's [QC guidelines](#)) when the HFA is notified of an intent to sell and there is no sale at a formulaic price after one year. Owners have [increasingly used the QC process](#), intended as a limited exit mechanism, to end affordability requirements for their properties early. Since 1990, an estimated [155,555 units](#), or about 8.8% of LIHTC units placed in service in or prior to 2008,¹ have exited LIHTC affordability requirements through a QC. The accelerating use of QCs has raised concerns about premature affordability loss and is [most acute in areas experiencing high or rising rents](#).
- *Foreclosure.* Properties can exit affordability requirements when owners default on their financial obligations.
- *Noncompliance.* Unremedied regulatory violations can result in properties leaving the program.
- *Natural disasters.* Severe damage due to natural disasters may result in the lapse of affordability requirements.

Properties that exit LIHTC affordability requirements may still maintain affordability in the following ways:

- *Resyndication.* Owners apply for and receive new LIHTC credits to finance property improvements or rehabilitation.
- *Other subsidies.* The property is subject to affordability requirements imposed through other government programs.
- *Mission-driven ownership.* Entities such as nonprofits, public housing authorities, and community land trusts own or acquire LIHTC properties with long-term affordability in mind.
- *Naturally occurring affordability.* LIHTC properties—on account of their location, age, or other factors—might be priced at affordable rates resulting from market forces.

Importance of LIHTC, by the numbers

In this section, we explain why LIHTC is important by presenting our analysis of active LIHTC units in Seventh District states and across the nation.

Data

Our analysis is based on data from the [National Housing Preservation Database \(NHPD\)](#). NHPD, maintained through the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, contains aggregated property-level information on the federally assisted housing inventory from the U.S. Department of Housing and Urban Development (HUD) and U.S. Department of Agriculture (USDA). Supplemental data surrounding the general housing stock come from the [U.S. Census Bureau](#).

In our analysis, we limit NHPD data to LIHTC-subsidized buildings, including information regarding the placed-in-service date for each property, number of units subject to affordability requirements, the year in which the property’s affordability requirements are scheduled to expire, and the status (active or inactive) of LIHTC units’ affordability requirements as of December 2023.²

Two limitations of the NHPD are relevant. First, the data set is a snapshot, providing the status of a building’s subsidies as of December 2023. The NHPD does not record the exact date when affordability requirements of a subsidy became inactive. For example, we cannot determine the exact year a property’s LIHTC units placed in service in 2000 and listed as inactive became inactive.

The second limitation involves data reporting lags. The NHPD is regularly updated retroactively to add new units and remove duplicates. We understand that counts of units placed in service in 2023 are likely less accurate than those in previous years. More recent observations are more likely to contain inaccuracies because of reporting lags. For this reason, the total units reported in the subsequent sections of this article include only units placed in service in 2022 or earlier.

Descriptive statistics

The NHPD shows that there were roughly 2.5 million active LIHTC units placed in service in 2022 or earlier, representing about 1.7% of the national housing stock³ and roughly 9% of the national multifamily housing stock.⁴ Of these active LIHTC units, 49.8% are within their extended use periods, making them eligible for early exits via a QC, barring state protections. [Since the early 1990s, LIHTC has supported 3% to 5% of all new housing units in the United States—and between 2000 and 2019, one-quarter of the nation’s new apartments \(a major type of multifamily housing\) received LIHTC financing.](#)

Figure 1 shows that LIHTC units are prevalent in Seventh District states and throughout the nation.

In Seventh District states, there are about 226,000 units with active LIHTC affordability requirements. These active LIHTC units in District states account for roughly 9% of the nation’s total. Illinois and Michigan, which have the largest populations among Seventh District states, have the most active LIHTC units. In the country, Illinois and Michigan have the tenth and 12th most units with active LIHTC affordability requirements, respectively. All five Seventh District states have a lower ratio of active LIHTC units to housing stock than the nation as a whole. Wisconsin is the lone District state with less than 1% of its housing stock with active LIHTC affordability requirements.

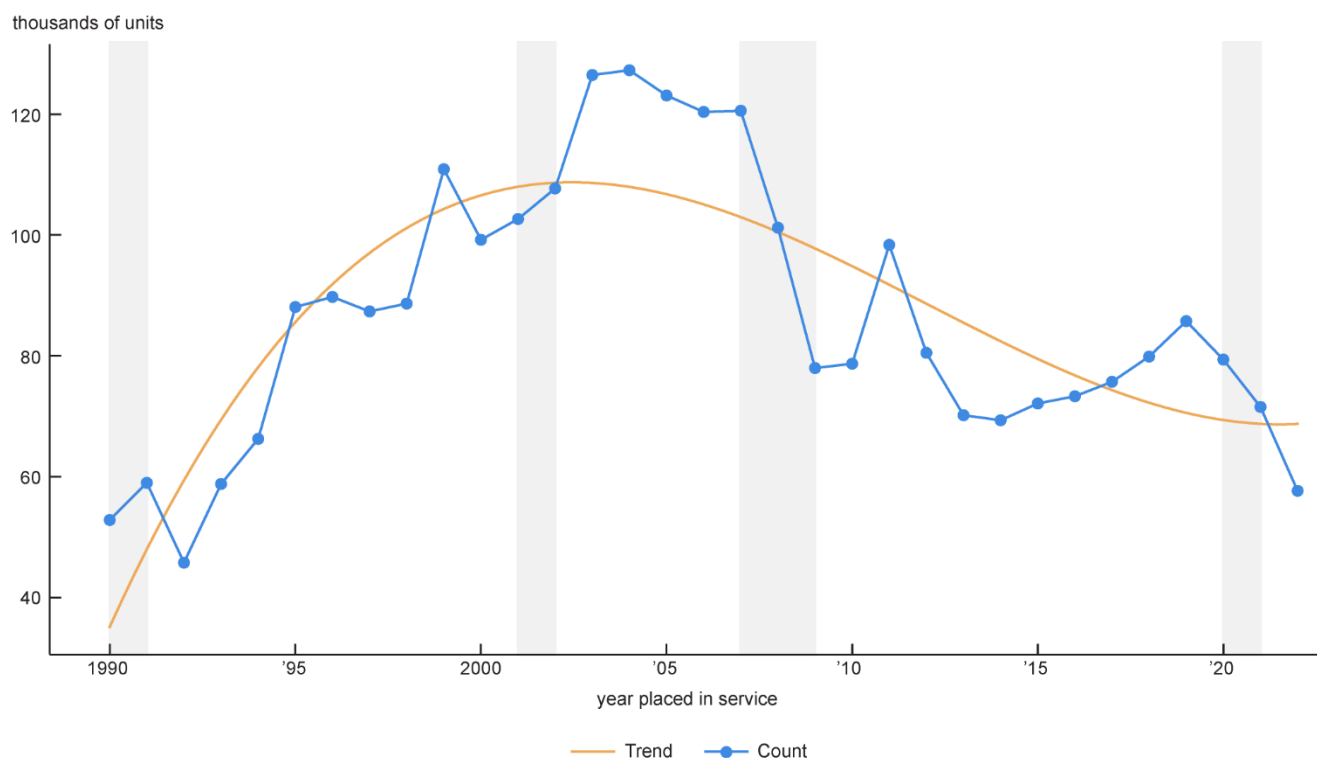
1. Active LIHTC units as a percentage of housing stock, by Seventh District state, 2022

State	Active units	Percentage of housing stock	Active projects
Iowa	20,870	1.44	472
Illinois	67,197	1.23	787
Indiana	47,193	1.57	632
Michigan	67,793	1.46	990
Wisconsin	22,893	0.82	797
United States	2,468,331	1.70	33,311

Notes: LIHTC units refers to housing units developed and subsidized through the Low-Income Housing Tax Credit program. The Seventh Federal Reserve District is made up of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin. The numbers reported here reflect housing data for the *entirety* of each Seventh District state.

Sources: Authors’ calculations based on data from the U.S. Census Bureau, National, State, and County Housing Unit Totals: 2020-2024, and the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

2. Rent-restricted units covered by new LIHTC credits across the U.S. each year, 1990–2022



Notes: LIHTC stands for Low-Income Housing Tax Credit. The gray shading indicates official periods of recession as identified by the National Bureau of Economic Research. The trend is calculated using a third-order polynomial regression, which accounts for the nonlinearity of the trend.

Source: Authors' calculations based on data from the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

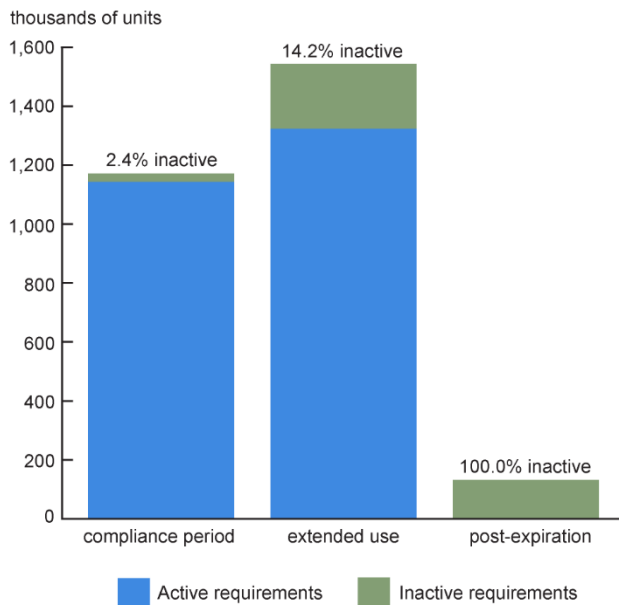
LIHTC units over time

Figure 2 shows the number of LIHTC units placed in service in any given year for the entire U.S.⁵ An average of about 89,000 new units with LIHTC affordability requirements were placed into service each year from 1990 through 2022. The number of new units increased quickly after 1990 before reaching its peak in the early 2000s.

While figure 2 shows an apparent decrease in new units since 2020, this could be attributable to data reporting lags and the Covid-19 recession and its aftermath. Other periods of marked decreases in LIHTC units overlap with or follow economic downturns.

The rate at which new LIHTC units are added will be reflected in their rate of exit. This is because *when a unit ages out of affordability requirements* is a function of *when it was placed in service*. As properties age through the program, the odds of exiting affordability requirements increase. Figure 3 shows the percentage of LIHTC units with inactive affordability requirements (i.e., former LIHTC units) across the country. It divides these units between three groups: compliance period, extended use, and post-expiration. The number of units in each period is a function of the placed-in-service date for the units.

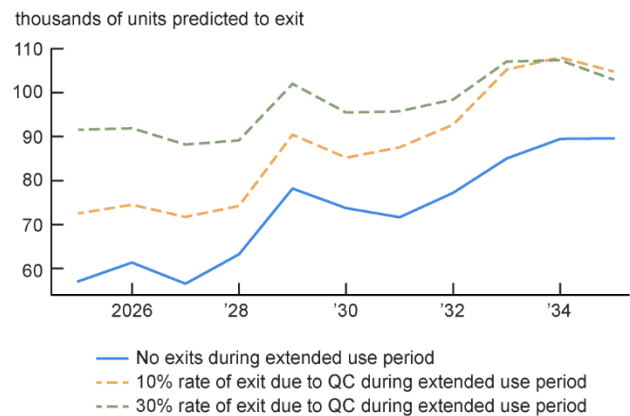
3. Number of LIHTC units across the U.S., by LIHTC period and affordability requirement status



Notes: LIHTC stands for Low-Income Housing Tax Credit. For definitions of the compliance period and extended use period (which make up the typical 30-year LIHTC affordability period), see the text.

Source: Authors' calculations based on data from the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

4. Expected yearly LIHTC unit exits across the U.S., 2025–35



Notes: LIHTC stands for Low-Income Housing Tax Credit, and QC stands for qualified contract, which is covered in the text. The rate of exit (including expirations after the full term) from LIHTC affordability requirements is reflective of units placed in service 30 years prior. For definitions of the compliance period and extended use period (which make up the typical 30-year LIHTC affordability period), see the text. For these simulations, no exit risk is assumed during the compliance period. Upon reaching the 30th year, units face a 91% exit risk, followed by a 1.7% yearly exit risk; in the simulations, the latter risk accounts for the probability of LIHTC resyndication, as well as for states with rent-restriction requirements longer than the typical 30-year LIHTC affordability period.

Source: Authors' calculations based on data from the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

Figure 3 suggests the following:

- The large number of active units in their extended use period relative to units that have already exited affordability requirements (inactive units), particularly in the post-expiration period, implies an unprecedented wave of upcoming expirations.
- Only a small share of units exit affordability requirements during their compliance period.
- During the extended use period, QCs substantially raise the risk of early exit. This is implied by the much larger share of units in their extended use period that are listed as inactive.

Estimating exits from LIHTC affordability requirements

To better understand the scale and timing of exits from LIHTC affordability requirements, we consider how exits are likely to evolve through 2035 using scheduled exits (i.e., expirations) and assumptions about the likelihood of QCs leading to early exits. [Previous estimates](#) that consider only scheduled exits are likely to underestimate the number of units leaving the LIHTC program.

Figure 4 shows the predicted LIHTC unit exits for the U.S. each year under three different assumptions about the rate of exit due to QCs.⁶ The solid blue line shows the case assuming no units are lost because of early exits from the affordability requirements. In this scenario, we predict about 845,000 cumulative exits from affordability requirements by 2035 (about 34% of the roughly 2.5 million active units in 2022).

Earlier we mentioned it has been estimated that roughly 156,000 units have exited the LIHTC requirements due to QCs. When we divide this number of exits by the total number of units that have been eligible for a QC (roughly 1.78 million units), we find that just shy of 9% of units have exited via QCs. Accounting for reports that use of QCs has been increasing, with 11,650 units exiting in 2020, we model a 10% rate of exit due to QCs. In figure 4, the dashed orange line shows the expected yearly exits under an assumption that 10% of units in their extended use period will exit annually through QCs. Under this scenario, we predict about 1.02 million cumulative exits by 2035 (about 41% of the approximately 2.5 million active units in 2022). The dashed green line shows the expected yearly exits under the extreme assumption that 30% of units in their extended use period will exit annually through QCs. Under this scenario, we predict just under 1.2 million cumulative exits by 2035 (about 48% of the total active units in 2022).

Figure 4 shows the predicted number of units that exit LIHTC affordability requirements each year through 2035. Under the three different assumptions about the rate of exit due to QCs, exits will increase in the coming years and reflect the trends of when units were placed in service (see figure 2). As the dashed orange line shows, accounting for exit risk due to QCs frontloads exits, meaning that some units exit earlier than their scheduled years. The dashed green line shows the highest level of assumed exits due to QCs, which flattens the trend of exits but at a much higher level.

Discussion and implications

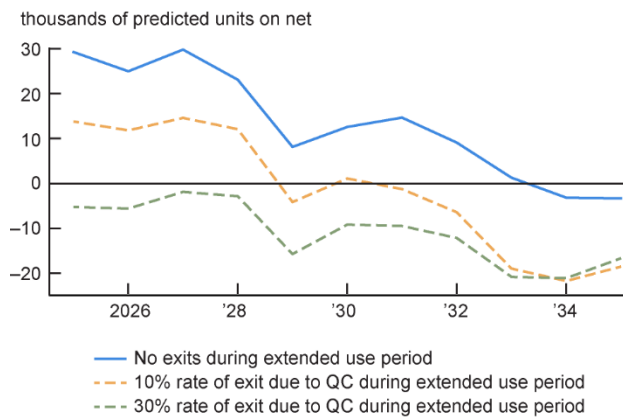
We next discuss the implications of how the numbers of LIHTC units across the country and in Seventh District states may evolve over the coming decades.

Balancing the creation and preservation of LIHTC units

Before 2020, LIHTC units would primarily exit their affordability requirements through a QC, foreclosure, or exceptional circumstances. This resulted in a net increase in units with active affordability requirements each year, culminating in roughly 2.5 million active LIHTC units as of 2022; however, as more and more LIHTC units reach their scheduled expiration dates, the total number of active units may stagnate or even decline after accounting for exits due to QCs.

Figure 5 shows predictions for the yearly net change in the number of active LIHTC units through 2035 under the three different assumptions about exits due to QCs. These predictions consider that as units exit affordability requirements, new units will be placed in service. To predict the net change in the number of units over the next ten years, we subtract the predicted number of exits from the predicted number of new units placed in service. We assume the number of active units newly placed in service is equal to the annual average of new active units over the period 2010–20 (roughly 86,000 units per year).

5. Expected yearly net change in LIHTC units across the U.S., 2025–35



Notes: LIHTC stands for Low-Income Housing Tax Credit, and QC stands for qualified contract, which is covered in the text. Newly active LIHTC units are assumed as an annual average of the units placed in service over the years 2010–20 (roughly 86,000 units per year). Net change in units is the anticipated newly active units minus the units predicted to exit from LIHTC affordability requirements (see figure 4). The rate of exit (including expirations after the full term) from LIHTC affordability requirements is reflective of units placed in service 30 years prior. For definitions of the compliance period and extended use period (which make up the typical 30-year LIHTC affordability period), see the text. For these simulations, no exit risk is assumed during the compliance period. Upon reaching the 30th year, units face a 91% exit risk, followed by a 1.7% yearly exit risk; in the simulations, this latter risk accounts for the probability of LIHTC resyndication, as well as for states with rent-restriction requirements longer than the typical 30-year LIHTC affordability period.

Source: Authors' calculations based on data from the Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

Figure 5 shows that under each of our three assumptions about exits due to QCs, the predicted yearly net change in the number of active units is negative by 2035.

These predictions have two implications:

- New units will replace units aging out of affordability requirements until about 2034 when not considering exit risk due to QC.
- The number of active LIHTC units will, for the first time, stop growing and stagnate or decline at some point in the next decade. Once accounting for exit risk due to QC, it is possible that the net number of active LIHTC units will begin to decrease by 2031—or even sooner under the extreme scenario of a 30% rate of exit due to QC.

Local housing affordability loss

Stagnation in the number of active LIHTC units at the *national* level can exist alongside steep *local* declines in the number of active LIHTC units. In some local markets, there may be concerns about whether the move to market rates will leave former LIHTC buildings unaffordable for families with low incomes.

LIHTC units in areas with high market rents are at outsized risk for losing their affordability after their LIHTC requirements expire. [Freddie Mac](#) examines the affordability of units no longer subject to LIHTC

requirements, finding that the rental rates of former LIHTC units typically remain below metro market levels, although this seems to be a function of LIHTC units being in low-rent submarkets.

Concern surrounding qualified contracts

As demonstrated through our analysis, scenarios with different rates of exit due to QC can have dramatically different effects on the amount and timing of exits from LIHTC affordability requirements.

Some HFAs have implemented policies to prevent owners from using QCs to have their LIHTC units exit early from affordability requirements; for instance, some Seventh District states [adopted their first protections](#) between 2016 and 2018. Some states have extended their LIHTC affordability timelines beyond the federal minimum, while others, including most Seventh District states, require all new applicants to waive their rights to QCs. As of December 31, 2024, [HUD has restricted eligibility for its FHA Multifamily rental and Risk Share insurance programs](#) to only property owners who waive their rights to a QC. These policies apply only to new LIHTC applicants; thus, the effects of these protections will only become apparent once new units enter their extended use periods, roughly 15 years after the implementation of these policies. Without QCs, we would expect our simulations to more closely approximate the baseline estimation, which already does not account for early exits during the extended use period.

Conclusion

We have provided insights into the functioning of LIHTC credits, presented data on projected expirations and possible early exits of LIHTC units from their affordability requirements, and discussed implications of our analysis for the preservation of the LIHTC-subsidized housing stock.

For the first time, LIHTC properties are aging out of the program in large numbers, with the earliest units reaching the end of their scheduled affordability requirements. Over the coming decade, increasing numbers of properties will expire out of the program annually. By 2035, we anticipate that around one-third of all currently active LIHTC units will expire—an unprecedented figure far exceeding the number of units that have exited the program previously. Moreover, when accounting for exits due to qualified contracts, we find that prior estimates likely undercount the number of units set to exit the LIHTC program.

The cumulative number of active LIHTC units may eventually stagnate or decline in the absence of policy interventions. In addition, units exiting the LIHTC program could become unaffordable for households with low incomes, particularly in geographies where the difference between higher market rental rates and lower LIHTC rental rates is widening. As properties leave the program in large numbers, there may be further research opportunities to help policymakers understand the evolving landscape of former LIHTC properties and identify where to target affordable housing investments.

We thank Nathan Anderson for his excellent guidance of our analysis and contributions to editing this article.

Notes

- ¹ Authors' calculations based on data from [Public and Affordable Housing Research Corporation and National Low Income Housing Coalition \(2024\)](#) and the [National Housing Preservation Database \(NHPD\)](#). If its affordability requirements remained active during its compliance period, any unit placed in service in or prior to 2008 would have reached its extended use period by December 2023. Thus, units placed in service in 2008 or earlier approximate the total set of LIHTC properties that could have ever been eligible for an early exit via a QC.
- ² When the NHPD lists a property's status as inconclusive, we consider it as having active affordability requirements if the observation has a listed end date in the LIHTC program.
- ³ We calculated the LIHTC unit percentage of the U.S. housing stock as the ratio of active LIHTC units placed in service in 2022 or earlier from NHPD divided by the [2022:Q4 U.S. Census Bureau estimate of total housing stock from FRED \(Federal Reserve Economic Data\)](#).
- ⁴ We calculated the LIHTC unit percentage of the U.S. multifamily housing stock as the ratio of active LIHTC units placed in service in 2022 or earlier from NHPD divided by the [2023 American Community Survey \(ACS\) estimate of multifamily housing units from the U.S. Census Bureau](#).
- ⁵ If a property with LIHTC units undergoes resyndication or is awarded a new credit for rehabilitation, we count its LIHTC units only once and from the start of the property's initial credit in our analysis.
- ⁶ To model the LIHTC unit exits, we aggregate the observations. For this reason, we do not observe property-specific state-level extensions to affordability timelines. We account for this in figure 4 through the yearly exit risk following the 30th year of the LIHTC affordability period.

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