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National Housing Agenda

Built to Last:

Designing a Financially Sustainable, Long-Term Operating Model to Maintain the Nation's Aging Housing Stock

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Abstract

The nation's housing stock is aging but guaranteeing the long-term operational sustainability of these existing homes is critical. This paper defines "operational sustainability" to include three interlocking goals—affordability, financial sustainability and habitability and it analyzes how the nation's aging housing stock is set-up to perform against those goals in the long-term. The white paper has three sections. The first section analyzes the operational challenges faced by lower-income **homeowners**, who are experiencing increases in operating costs including utilities, mortgage costs, insurance and others. This section then lays out why current policy tools are not well-equipped to offset those costs, leading to deferred maintenance especially among lower-income homeowners. The second section looks at the operating model of the nation's affordable **multifamily rental buildings**, finding that rental income may be declining in real terms while operating costs escalate. In addition, this section then describes the nation's three largest operating subsidy programs, showing that they both do not reach all "naturally occurring" affordable housing and where they are deployed may not be providing sufficient resources to offset shortfalls between rents and operating costs. The final section then discusses potential policy solutions to ensure the operational sustainability of older rental housing and owner-occupied homes targeted at lower-incomes.

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Introduction

Investing in the preservation of older homes is an important and effective supply strategy because it ensures the country is not losing homes through the back door even as new construction adds homes through the front door. Guaranteeing the maintenance and long-term operational sustainability of these existing homes is critical.

The nation's housing stock is aging. In 2024, according to the U.S. Census, the median year a structure was built was 1980.[1] Nearly 7 million households are living in housing defined as moderately or severely inadequate by the U.S. Department of Housing and Urban Development (HUD).[2] This group includes roughly 3 million homeowners and 4 million renters.

According to the Joint Center for Housing Studies at Harvard University, for homeowners, the median age of an owner-occupied home climbed to 42 years old in 2024, up from 31 in 2005.[3] Homeowners also spend more to maintain older housing units. For homes built before 1980, owners on average spent 24 percent more on improvements compared to owners of homes built since 2010, and average per owner maintenance spending was 76 percent higher.[4]

Rental units have also never been older. Rental units had a median age of 45 years in 2023, up from 36 in 2003.[5] Older rental units tend to also be in worse condition. More than 11 percent of the renters living in units built before 1940 lived in moderately or severely inadequate conditions, compared to 5 percent of renters who lived in units that were built after 2000.[6]

1. U.S. Census Bureau. (2025). *American Community Survey (ACS): Year built and year moved in.* https://www.census.gov/acs/www/about/why-we-ask-each-question/year-built/.

2. Divringi, E. (2025). *Home repair costs 2025: Updated estimates and new measures of cooling needs.* Federal Reserve Bank of Philadelphia. https://www.philadelphiafed.org/-/media/FRBP/Assets/Community-Development/Briefs/home-repair-costs-2025/home-repair-costs.pdf.

3. Zhao, N. (2026). *Almost half of the owner-occupied homes built before 1980. Eye on Housing.* National Association of Home Builders. https://eyeonhousing.org/2026/03/almost-half-of-the-owner-occupied-homes-built-before-1980-2/.

4. Harvard Joint Center for Housing Studies. (2025). *Improving America's Housing 2025.* https://www.jchs. harvard.edu/improving-americas-housing-2025.

5. Harvard Joint Center for Housing Studies. (2026). *America's Rental Housing 2026.* https://www.jchs. harvard.edu/state-nations-housing-2026.

6. *Id.*

Operating a unit of housing—whether it is a single-family homeowner maintaining the home they occupy or an owner of a multifamily property managing a rental building—tends to require that policymakers focus on at least three interlocking goals:

Goal	Description	Application to Single-Family	Application to Multi-Family
Affordability	Protecting against homeowners or renters being overly burdened by housing costs.	A homeowner should not be so cost-burdened that they spend more than 30% of their post-tax income on housing costs (including mortgage principal and interest, taxes, utilities, maintenance and insurance).	A tenant should not spend more than 30% of their income on rent and utilities.
Habitability	Ensure the home is well maintained, in good condition and essential services are provided.	The homeowner must be able to cover both regular day-to-day maintenance and to invest in capital improvements or emergency repairs of larger systems that provide essential services.	The owner must be able to maintain all of the buildings' units in a state of good repair and must be able to capitalize the building to invest in system-replacement.
Financial Sustainability	The owner has the resources to properly maintain the building over time while covering operating costs and debt service. This is typically a more challenging goal in the long-run.	For a homeowner, financial sustainability requires ensuring the costs of homeownership and associated annual expenses remain manageable as a relative percentage of the homeowner's post-tax income so they are not at financial risk and do not defer maintenance.	The owner has enough revenue to properly maintain the building over time as operating costs climb and the owner has sufficient net operating income to cover government taxes and fees and provide a fair return on the equity directly invested by owner(s) or indirectly by covering a mortgage.

This white paper has two sections. **Section 1** looks at how homeowners are meeting these goals, analyzing challenges to the owner-occupied single-family stock. This section then discusses existing programs meant to support homeowners, and the extent to which they enhance the operational sustainability of segments of the owner-occupied stock that are older and that are owned by lower-income homeowners, where the affordability challenges are most acute. **Section 2** looks at how the nation's income-restricted, affordable multifamily rental buildings are measuring up against these goals. This section then discusses potential policy solutions to ensuring the operational sustainability of rental housing targeted at lower-incomes where operating incomes and subsidies have struggled to keep up with rising operating costs.

Operational Sustainability for Single-Family Homes

Homeownership's Operating Model

This white paper does not focus on the initial transaction costs associated with the purchase of a home.[7] Instead, the paper targets affordability and long-term financial sustainability, and thus we focus on ongoing operating costs owners pay with post-tax income, which includes ongoing mortgage costs and other annual non-mortgage expenses.

A number of studies have found that non-mortgage costs in particular pose significant challenges to sustaining homeownership among low-income households. One study that surveyed lower-income homeowners across multiple states, found that half of the respondents faced unexpected costs, and roughly one-third had to pay for home repairs they could not afford.[8] Another paper studying low-income homeowners in Denver, Colorado found that many were worried about affording utilities (nearly 80 percent of their sample), as well as home maintenance, repairs, and property taxes.[9]

In 2023, using a proprietary Fannie Mae dataset that included loans from 2020, researchers evaluated how each cost component associated with homeownership contributed to ongoing operational sustainability across three different types of borrowers—average homebuyers, first-time homebuyers and low-income first-time homebuyers.[10] The paper estimated "ongoing housing costs for an existing home" within five categories:

7. In 2017, researchers built on the user-cost model to create a "Dynamic Housing Affordability Index" that could reflect the true cost of owner-occupied housing, taking into account variations in housing prices, transaction costs, benefits like the mortgage interest deduction and depreciation, and also costs like property taxes, property insurance and maintenance. Bourassa, S. C., & Haurin, D. R. (2017). A dynamic housing affordability index. *International Real Estate Review, 20*(3), 251–286. https://ideas.repec.org/a/ire/issued/v20n032017p251-286.html. Some economics literature utilizes a "user-cost" framework to quantify specific costs a homeowner faces over a typical ownership period. This framework lets analysts factor in the costs of transactions (buying and selling the home), mortgage costs and other future, ongoing expenses so a homeowner's costs can be compared to other types of housing. Hendershott, P. H., & Shilling, J. D. (1980). *The economics of tenure choice: 1955–79* (NBER Working Paper No. 543). National Bureau of Economic Research. https://doi.org/10.3386/w0543; Rosen, H. S., & Rosen, K. T. (1980). Federal taxes and homeownership: Evidence from time series. *Journal of Political Economy*, 88(1), 59–75. https://doi.org/10.1086/260847; Himmelberg, C., Mayer, C., & Sinai, T. (2005). Assessing high house prices: Bubbles, fundamentals, and misperceptions. *Journal of Economic Perspectives*, 19(4), 67–92. https://doi.org/10.1257/089533005775196769.

8. Van Zandt, S., & Rohe, W. M. (2011). The sustainability of low-income homeownership: The incidence of unexpected costs and needed repairs among low-income home buyers. *Housing Policy Debate, 21*(2), 317–341. https://doi.org/10.1080/10511482.2011.576525.

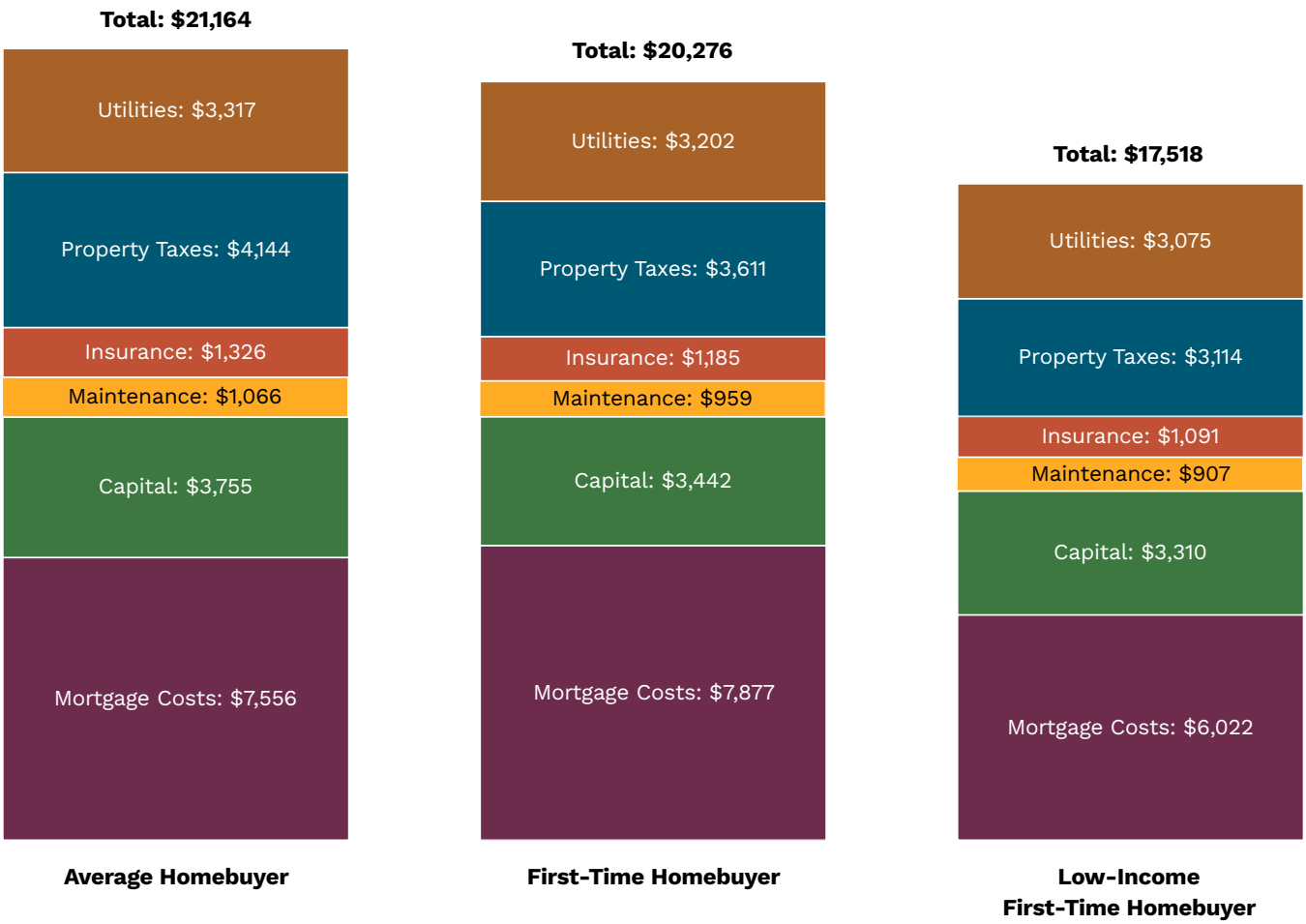
9. Santiago, A. M., Galster, G. C., Santiago San-Roman, A. H., Tucker, C. M., Kaiser, A. A., & Grace, R. A. (2010). Foreclosing on the American dream? The financial consequences of low-income homeownership. *Housing Policy Debate, 20*(4), 707–742. https://doi.org/10.1080/10511482.2010.506194.

10. Begley, J., & Palim, M. (2023). Mortgage costs as a share of housing costs—placing the cost of credit in broader context. *Fannie Mae.* https://www.fanniemae.com/media/43026/display.

- **Utilities:** Includes water, electric, gas, fuel oil or other fuel, and trash collection.
- **Property taxes:** Includes all real estate taxes, special assessments, school and county taxes.
- **Insurance:** Includes homeowners insurance.
- **Ongoing maintenance:** Includes more routine maintenance activities like minor plumbing or electrical work, landscaping, painting, extermination and others.
- **Larger capital improvements:** Includes major improvements or remodeling and investments in roofs, heating systems or other system replacements.

The paper also used proprietary Fannie Mae data to calculate annual mortgage costs in the first seven years of homeownership.[11] Figure 1 below shows a breakdown of the annual "operating model" based on the paper's estimates from 2020 for each type of homeowner:

Figure 1: Annual Present Value of All Ownership Costs (2020)



11. *Id.* For more detail see pages 9–14 of Begley, J., & Palim, M. (2023). For the purpose of this exercise we do not include repayments of principal, which the paper considers to be an investment flow and not a "cost".

There are important takeaways from Figure 1. First, low-income first-time homebuyers only pay 14% less in costs annually relative to other first-time home-buyers. Second, $2,352 of the $2,757 (or 85%) of the difference in costs between low-income and other first-time homebuyers are attributable to mortgage costs and property taxes, which presumably reflect differences between the properties' values or purchase prices. Other ownership costs are essentially fixed regardless of income, suggesting that these costs of homeownership do not vary significantly based on income. As a result, we would expect the ratio of operating costs to purchase price will be higher for low-income buyers, which would impact the owner's ability to borrow based on the value of their home.

In addition, the average annual income of a first-time homebuyer in the dataset was $89,436; but for the low-income first-time homebuyer the average annual income was $49,932. The average first-time homebuyer, then, is paying 22.7% of their *pre-tax* income towards homeownership costs, while the average low-income first-time homebuyer is paying 35.1% of their pre-tax income towards those costs. As a result, low-income homebuyers are more cost-burdened, and are especially at risk when assessed against our affordability metric.

These findings suggest that, in order to achieve the goals of affordability, habitability and financial sustainability, policy interventions should, at least in part, be targeted to address operational sustainability for lower-income homeowners.

Recent Increases in Operating Costs

Importantly, this study uses data from 2020, and since then homeowners have faced increases across many of these cost categories, often above the rate of inflation and faster than incomes are growing. Recent Census figures suggest median monthly owner costs for homeowners climbed to $2,035 in 2024 ($24,420 annually), with increases being driven largely by mortgage costs and insurance fees.[12] For the 25 percent of homeowners with the lowest incomes, median monthly housing costs increased in nominal terms by 25 percent between 2019 and 2023, which was almost double the 13 percent rate of growth in median annual incomes for this same group.[13]

Some of the increase in cost of homeownership is also a result of mortgage cost increases due to changes in interest rates and higher sales prices. But even for homeowners who own their home without a mortgage, costs are rising. Indeed, water and sewer bills have increased by more than 24.1% between 2019 and

12. U.S. Census Bureau. (2025). *U.S. Census Bureau releases 2025 American Community Survey 1-year estimates.* https://www.census.gov/newsroom/press-releases/2025/acs-1-year-estimates. html.

13. McCue, D. (2025). *Homeowner affordability.* Harvard Joint Center for Housing Studies. https://www.jchs. harvard.edu/sites/default/files/research/files/harvard_jchs_homeowner_affordability_mccue_2025.pdf

2024.[14] From November 2022 to November 2025, premiums for homeowners' insurance increased by more than 27% in nominal terms.[15] Median annual residential property tax payments for the lowest-income homeowners also increased by more than 24% from 2019 to 2023.[16]

Deferred Maintenance Among Homeowners with Lower Incomes

For lower-income homeowners the costs of homeownership and associated annual expenses now take up a higher percentage of their post-tax income, and many homeowners do not have sufficient residual income remaining after paying housing costs each month. Lower-income homeowners who lack residual income and savings are also more likely to defer maintenance and skip repairs, even as their homes and critical building systems are aging. Indeed, lower-income owners were more likely than other owners to report small amounts of spending on their homes, or to report spending nothing at all. For example, 46 percent of homeowners with incomes in the lowest quintile reported spending less than $500 on home improvements or maintenance in 2023.[17]

Larger capital investments may simply be out of reach for many low-income homeowners with higher cost-burdens, especially because the cost to make the same structural repairs also grew by about 14.1% in real terms between 2022 and 2024.[18] Over time, deferring maintenance and capital improvements will lead to lower quality housing and habitability concerns. Research has linked poor housing quality to worse health outcomes.[19] Deterioration in housing quality also erodes household wealth by depressing property values and limiting owners' ability to borrow against or sell their homes, and it may have spillover effects into a neighborhood, leading to a higher concentration of complaints, abandonment and an overall loss of housing units.[20]

14. Bluefield Research. (2025). *U.S. water and sewer bill has increased 24% in five years, raising affordability concerns.* https://smartwatermagazine.com/news/bluefield-research/us-water-and-sewer-bill-has-increased-24-five-years-raising-affordability.

15. U.S. Bureau of Labor Statistics. (n.d.). *Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Homeowner's Insurance* [PCU9241269241262]. *FRED, Federal Reserve Bank of St. Louis.* https://fred.stlouisfed.org/series/PCU9241269241262.

16. McCue, D. (2025). *Homeowner affordability.* Harvard Joint Center for Housing Studies. https://www.jchs. harvard.edu/sites/default/files/research/files/harvard_jchs_homeowner_affordability_mccue_2025.pdf.

17. Wedeen, S. (2025). *Home repairs are out of reach for many lower-income homeowners.* Harvard Joint Center for Housing Studies. https://www.jchs. harvard.edu/blog/home-repairs-are-out-reach-many-lower-income-homeowners.

18. Dagher, V. (2026). *The Typical U.S. Home Is 44 Years Old—And Needs Tons of Work*. Wall Street Journal. https://archive.ph/bEOqj.

19. Boch, S., Taylor, D., Danielson, M., Chisolm, D., & Kelleher, K. (2020). Home is where the health is: Housing quality and adult health outcomes in the Survey of Income and Program Participation. Preventive Medicine, 132, Article 105990.

20. Begley, J., & Lambie-Hanson, L. (2015). The home maintenance and improvement behaviors of older adults in Boston. Housing Policy Debate, 25(4), 754–781.

For Low-Income Homeowners, Current Policy Tools Are Not Well Equipped to Offset Increases in Operating Costs

There are a wide range of existing policy tools designed to help ensure the ongoing operational sustainability of homeownership. The two largest programs are federal tax expenditures that let homeowners deduct home mortgage interest payments[21] and state and local real property taxes[22] they pay each year from their taxable income when calculating their federal income tax liability. In total, the Joint Committee on Taxation estimates that, for Fiscal Years 2025 through 2029, providing the mortgage interest deduction tax benefit will cost the federal government more than $261.1 billion and the state and local real property tax deduction will cost $298.4 billion.[23]

The home mortgage interest deduction, though, is targeted at wealthier homeowners. The academic literature consistently finds that "groups that are on the homeownership margin (the poor and the young) are rarely able to use the deduction given the recent increases in the standard deduction, even when they are owners."[24] Likewise, the state and local real property tax deduction is also targeted at taxpayers who itemize, so it tends to benefit wealthier homeowners who live in states and municipalities with higher local tax burdens.[25] In other words, both programs are not targeted at the lower-income homeowners who may be struggling to pay annual operating costs with post-tax earnings.

Other federal housing programs are means-tested and targeted at lower-income homeowners but the amount of funding available is small relative to the need and annual appropriations levels do not adjust with inflation in the cost category targeted by the program. For example, the Low-Income Home Energy Assistance Program (LIHEAP) provides a block grant to states to administer programs that help low-income households pay for heating and cooling costs, and emergency or general repairs of heating equipment in limited circumstances.[26] Funding for LIHEAP has not kept pace with inflation in home energy costs. In Fiscal Year 2019, regular block grant appropriations were $3.65 billion, and that level of funding has remained flat even as costs have increased. Indeed, regular block grant appropriations

21. Internal Revenue Service. (2025). *Publication 936: Home mortgage interest deduction.* https://www.irs.gov/publications/p936.

22. Internal Revenue Service. (2025). *Topic No. 503: Deductible taxes.* https://www.irs.gov/taxtopics/tc503.

23. Congressional Joint Committee on Taxation. (2025). *Estimates of federal tax expenditures for fiscal years 2025–2029*(JCX-45-25). https://www.jct.gov/publications/2025/jcx-45-25/.

24. Glaeser, E. L., & Shapiro, J. M. (2003). The benefits of the home mortgage interest deduction. In J. M. Poterba (Ed.), *Tax Policy and the Economy* (Vol. 17, pp. 37–82). MIT Press. https://www.nber.org/system/files/chapters/c11534/c11534.pdf; Hilber, C. A. L., & Turner, T. M. (2014). The mortgage interest deduction and its impact on homeownership decisions. *The Review of Economics and Statistics*, 96(4), 618–637; Davis, M. (2019). *The distributional impact of mortgage interest subsidies: Evidence from variation in state tax policies* (Job Market Paper). The Wharton School, University of Pennsylvania. https://faculty.wharton.upenn.edu/wp-content/uploads/2016/11/MDavis_MID.pdf.

25. Lautz, A., & Snyderman, R. (2025). *Which states benefit most from the SALT deduction?* Bipartisan Policy Center. https://bipartisanpolicy.org/explainer/which-states-benefit-most-from-the-salt-deduction/.

26. Omnibus Budget Reconciliation Act of 1981, Pub. L. No. 97-35, § 2605(b)(2)(B), 95 Stat. 357; LIHEAP. (2025). *Income eligibility for States and Territories.* https://liheapch.acf.gov/delivery/income_eligibility. htm.

were $3.6 billion in Fiscal Year 2026, after the allocation was level at $3.7 billion each of Fiscal Year 2024 and 2025.[27] As a result, according to some estimates, only 15 percent of the households that were eligible for LIHEAP received funding from the program in 2025.[28]

The federal government also provides funding for "home repair" through the Community Development Block Grant (CDBG) program, the HOME Investment Partnership Programs (HOME), and the US Department of Agriculture's (USDA) Section 502 and 504 programs and others.[29] However, local governments often have other priorities they fund with CDBG and HOME dollars. And again, funding levels for these programs do not adjust each year with inflation or to account for changes in the operational sustainability of the nation's housing stock. In many cases, annual appropriations for these programs have been cut in nominal terms even as costs have escalated.[30] The federal government does also provide limited funds for specific projects, including weatherization assistance, lead-based paint remediation and the abatement of other health hazards.

Federal, state and local governments intervene in the operational sustainability of homeownership in other ways. For example, the federal government regulates and supports the residential mortgage market and some of the benefits of those regulations are targeted at low-income homeowners. Indeed, the federal government has promoted the thirty-year fixed rate mortgage utilizing some combination of the Federal Housing Administration, the government-sponsored enterprises, securitization and other interventions in the mortgage market for almost one-hundred years.[31] State Housing Finance Agencies (HFAs) and local governments also have programs that provide downpayment assistance or other subsidies to lower-income buyers.[32]

27. LIHEAP. (2026). *Funding for States and Territories.* https://liheapch.acf.gov/Funding/funding. htm.

28. 5.7 million of 38 million eligible households received benefits in 2025. Edison Electric Institute. *LIHEAP Funding*. https://www.eei.org/en/issues-and-policy/liheap.

29. Housing Solutions Lab. (n.d.). *Home repair: Federal funding for home repair and accessibility modifications*. https://www.localhousingsolutions.org/fund/federal-funding-directory-home-repair/.

30. For example, USDA Section 502 programs totaled $26 billion in Fiscal Year 2026 after being funded at $25.8 billion in Fiscal Year 2024 and Fiscal Year 2025, and at $31.25 billion in Fiscal Year 2023. Housing Assistance Council. (2025). *USDA housing funding FY26*. https://ruralhome.org/usda-housing-funding-fy26/. CDBG formula grants totaled $3.1 billion in Fiscal Year 2026, lower than the $3.3 billion provided in Fiscal Years 2022 through 2025; and HOME received $1.25 billion in Fiscal Year 2024 through 2026, lower than prior years like Fiscal Year 2022 and 2023 where it was funded at $1.5 billion. National Low Income Housing Coalition. (2026). *Federal budget and spending*. https://nlihc.org/federal-budget-and-spending.

31. Kish, R. J. (2022). The Dominance of the U.S. 30-Year Fixed Rate Residential Mortgage. *Journal of Real Estate Practice and Education*, *24*(1), 1–16. https://doi.org/10.1080/15214842.2020.1757357.

32. Hembre, E., Moulton, S and Record, M. (2021). Low-Income Homeownership and the Role of State Subsidies: A Comparative Analysis of Mortgage Outcomes. J. Pol. Anal. Manage., 40: 78-106. https://doi.org/10.1002/pam.22240.

Since the 1940s, state insurance commissioners have also had the task, under federal law, of regulating the process by which insurers set rates for homeowners', property and casualty insurance.[33] Regulatory approaches to the rate-setting process, though, vary considerably by state.[34] Most states also offer "Fair Access to Insurance Requirements" plans for homeowners who struggle to obtain property and casualty insurance on the regular market but these policies typically provide less coverage and are still costly.[35]

Another example of a program within the federal income tax code meant to offset homeowners' operating costs is the deduction for mortgage insurance premiums, which lapsed for a period of time but was reinstated in 2026 for homeowners with adjusted gross household incomes less than $109,000.[36] Local governments may also provide assistance to low-income homeowners struggling with property tax, water and sewer bills.

But taken together, these programs and regulatory structures that are meant to preserve older owner-occupied homes and help homeowners pay operating costs over time are fragmented, not always well-targeted to the nation's low-income homeowners and the funds available do not keep pace with rapid inflation in costs, worsening the financial standing of many homeowners with stagnant incomes. As a result, after a period of rapid inflation, these homeowners are struggling against all three of our metrics—affordability, financial sustainability and habitability.

Operational Sustainability for Affordable Multifamily Rentals

Crafting a financially sustainable operating model for housing where rents remain affordable for low-income households is a delicate balancing act. If the operating model cannot balance these goals when serving lower-income households, renters may find rents are unaffordable, or owners will struggle to sustain the building's finances and maintain the habitability of units.

Unlike other real estate, operators serving low-income households cannot generate as much rental income to cover rising operating costs, especially if incomes for tenants of lower-means are not increasing at the rate of inflation, without impacting the affordability of the unit. In an inflationary environment, these tenants may also already be struggling to pay rent, leading to lower collections.

33. Boyce, R. & Kimball, S., (1958). Adequacy of State Insurance Rate Regulation: The McCarran-Ferguson Act in Historical Perspective. 56 Mich. L. Rev. 545 (1957-1958) https://repository.law.wisc.edu/s/uwlaw/item/29540.

34. Americans for Financial Reform Education Fund (2026). *States Must Strengthen Oversight of Homeowners Insurance Rate Increases.* https://ourfinancialsecurity.org/resources/states-must-strengthen-oversight-of-homeowners-insurance-rate-increases/.

35. National Association of Insurance Commissioners. (2024). *FAIR Access to Insurance Requirements (FAIR) Plans.* https://content.naic.org/insurance-topics/fair-access-to-insurance-requirements-plans.

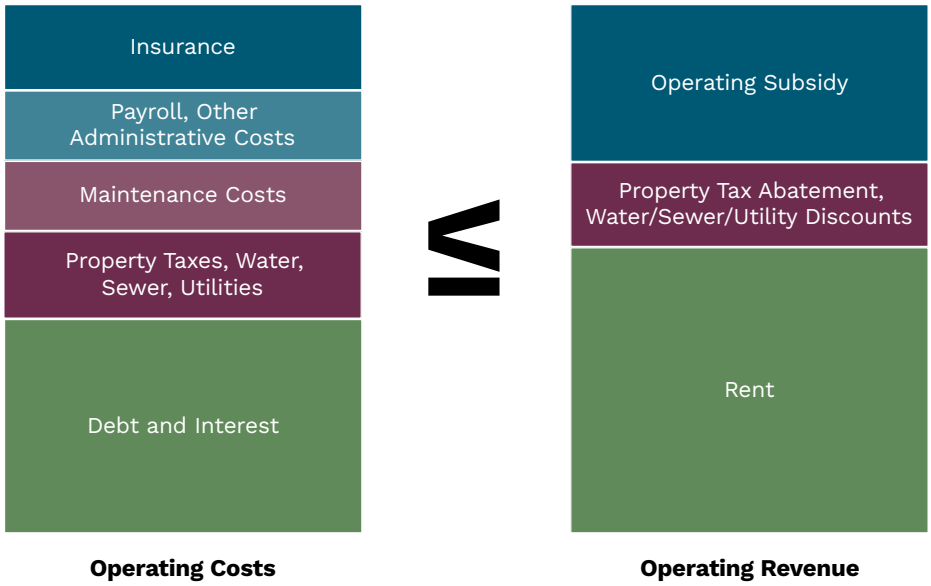
36. H&R Block. (2025). *Mortgage insurance premiums tax deduction.* https://www. hrblock.com/tax-center/filing/adjustments-and-deductions/mortgage-insurance-premiums-tax-deduction/.

The federal government has established a range of methods to support some of these properties in periods of high inflation by calculating the extent to which operating subsidies must grow to cover escalating costs and declining real rental income. For some programs, like the public housing program, there is still a structural operating deficit despite the presence of an estimate on how much costs have grown. For other programs, like the LIHTC and Section 8 programs, the funds appropriated for operating subsidies, and the reliance on a mixed-income model, have historically helped ensure owners can pay the median buildings' operating costs even as costs escalate, though this is not consistent across all markets.

Affordable Housing's Operating Model

Building owners operating multifamily rentals need income to cover operating costs that are subject to market dynamics such as the cost of labor, fuel, utilities, maintenance, insurance, and administrative costs. Income also must cover costs imposed by the government like property taxes, water and sewer fees. Residual income after some of these operating costs is often called "net operating income" (NOI) and those funds are used to pay debt service. Any remaining funds represent a return to investors. NOI also determines a building's market value and if a building's NOI is constant in inflation-adjusted terms, the building's value will also be constant.

In other words, the long-term operating viability of a multifamily affordable housing project requires that a property's operating revenue (which includes **rents** and **other subsidy sources**) will cover operating costs, including **annual costs to service its debt**. Importantly, the owner must make sure the cost of operations each month (as shown on the left bar) is less than the amount of revenue each month (as shown on the right bar):



If an owner cannot increase the amount of income it generates from rent or other operating subsidies are insufficient to cover increases in operating costs then the owner cannot compensate for the impact of inflation on the expense side, and other negative consequences — including deferring maintenance or an owner failing to pay debt service or government-imposed levies like taxes — may quickly follow.

This prompts a series of important considerations for the nation's aging affordable housing rental stock: (1) On the revenue side, how have rental incomes and operating subsidies changed over time?; (2) On the cost side, how have costs changed over time?; and (3) How has the nation's operating subsidy programs and other interventions sought to fill these gaps?

The largest source of revenue for a multifamily rental project is typically tenants' monthly rents. **Section 2** covers the compounding challenges facing the rental income variable in the equation.

Many affordable housing programs then provide support so buildings can operate and continue to serve lower-income renters even if rental income is not increasing to keep pace with inflation.[37] But, the amount of subsidy provided must increase to cover increases in operating costs and to cover the growing shortfall in rental income.

There are two ways subsidies can be delivered. First, if the government provides a partial or full property tax exemption, or discounts on utility, water, or sewer service charges, those policy interventions help defray costs and reduce the need for additional revenue to cover those expenses. Second, various levels of government will provide flexible operating subsidies (in the form of rental assistance or direct outlays of money to cover operating costs) to account for the shortfall. **Section 3** covers the challenges facing the operating subsidy variable in the equation using the three largest federal affordable housing programs—Section 8 project-based assistance, the Low-Income Housing Tax Credit (LIHTC) and public housing.

On the expense side of the equation, there are a range of challenges impacting the operational sustainability of the City's aging multifamily rental housing. First, costs have changed significantly over time, as we also discuss in **Section 3** when we cover each operating subsidy program. Second, many affordable housing properties are built and preserved using debt products because of a lack of up-front cash to finance the project's construction and operations. As a result, many of these owners are expected to make continuous mortgage payments but they may have unsustainable debt loads that are also impacting the buildings' net operating income. **Section 4** briefly covers the challenges facing the debt service variable in the equation on the cost side.

37. Operating subsidies and tax exemption programs can only help if, over time, their value increases as rent shortfalls relative to operating costs continue to increase. Otherwise, these tools are only providing a cushion for a number of years before the rent shortfalls are overwhelmed by operating costs.

Finally, **Section 5** provides additional detail on the operating model of "naturally occurring" affordable housing properties serving low-income renters, where a lack of subsidy makes navigating periods of high inflation in operating costs more challenging.

Income from Rents

Today, many multifamily housing operators serving lower-income renters are essentially facing three compounding challenges when it comes to rental income. The personal income of low-income renters are declining in real terms, and so for income-restricted properties rental income is not keeping pace with inflation, while rent collection, in general, remains lower than pre-pandemic baselines. These challenges lead to declines in rental revenue in real terms.

Challenge #1: Incomes for individual lower-income renter households are not increasing at a rate similar to incomes overall or relative to operating costs

Adjusting for inflation, there have been more significant declines in real income for lower-income renters. Between 2019 and 2023, across all households, nominal income grew and, though it roughly kept pace with inflation, real income growth did still decline 0.02 percent per year.[38] However, among low-income renters during this same time period, real income growth declined 1.5 percent per year.[39]

This matters for operators of affordable housing and other multifamily rental buildings serving lower-income households. If the incomes of a building's tenants are not keeping pace with inflation, they are likely also not keeping pace with escalations in operating costs. In naturally occurring affordable housing where rents are allowed to increase irrespective of a tenant's income, an owner may try but be unable to increase rents because the market will not bear it and an existing tenant cannot afford to pay it. Regardless, an owner struggling to keep up with operating costs will push to increase rents to the extent they can, which may cause severe rent burdens, threaten affordability or cause a tenant to move if the tenant ultimately cannot afford the new rent.

For income-restricted affordable housing, this challenge may also be exacerbated by the way programs are designed. Operators of affordable housing underwrite their properties with an expectation that they will be able to generate more rental income each year based on having a specific mix of incomes, and income growth, within a building.

38. Loewenstein, L. (2026). *Renter Households amid Rising Rents: 2019–2023*. Federal Reserve Bank of Cleveland. https://www.clevelandfed.org/publications/economic-commentary/2026/ec-202603-renter-households-amid-rising-rents-2019-2023.

39. *Id.*

For example, to qualify for the Low-Income Housing Tax Credit (LIHTC) program, projects must meet one of three tests, each of which sets aside a percentage of units to be affordable to tenants making between approximately 50% to 60% of the area median income at lease-up.[40] Because real income among low-income renters have declined even as real income among other households has increased, the same tenant who at lease-up a decade ago had an income that was 50 percent of AMI might now have an income that is 30 percent of the present-day AMI. Indeed, the LIHTC stock increasingly has tenants who are extremely low-income, falling far-below the income thresholds. From 2015 to 2023 the share of tenants with incomes at or below 30% of the area median income increased from 44.5% to 57.2%.[41] Of course, many of these extremely low-income households may also be utilizing vouchers that ensure the total amount of subsidy per unit exceeds what would be generated based on the unit's income limit.

Still, without a voucher, the amount of rent a unit will generate is now less than the owner or lender might have expected and the operating model likely anticipated the tenant's income would keep pace with general inflationary trends for incomes across the metropolitan area. Indeed, many properties may have been underwritten to assume the property would generate more rental income as the area median incomes increased.

Challenge #2: Affordable housing owners are only be able to charge rents at 30% of a resident's gross income

In affordable housing, when incomes are declining in real terms and tenants are not vacating the unit, the amount of rent that can be charged is also declining when adjusted for inflation. After all, the rent an owner can charge is set as a percentage of a resident's income based on program rules. If we take a hypothetical example, if a renter in a rent-restricted property had an annual income of $30,000 in 2022 and then their income was still $30,000 in 2023, their rent would stay consistent at about $9,000 annually even though the annual inflation rate from 2022 to 2023 was 4.1%.

During periods of rapid inflation, the amount of rent an owner can charge for a unit in the nation's affordable housing stock declines in real terms unless personal incomes of the renters in the building keep pace.

40. The three tests are - (1) at least 20 percent of the units have to be both rent restricted and occupied by households with incomes at or below 50 percent of area median income (AMI), (2) at least 40 percent of the units have to be both rent restricted and occupied by households with incomes at or below 60 percent of AMI; or (3) at least 40 percent of the units have to be both rent restricted and occupied by households with imputed incomes that match a designated limit, and where all of the designated limits averaged together do not exceed 60 percent of AMI. Internal Revenue Service. (2022). *Section 42, low-income housing credit average income test regulations. Federal Register, 87*(196). https://www.federalregister.gov/documents/2022/10/12/2022-22070/section-42-low-income-housing-credit-average-income-test-regulations.

41. Goel, A., & Lawrence, P. (2026). *Newly released HUD LIHTC tenant data continues to show majority of residents earn 30% of AMI or less*. Novogradac. https://www.novoco.com/notes-from-novogradac/newly-released-hud-lihtc-tenant-data-continues-to-show-majority-of-residents-earn-30-of-ami-or-less.

Challenge #3 : Owners are not collecting as much of the rent charged.

Finally, many owners of affordable housing have been struggling to collect the rent each month. The COVID-19 pandemic had a significant impact on renters, and rent collection rates declined significantly in the immediate term. One study of 2,500 rental property owners in ten cities found that the share of landlords that reported collecting 90 percent or more of the rent charged annually fell from 88.9% in 2019 to just over 60 percent in 2020.[42] Another ongoing study covering the period between March 2020 and August 2026 that uses property management software covering 59,420 units has found that, nationally, rent collection rebounded only slightly from a low in September 2020 of 80.6% of rental payments being made on time to 83.2% in August 2026.[43] Another study using Yardi data found that, on average, affordable housing operators collected 88.6% of the charged rent nationwide in May 2026.[44]

There are two important items to keep in mind when evaluating this data. First, there is significant variation in collection rates by market. In the worst ten markets in Yardi's study, collection rates ranged from 66.8% to 79.4%, while the best ten markets had collection rates between 95.6% and 97.3%.[45] But most importantly, a typical rule is to underwrite a collection and vacancy loss factor of around 5% to 7%, and so even if rent collection rates have rebounded since pandemic-era lows, many owners are still potentially collecting a lower percentage of the rent charged than owners had anticipated when they underwrote their operating models.

Income from Subsidy Programs, Increases in Operating Costs

On the revenue side, when affordable housing owners struggle to generate rental income, the expectation is that subsidy programs will provide the resources to address the shortfall so owners can sustainably pay operating costs. But, some of the major federal subsidy programs do not always adjust to account for increases in costs and losses in rental income. In this section of the paper, we evaluate three of the largest federal subsidy programs.

42. De La Campa, E. A., & Reina, V. J. (2023). *Landlords' Rental Businesses Before and After the COVID-19 Pandemic: Evidence from a National Cross-Site Survey*. Journal of Housing Economics. https://pmc.ncbi.nlm.nih.gov/articles/PMC9749398/.

43. https://www.chandan.com/post/independent-landlord-rental-performance-report-august-2026.

44. Yardi Matrix. (2026). *Matrix Affordable Housing National Report—July 2026*. https://www.yardimatrix.com/affordable-national/matrix-affordable-housing-national-report-july-2026/?signup=false.

45. *Id.*

Section 8 Project Based Assistance Properties

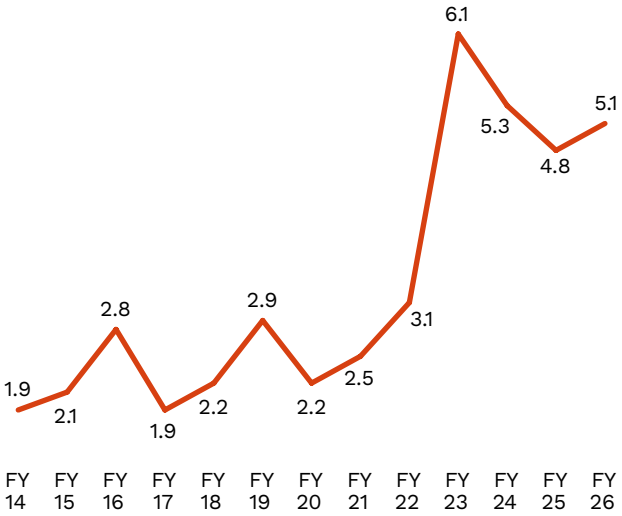
The Section 8 program is the largest rental assistance initiative in the United States. The program provides rental assistance to low-income households through tenant-based vouchers, which are allocated to individual households that can choose where to use them, and through project-based assistance, in which subsidies are tied to specific housing units within designated buildings. As an operating subsidy, rental assistance is often a critical source of revenue, particularly for properties where a large share of units receive assistance. Most project-based assistance comes in the form of project-based vouchers (PBVs) administered by a public housing authority (PHA) or using the project-based rental assistance (PBRA) program.

For most of the buildings that use PBVs or PBRA (including Rental Assistance Demonstration buildings and other PBV contracts), HUD calculates Operating Cost Adjustment Factors (OCAFs) for each state each year to ensure the rents paid upon renewal (inclusive of HUD's subsidy portion) are keeping up with any increases in the cost to operate the buildings.[46] This is a key factor for ensuring rental assistance will allow for the long-term financial sustainability of the building, and it protects tenants from rent increases they cannot afford.

HUD's calculation of OCAFs takes into account nine separate operating cost categories within a geographic area and it then produces a weighted average factor that can be used to determine how much costs have changed over the course of a year. The nine categories are wages, employee benefits, property taxes, water/sewer/trash, property insurance, goods, fuel oil, electricity, and natural gas.

When aggregated across cost categories, the nationwide OCAFs have seen a rapid acceleration in the last four years. From Fiscal Year 2014 to Fiscal Year 2022, the OCAF ranged from 1.9 to 3.1. In Fiscal Year 2023, it rose to 6.1; and the OCAF has remained at historically elevated levels each year over the last three fiscal years at 5.3, 4.8 and 5.1:[47]

Annual Operating Cost Adjustment Factors Calculated by HUD



46. U.S. Department of Housing and Urban Development. Office of Policy Development and Research. (2026). *Operating Cost Adjustment Factors: Overview and recent methodological developments.* https://www. huduser.gov/portal/pdredge/pdr-edge-spotlight-article-040226.html. For other Section 8 rental assistance programs (including Section 8 New Construction and Substantial Rehabilitation programs, the Moderate Rehabilitation programs and others), HUD uses the Annual Adjustment Factors (AAFs) to adjust rents. AAFs are a relatively straight forward calculation based on overall inflation for both rent and utilities, without taking operating expenses into account explicitly, because the purpose is to reflect local rental markets rather than the cost to operate a building.

47. U.S. Department of Housing and Urban Development. (2026). *Multifamily data.* https://www. hud.gov/hud-partners/multifamily-data.

Some of these changes reflect adjustments HUD has made to its methods for calculating OCAFs. For example in Fiscal Year 2023 and 2025, HUD made adjustments to the input it uses to calculate the rate of change in the property insurance market.

Some literature has advocated for additional changes to the OCAF process, including an effort to estimate changes in costs in more refined geographies (e.g. by metropolitan area or region), or to use actual, audited financial data from owners who participate in the voucher program, so HUD can validate whether they are producing an accurate estimate.[48]

Regardless, because the Section 8 program is designed to adjust with inflation in rents and operating costs, the overall appropriations from Congress for the program have grown over time. For example, in Fiscal Year 2019 the tenant-based rental assistance and project-based rental assistance programs received $36.4 billion in total appropriations from Congress.[49] By Fiscal Year 2025, funding levels for the two programs had increased by 45%, with the total appropriations exceeding $52.9 billion.[50]

Still, these changes to appropriations levels for the Section 8 program do not mean the program is serving more low-income households. Indeed, the number of subsidized units available under these programs grew by only 7%, from 3.85 million to 4.12 million, even as appropriations grew by 45%.[51] In other words, escalating costs and inflation in fair market rents, not adding households, was responsible for the growth of the program and the limited availability of Section 8 means most owners serving low-income renters cannot depend on this subsidy to pay escalating operating costs.

Low-Income Housing Tax Credit Properties

To cover the operational sustainability of LIHTC projects, each year, Novogradac publishes the "Low-Income Housing Tax Credit Income and Operating Expenses Report" which consolidates project-level data from nearly 193,000 rental units at more than 1,700 properties across the nation.[52] Among these properties, pre-tax and pre-debt service expenses (which covers administration, repairs and maintenance,

48. Warrior, A (2025). *HUD Operating Cost Adjustment Factors & The Importance of Good Data*. Center for Public Enterprise. https://publicenterprise.org/hud-operating-cost-adjustment-factors-the-importance-of-good-data/.

49. National Low Income Housing Coalition. (2021). *FY21 Budget Chart.* https://nlihc.org/sites/default/files/NLIHC_HUD-USDA_Budget-Chart.pdf.

50. National Low Income Housing Coalition. (2026). *Federal budget and spending.* https://nlihc.org/federal-budget-and-spending.

51. U.S. Department of Housing and Urban Development. (n.d.). *Picture of Subsidized Households. HUD User.* https://www. huduser.gov/portal/datasets/assthsg. html.

52. https://www.novoco.com/products/low-income-housing-tax-credit-income-and-operating-expenses-report.

utilities, payroll, management fees and insurance), were up 10.5% in 2024 relative to 2023 and totaled $7,657 per unit. At the same time, the median increase in project incomes in 2024 relative to 2023 was 8.7% and totaled $12,385. The net operating income of $4,729 was an increase of 5.9%, which indicated that these properties had stabilized after NOI had decreased by 0.1% when combining 2021 and 2022.[53]

But, it's important to keep in mind that there can be substantial variation across different markets and there was substantial variation by cost category:

- Insurance is the cost category that has seen the most substantial increases. Insurance costs were $821 per unit per year, more than 10.7% of the overall operating budget, and they had increased by 17.8% in 2024 relative to 2023, and by 287.1% since 2016.[54]
- Repairs and maintenance has also been growing as a cost category. This category now costs $1,986 per unit per year, which represents an increase of 13.8% in 2024 relative to 2023 and by 99.6% since 2016.[55]
- Other expenses were below the rate of increase of expenses generally. For example, utilities increased by 9.6% between 2023 and 2024.[56]

The median LIHTC building, in general, appears to be maintaining a healthy net operating income to pay debt service, property taxes and other government levies (if applicable) and to provide a rate of return to investors despite rapid escalation in certain cost categories. There are likely three reasons these projects are more stable financially. First, LIHTC projects can increase rental income from the share of units that are not income-restricted in high-demand markets where the buildings are mixed-income. But, the ability to increase rents in market-rate units to cross-subsidize the operation of income-restricted units is not universal across markets, and in many projects, there are very few market-rate units or commercial elements to the project that can be used to generate income. For example, the median rental income for LIHTC properties in metropolitan areas is $3,500 higher annually compared to a unit in a nonmetropolitan area, which leads to higher net operating incomes in metropolitan areas. Properties in the Northeast (which are dominated by New York City) and in the West (which includes California) also receive significantly more rental income compared to LIHTC properties in other regions.[57]

53. Gorman, K. (2026). *Rental income and operating expenses: NOI all hit new peaks for properties in the Novogradac LIHTC data set.* Novogradac. https://www.novoco.com/notes-from-novogradac/rental-income-operating-expenses-noi-all-hit-new-peaks-for-properties-in-the-novogradac-lihtc-data-set.

54. Gorman, K. (2026). *Repairs and maintenance, property insurance expenses continue to grow rapidly at LIHTC properties.* Novogradac. https://www.novoco.com/notes-from-novogradac/repairs-and-maintenance-property-insurance-expenses-continue-to-grow-rapidly-at-lihtc-properties-in-novogradac-report.

55. *Id.*

56. Novogradac. (2026). *LIHTC rental income and expenses: What data tells us about trends in affordable housing* [Podcast]. https://www.novoco.com/podcast/jan-27-2026-lihtc-rental-income-and-expenses-what-data-tells-us-about-trends-in-affordable-housing.

57. Gorman, K. (2026). *Rental income and operating expenses: NOI all hit new peaks for properties in the Novogradac LIHTC data set.* Novogradac. https://www.novoco.com/notes-from-novogradac/rental-income-operating-expenses-noi-all-hit-new-peaks-for-properties-in-novogradac-lihtc-data-set.

Second, for the income-restricted units in the project, LIHTC owners can also sometimes adjust rents, even if the unit is income-restricted, as the area median income increases, including on vacancy. Third, LIHTC properties also tend to layer on other operating subsidies, including Section 8 vouchers.[58]

Still, in an environment where certain unavoidable costs like insurance and utilities are increasing significantly, buildings with different income mixes or in weaker markets, where the market rate units cannot generate more income, will struggle unless policy interventions can bend the curve on some of those costs.

Public Housing

The public housing program's operating model differs from the Section 8 and LIHTC programs. The public housing program exclusively serves households with very-low incomes, and tenants' rents adjust based on incomes. As a result, in 2025, HUD reported that the average tenant rental payment per household for public housing was $439 per month, or $5,268 per year, which was up by only $17, or about 4%, from 2024.[59]

Needless to say, these low rent levels and the slow growth over time in rental income makes it difficult for public housing authorities to cover operating costs. Public housing does not pay property taxes, but it does still pay other operating costs and HUD tries to estimate the total operating costs for the program each year. The statute governing the program splits the estimate for operating costs into three categories:

- **Project Expense Level (PEL):** This category includes the costs associated with administration, management, maintenance, protective services, leasing, occupancy, staffing, and other expenses, such as insurance. HUD benchmarks an estimate of what these operating costs should be to the actual costs of Federal Housing Administration projects for which it has data.[60]
- **Utilities Expense Level (UEL):** This category includes the actual costs charged to the public housing authority for utilities, including electricity, water, gas and sewer, and it is based on reporting from the public housing authority.[61]
- **Other costs:** Public housing authorities also charge other fees as "operating costs" including per unit asset management fees and centralized technology fees, as well as funds for HUD-mandated tasks like independent audits and resident participation activities.[62]

58. Goel, A., & Lawrence, P. (2026). *Newly released HUD LIHTC tenant data continues to show majority of residents earn 30% of AMI or less.* Novogradac. https://www.novoco.com/notes-from-novogradac/newly-released-hud-lihtc-tenant-data-continues-to-show-majority-of-residents-earn-30-of-ami-or-less.

59. U.S. Department of Housing and Urban Development. (n.d.). *Picture of Subsidized Households. HUD User.* https://www. huduser.gov/portal/datasets/assthsg. html.

60. U.S. Government Publishing Office. (n.d.). *24 C.F.R. § 990.165—Utilities expense level. Electronic Code of Federal Regulations.* Retrieved July 9, 2026, from https://www.ecfr.gov/current/title-24/subtitle-B/chapter-IX/part-990.

61. U.S. Government Publishing Office. (n.d.). *24 C.F.R. §§ 990.170–990.185—Computation of utilities expense level.Electronic Code of Federal Regulations.* Retrieved July 9, 2026, from https://www.ecfr.gov/current/title-24/subtitle-B/chapter-IX/part-990.

62. U.S. Government Publishing Office. (n.d.). *24 C.F.R. § 990.190—Other formula expenses (add-ons). Electronic Code of Federal Regulations.* Retrieved July 9, 2026, from https://www.ecfr.gov/current/title-24/subtitle-B/chapter-IX/part-990.

After totaling these operating costs across the public housing stock to produce an estimate, HUD calculates the amount that would be necessary to fund the gap between this estimate of expenses and the incomes generated by tenants' rents. This difference is meant to be the amount appropriated for the public housing operating fund.

However, in 19 of the last 25 years, Congress has appropriated less funding than public housing agencies were due under the operating fund's formula.[63] For example, in Fiscal Year 2026, Congress appropriated $4.687 billion for the program's Operating Fund and another $337 million in competitive shortfall funding.[64] But HUD's estimates from 2024, adjusted for inflation to March 2025 levels, suggested that appropriations of $5.720 billion and $580 million in competitive shortfall funding would have been necessary to fund the public housing stock's actual costs to operate and to make up for the prior year's shortfall.[65] In other words, using HUD's estimates, public housing authorities are facing a more than $1 billion annual structural operating deficit where incomes, including subsidy, are not sufficient to pay annual operating costs.

Debt Service

There are other factors that contribute to weak net operating incomes for affordable housing. For example, these projects are often over-leveraged with debt due to a lack of other direct capital and operating subsidies that could be used to finance ongoing operations, new construction or preservation work.

The total cost to develop or preserve affordable housing generally includes hard costs, such as building materials and labor; soft costs, such as financing, design, and taxes; and, if the property is being sold or acquired, the cost of land. Financing affordable housing requires a complex assembling of resources to fund these development costs at two stages: (1) the acquisition and construction phase and (2) when the property converts to its source of permanent financing. The financing packages will also provide funds for operating reserves to protect against the risk that the operating model will falter during the term of the loan.

63. Center on Budget and Policy Priorities. (2026). *Public housing.* https://www.cbpp.org/research/housing/public-housing.

64. Public Housing Authorities Directors Association. (2026). *Congress passes FY26 HUD appropriations.* https://www.phada.org/Publications/Breaking-News-Administrator/View/ArticleId/18472/Congress-Passes-FY-26-HUD-Appropriations.

65. Council of Large Public Housing Authorities, National Association of Housing and Redevelopment Officials, Public Housing Authorities Directors Association, MTW Collaborative, & Local Housing Administrators Coalition. (2025,). *Fiscal Year 2026 (FY26) public housing and Section 8 program funding needs*. Council of Large Public Housing Authorities. https://clpha.org/sites/default/files/FY26%20Public%20Housing%20Industry%20Budget%20Request.pdf.

Because direct sources of equity and operating subsidies are scarce, to finance affordable housing, most projects rely on a complicated capital stack that includes senior private debt and then multiple layers of publicly subsidized debt products. As a result, once the property is operating, it must support higher debt service payments. Other papers in this series, in particular the paper that covers new methods of acquiring land and leveraging its value and the paper that covers the need to deploy simpler, cheaper capital to finance affordable housing, are also exploring levers that might help ensure the long-term operational sustainability of properties serving renters with low-incomes.

"Naturally Occurring" Affordable Multifamily Rentals

Most of the nation's lowest-income renters live in "naturally occurring" affordable housing that receives no operating subsidy. As a result, these properties struggle to secure sufficient operating revenues to cover increasing operating costs, which may lead to deferred maintenance impacting habitability and increases in rents impacting affordability.

Indeed, these buildings are often located in neighborhoods where the market cannot support rent increases and renters cannot afford to pay increases. These owners, unlike most subsidized, income-restricted properties, also pay property taxes, in some cases at an effective tax rate that is higher than other owners. These owners may not have enough of a mix of incomes, or any subsidy because Section 8 funds are limited. In these buildings, owners may be forced to raise rents to deal with a structural operating deficit, but they often cannot raise rents enough to cover all escalations in operating costs, which leads to deferred maintenance even as the buildings are aging.

Indeed, in 2023, there were 19.1 million renter households with very low incomes that would have made them eligible for rental assistance, but only 5.4 million households (28.3 percent) received it. Out of the remaining 13.8 million unassisted households, 8.5 million were severely cost burdened or lived in housing with severe structural inadequacies.[66]

66. Harvard Joint Center for Housing Studies. (2026). *America's Rental Housing 2026*. https://www.jchs. harvard.edu/state-nations-housing-2026.

Conclusion and Considerations for Policymakers

A systematic national approach to ensuring the long-term habitability and financial sustainability of the country's aging housing stock requires that policymakers consider four basic conclusions:

1. Constraints on Revenue

Low-income homeowners have limits on the amount of post-tax income they can afford to pay towards operating costs. Likewise, multifamily rental owners who serve low-income renters or set-aside some or all of their units for renters based on income are limited in the amount of rental revenue they can raise and then pay towards the building's operations. If we raise rents or change the amount of post-tax income we expect these households to pay towards housing, we are putting the affordability goal at risk.

2. Repair Needs Are Growing

Against this backdrop of constrained revenue, the nation's housing stock is aging quickly and the repairs needed to ensure these homes remain habitable are escalating in cost.[67] If we don't craft an operating model that can ensure the long-term maintenance of these units, we are putting the habitability goal at risk.

3. Other Operating Costs Have Escalated Rapidly

Certain operating costs that owners and low-income homeowners are obligated to pay—like insurance, utilities and debt service—have grown, sometimes substantially, in recent years.

4. This Leads to Narrowing Operating Margins and Fewer Financing Options

Constrained revenues and escalating costs means many low-income homeowners now lack the residual income they need to put money towards ongoing maintenance or pay other costs, and they lack resources to qualify for a loan so they can invest capital in their home. Likewise, the net operating income for more multifamily rental buildings serving low-income renters may be declining in real terms, leading to declines in value, restrictions on the ability to secure capital to invest in the buildings, and less money being available to pay for maintenance or other operating costs. If we don't address the divergence between operating costs and revenues, we are putting the financial sustainability goal at risk.

67. Dagher, V. (2026). *The Typical U.S. Home Is 44 Years Old—And Needs Tons of Work*. Wall Street Journal. https://archive.ph/bEOqj.

In general, there are three tools identified throughout this paper for policymakers to focus on in this kind of operating environment:

1. Bend the Cost Curve:

Across all markets and building typologies, some cost categories are growing far above the rate of inflation year-over-year. For example, homeowners' insurance and property and casualty insurance have increased dramatically in cost, placing new burdens on operating margins for low-income homeowners and rental buildings. Likewise, utilities, interest rates and the costs associated with repairs and maintenance have been escalating across markets and building typologies.

Designing interventions to bend the cost curve will vary by cost category. Some of these cost categories, like insurance or repair costs, require an intervention in a market either through regulation or by changing the dynamics of the market. For example, to lower insurance costs, interventions might include encouraging investments to reduce risk of damage, investing capital in new captive insurance models to compete in the marketplace, or making changes that would lower the number of claims and the amount of judgments. State insurance commissioners may also have the opportunity to impact pricing by regulating the process by which insurers set rates.

In other cost categories, like utilities or property taxes, different levels of government may have even more control to reduce costs directly than they do in categories like maintenance or insurance. For these categories, policymakers might consider making changes that would directly target reductions in operating costs to low-income homeowners or rental buildings.

For example, policymakers might choose to adjust the way their property tax system works. Local jurisdictions typically have guidelines they use to assess the value of single-family homes and multifamily buildings, but not all systems are set up to ensure buildings with declining net operating incomes or homes with declining values are incurring lower property tax burdens as values decline. In some jurisdictions, these properties may be continuing to pay the same or even a higher effective tax rate when compared to other properties.

Similarly, state and local governments designing how electricity, gas, water and sewer rates are set may need to change their approach. For example, using residential rates rather than commercial rate classifications for multifamily buildings, or using income-graduated fixed charges rather than flat fee structures may help bend the curve on utility charges for certain types of homes and buildings.

Importantly, if, even after these interventions, annual cost increases remain elevated and continue to exceed the rate of increases in operating income, any one-time effort to bend the cost curve will be insufficient. Instead, the cost curve would need to continue bending more and more as real income continues to decline.

2. Funding Home Repair Programs

Home repair programs are typically under-resourced, but the evidence shows they are a useful tool for advancing habitability and affordability goals among lower-income homeowners. Increasing federal funding for home repair, including through existing block grant programs, changes to the mortgage market and by funding a new program authorized under the 21st Century ROAD to Housing Act, will continue to play a central role in advancing home repair services in lower-income neighborhoods.

But, investments from state and local governments and from the philanthropic sector have also had a meaningful impact in many jurisdictions. Some home repair programs also need to improve the way they coordinate the delivery of services and deploy data more effectively to ensure they are targeting investments in repairs strategically over time. The NYU Furman Center's Housing Solutions Lab has worked with more than 40 home repair programs across 14 local governments, and has developed a strong set of lessons for policymakers interested in working to strengthen these critical programs.[68]

3. Right-Size Operating Subsidies to Stabilize Buildings Over Time

Ideally, a program to provide operating subsidy—whether it is specific to a particular cost category like LIHEAP or more general like the public housing operating fund—would have three characteristics. First, it would be targeted to the owners who are unable to increase rental revenue or who do not have sufficient post-tax income to pay operating costs. Second, the amount of subsidy provided would adjust as the relationship between revenues and costs change. In other words, if incomes are only growing by 2% and costs are growing by 3%, access to an operating subsidy program would be an intervention that might account for that gap and the program might adjust the amount of subsidy it provides to make up the difference until the operating model stabilizes.[69] Third, the operating subsidy program would not overpay, meaning it would both properly estimate the cost to operate that type of housing and not provide so much subsidy that it disincentivizes efficient operation of the building or provides an overly generous rate of return.

The federal programs outlined in this paper do not meet those standards. Some, like the mortgage-interest deduction, are not targeted. For others, like CDBG, HOME, LIHEAP and the public housing operating fund, the total amount of subsidy available each year has not increased in real terms even as the costs they are meant to pay have escalated far above the rate of inflation. Finally other programs, like Section 8 and LIHTC, do not properly account for variations in operating models based on differences across regions, housing markets and buildings' income mixes.

68. Wunsch, J. & Galvez, M. (2026). Housing Solutions Lab. *Strengthening local home repair systems: Lessons from 14 U.S. cities and counties* /https://www. housingsolutionslab.org/publication/strengthening-local-home-repair-systems-lessons-from-14-u-s-cities-and-counties/.

69. The existence of long-term fixed rate financing can also serve to mitigate the need for income to consistently grow as fast as operating costs are increasing; indeed fixed rate debt can ensure the property owner is able to maintain net operating income in nominal terms for a period of time before financial sustainability and habitability are put at risk.

Local governments, states and the federal government all have a role to play. Policymakers should start by establishing a consistent method for collecting and analyzing data to understand which homeowners and multi-family rental buildings are facing tighter operating margins and repair needs. Then, designing interventions to address those operating needs may require that each level of government pull a lever they control. In some markets, that may mean designing programs at the local level to reduce water, sewer or property tax charges on an ongoing basis; in other markets it may mean changing state-level insurance regulations; and at the federal level it may mean adding resources and changing the design of existing programs or developing new sources of operating subsidy so they are properly targeted, still incentivize owners to invest in strategies to reduce costs, and ensure the amount of money available adjusts as operating costs increase.

As the nation's housing stock continues to age, every level of government will need to focus on these items so we preserve these homes and ensure they are affordable, financially sustainable and habitable in the long-term.

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