

Tax Update: How a preservation credit could help protect affordable housing

By Stuart Boesky is CEO of Pembroke Capital Management.

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Federal housing tax policy has long focused on producing new affordable housing, but we can make greater strides in this effort if we also preserve lower-cost housing before it deteriorates, is redeveloped or becomes unaffordable.

The Low-Income Housing Tax Credit (LIHTC) remains the nation's principal affordable housing production tool. It has been incredibly successful, with some 3.9 million units placed in service from 1987 through 2024. Yet the United States continues to lose older subsidized properties and naturally occurring affordable housing through renovation, demolition, redevelopment and rent increases. Rising operating and maintenance costs force owners to embrace market-rate housing.

Harvard University's Joint Center for Housing Studies estimates the number of inflation-adjusted rental units priced below \$1,000 per

month fell by more than 7 million between 2014 and 2024. Unless those losses are counted alongside new deliveries, production totals can overstate our progress on affordable housing. A federal Preservation Housing Tax Credit (PHTC) would help to address this issue. Structured as a counterpart to LIHTC, this credit would direct capital toward acquiring and rehabilitating existing affordable and workforce housing with the primary goal of preserving affordability, improving aging buildings and helping residents remain in their homes. PHTC would go a long way toward stabilizing affordable populations by preventing them from Gentrification.

This tax credit is especially important now as the economics of the LIHTC market are becoming more challenging. Credit pricing has softened amid lower corporate tax liabilities and more selective Community Reinvestment Act investments by banks. When investors pay less for each dollar of credit, developers receive less equity from the same allocation. That means

projects may require additional subsidies or may no longer be financially feasible. Simply increasing LIHTC allocations may not lead to a proportional increase in affordable housing. Another benefit of preservation is how much further it can stretch public dollars.

Rehabilitation generally avoids land-acquisition expenses, extensive site work and lengthy entitlement processes. Preservation financing can also stabilize buildings before physical distress and regulatory complications make rehabilitation more expensive.

New York City illustrates the pressures the sector is facing. Much of its affordable stock is concentrated in older, often rentstabilized multifamily properties. Higher insurance premiums, aging systems, energy-upgrade requirements and rent growth below operating-cost inflation have strained many buildings.

Distressed sales, foreclosure activity and deferred maintenance are a natural consequence, putting tenants and affordability at risk. A PHTC would support properties that commit to maintaining affordability for a defined period, with the credit based on eligible acquisition and rehabilitation costs. Priority could be given to older multifamily buildings, properties at risk of conversion, and acquisitions by mission driven owners. The credit could also work alongside low-cost rehabilitation loans, property-tax relief and incentives to extend existing affordability restrictions.

The program could bring new investors into affordable housing as well by opening PHTC to individual investors. This would expand and diversify the pool of available capital, strengthen demand for the credits and reduce the program's reliance on a relatively small group of institutional investors. Bringing tax benefits from affordable housing back to individual investors would promote fundamental fairness in the tax system and help educate individual investors about the importance of affordable housing, reducing NIMBYISM.

While LIHTC will remain central to new affordable housing production, a PHTC would complement the program and help the country hold on to the affordable homes it already has.

Ultimately, the best measure of progress is not how many affordable units we build each year, but whether we finish the year with more affordable housing than we had when it began.