

# Conclusion: An Executable Path to Affordability



The U.S. housing affordability problem [is not a single failure](#) but the interaction of a housing [supply](#) deficit, [rising costs](#), rent increases outpacing household income growth and variations in [local policy](#) response.

This report attempts to be comprehensive, briefly covering [the full spectrum of housing types](#) including private, public/private and public housing. It divides affordability into two types: Capital A Affordable housing and “lowercase a”, including [NOAH](#). It grounds the analysis in the economic law governing private housing production: [rent must cover the cost of building and operating housing](#). In public housing, public/private housing and Capital A Affordable housing, the analysis is anchored by [the Brooke Amendment \(the 30 percent standard\) and Area Median Income \(AMI\) benchmarks](#). Implicit in today’s affordable housing policy is the assumption that the private market can reliably supply homes affordable at or above ~81 percent of AMI. Yet in many metros, [cost drivers](#)—regulation, time, soft costs, financing conditions and taxes—have pushed new-development costs beyond the rents many households can pay. When costs outpace ability to pay (See [Demand: How Many Housing Units Are Needed to Solve the Rental Affordability Crisis](#)), the Brooke/AMI logic fails—and no single tool or ideology can solve the problem on its own.

To evaluate feasible paths forward, the [Time-to-Address \(TTA\)](#) metric was introduced as a common rough yardstick: how long, at current or policy adjusted production rates, would it take to close the affordability gap with each different proposed pathway forward? TTA varies widely across places. [Local policy](#) matters. The [state and MSA TTA maps](#) showed that some places can achieve meaningful progress within a generation, while others, under the same federal rules, require two generations or more. Those differences are not random. The most common policies in public discourse around housing affordability since 2019 (this report’s last publication) were evaluated and ranked in a [Policy Report Card](#) as to whether they reflect local choices about land use, process, operating costs and whether public resources are deployed to lower the cost of feasibility or simply to shift costs onto renters.

Across the report three categories of housing affordability interventions were defined:

- **Capital A Affordable Housing:** Discretionary, publicly supported housing (LIHTC supported supply and income assistance such as HCV and PBRA) for subsidy dependent households.
- **“Lowercase a” affordability (NOAH):** Unsubsidized private rentals that remain affordable because of naturally lower costs, representing the largest source of affordable rentals today.
- **Middle income (by-right) affordability:** Programs that reduce costs through deregulation and tax incentives, activating dormant and preserving at-risk stock.

This framing led to a central conclusion echoed in the [Executive Summary](#): no single tool can reach the moonshot goal on a generational timeline. The only credible strategy is a balanced pipeline that uses each tool for what it does best, in the sequence and at the scale it can truly deliver.

## The Balanced Pipeline—What Each Lane Delivers

### Preserve what we have (Revive & Retain).

Preservation is the fastest, least expensive way to reduce rent burden and prevent displacement. [Case studies](#) (Minneapolis, D.C., Boston, Atlanta, NYC, Chicago, L.A. County, Austin) show preservation costs 30–80 percent less per unit than new construction and can close in months rather than years. In the pipeline, preservation carries the heaviest load early: it stops unit loss and buys time for new supply to scale.

### Activate dormant development (by-right supply side).

Two levers dominate as the best tools to activate dormant development:

- [Deregulation](#): Land use (upzoning, ADUs, parking reform) and process reforms (ministerial, time certain approvals) reduce soft costs, spread land cost per unit and increase capacity. Local case studies (California ADUs/SB 35, Portland RIP/Oregon HB 2001, Austin streamlining, Minneapolis 2040) show how faster approvals and predictable standards translate into real units, and how contradictory signals (e.g., broad rent caps) can blunt results.
- [By-right tax incentives](#): Property tax relief for new construction and classification discounts tied to affordability covenants for preserved units improve NOI without discretionary delay. Evidence from NYC (421 a lineage/485-x successor design), Texas (PFC model with modern guardrails), Minneapolis (4d) and other local abatements shows rapid uptake when programs are simple, targeted and predictable.

These levers can most efficiently serve the 81–120 percent AMI band, easing pressure on low cost stock and enabling filtering.

### Target Deep Subsidy Where Only Subsidy Works (Capital A Affordable).

For rental households <50 percent AMI, income assistance (HCV/PBRA) and LIHTC supported supply are indispensable. Scaling LIHTC [to reasonable higher levels](#) and doubling income assistance over time could reach five million additional households, split between preserved units (including vacant stock brought in) and new units. Capital A Affordable production is vital to serve the lowest incomes. While these Capital A Affordable programs are slower to produce, they cannot be replaced by market-based solutions divorced from public subsidy.

## The TTA Moonshot—A Realistic Way to Reach a Generational Horizon

This is the moonshot: a realistic, staged path to restore affordability within a generation, measured against TTA and governed with transparency and discipline. As an illustrative ramp-up pipeline, the proposed tools can be allocated across the initial years of implementation as follows:

- **Years 0–3**: Close gaps quickly through preservation and process reform; enact operating cost relief; begin LIHTC and voucher expansion, focusing on units that can be occupied quickly (such as vacant units).
- **Years 3–10**: Scale land use reforms and by-right programs to push middle income production toward historic highs; continue preservation at pace; steadily expand income assistance.
- **Years 10–30**: Sustain throughput, recalibrate incentives; prevent affordability cliffs as covenants mature.

Two cost-cutting conditions are essential to enable this illustrative pipeline to work:

1. **Policy coherence**: Strategies around activating dormant development only work if they are not in conflict. Revenue frameworks—particularly rent regulation—can constrain new production.
2. **Target discipline**: Benefits must be calibrated to the amount of affordability delivered as measured by the number of units provided as well as the depth of affordability (incomes targeted) of those units. Targets should be publicly audited and geographically tuned to [local production and policy conditions](#).

## What the Policy Report Card Showed

A common grading rubric was created to rank various policies in a [Policy Report Card](#). This rubric was based on achieving the moonshot goal within the boundaries of reasonable estimates of resources used. It included scalability, speed to implementation, fiscal and economic impact, AMI targeting depth, execution/abuse risk and preservation effectiveness. The report card surfaced a practical division of labor:

- **Fastest relief and displacement prevention**: Preservation
- **Largest scalable supply gains**: Rule-driven land use and tax reform
- **Non replaceable support for lowest incomes**: Income assistance + LIHTC

No single tool excels across all criteria, but a balanced portfolio of tools can effectively address the various barriers to achieving the moonshot goal.

## Implementation Roadmap and Next Steps

Based on the conclusions of this toolkit, an illustrative implementation roadmap can be created. This roadmap is focused on execution, whether that is at the local, state and/or national level.

### Phase 1: Launch (0–12 months)

During Phase 1, policy targets are established, reporting mechanisms are put in place, and infrastructure is set up to achieve the moonshot goal.

- **Set TTA targets and publish metrics:** These reporting targets should be made public and can include units preserved/produced, households assisted, rent burden share target to be achieved, public cost per unit and permitting time goals.
- **Stand up revolving NOAH funds** with public seed capital and CDFI and mission driven operator partnerships.
- **Codify ministerial approvals and** time certain reviews.
- **Enact by-right tax relief** with recorded affordability covenants.
- **Implement guardrails:** public dashboards, audits and claw back of public resources if public goals are not achieved.
- **Commit to increased Capital A Affordable subsidy:** near term LIHTC expansion and the first tranche of additional income assistance.

### Phase 2: Scale (Years 1–3)

During Phase 2, certainty is created for housing providers. Effective policies are scaled as they are established reliably for the long term.

- **Scale land use reforms:** ADUs, smallplexes, transit corridors and right sized parking requirements.
- **Broaden participation** in rule-driven programs such as by-right incentives. Refine geographic targeting to match incentives with local cost structures and demand requirements.
- **Recycle preservation funds and** pair support with existing long covenant lending programs.
- **Grow income assistance** in line with administrative capacity and market absorption to avoid price distortion and maximize stability.

### Phase 3: Sustain and Recalibrate (Years 3–10 and beyond)

During Phase 3, monitoring of outcomes is essential as market conditions change.

- **Monitor for contradictory policies** undermining feasibility.
- **Recalibrate incentives** to maintain affordability depth as supply and demand interact to change requirements.
- **Plan for covenant tails** to avoid affordability cliffs.
- **Upgrade tax structures** as broad reforms reduce the need for programmatic relief.

### Governance is required to support the roadmap's success:

- **A single accountable owner** is recommended per jurisdiction level, with a public dashboard.
- **Cross functional delivery teams** should be put in place to monitor permitting, preservation finance and compliance (measured on time to permit and unit throughput).
- **An annual pipeline reset** must occur, keyed to TTA: the jurisdiction should adjust targets based on throughput performance.

## Final Thoughts

Affordability is ultimately about cost relative to what a household can pay. Markets alone cannot bridge gaps where costs are misaligned. But evidence shows that, sequenced correctly:

- The naturally affordable homes that exist must be preserved (Revive and Retain) because this is the fastest, least costly way to protect households and buy time.
- Dormant development should be activated through the coordinated dual policy tools of deregulation (for time and capacity) and by-right tax incentives (for operating and capital feasibility), so the market can once again deliver affordability for middle incomes and ease pressure on NOAH.
- Deep subsidy must be increased where only subsidy works, expanding income assistance and LIHTC supported supply for subsidy dependent households.

Done together—and measured against TTA, with a clear implementation roadmap—this portfolio shortens the path from a problem counted in decades to a plan executed within a generation. The moonshot is not rhetoric—it is a schedule: launch preservation and process reforms now, scale by right production and sustain Capital A Affordable housing for the lowest incomes. With discipline, transparency and calibration, the pipeline can deliver balanced, achievable affordability across incomes and places.

# Housing 101



## Housing 101: Definitions

### Introduction

Housing policy debates often collapse into shorthand—“affordable housing,” “market-rate,” “workforce housing.” Yet these terms carry different meanings for different audiences. To analyze affordability consistently, this report distinguishes three categories: Private Housing, Public/Private Housing and Public Housing. Within Public/Private Housing we further divide between discretionary programs and by-right programs, and between supply-side and demand-side tools. This framework helps us interpret both the current system and the reforms proposed.

### Private Housing

Private housing refers to homes developed, owned and operated without direct government subsidy. It spans Class A condominiums, single-family rentals, workforce housing and naturally occurring affordable housing (NOAH). Throughout this report, NOAH housing is referred to as “lowercase a” housing.

As defined in the [section above](#), NOAH/“lowercase a” affordable refers to unsubsidized housing that rents at levels affordable to households earning 80 percent or less of area median income. This definition is broader than the common view that NOAH means only older or “Class B/C” properties. In many markets, NOAH also includes new construction and single-family rentals where cost drivers allow affordability.

Private housing can contribute to affordability when development costs are close to marginal construction prices, allowing rents to filter down over time.<sup>177</sup> But in high-cost, highly regulated metros, new private housing overwhelmingly targets high-income households, leaving middle- and moderate-income renters unserved.

### Public/Private Housing

Most of the housing policy debate occurs in this middle category, where private developers and public policy intersect. Public/Private Housing divides into two broad approaches: discretionary programs (negotiated case-by-case) and by-right programs (automatic if eligibility is met). Both include supply-side production and demand-side income support.

#### Discretionary Programs—Supply-Side (Capital A Affordable)

Discretionary programs provide subsidies to make new rental units affordable, but each project requires negotiation and approval. This slows production and increases cost.

- LIHTC (Low-Income Housing Tax Credit): The primary source of new subsidized rental housing, producing ~89,000 units per year.<sup>178</sup>
- Project Based Income Assistance (Project-Based Rental Assistance and PBV): Link subsidies to specific units. Long-term contracts that create (through new construction) new units or preserve existing stock, often requiring case-by-case recapitalization.

<sup>177</sup> See Myers, D., & Park, J. (2020), for evidence on how new construction enables filtering to expand low income housing opportunities.

<sup>178</sup> As noted earlier in the Executive Summary, the LIHTC program was increased in 2025. Novogradac estimates that the combination of a permanent 12% increase in 9% allocations and the reduction of the bond “50% test” to 25% could finance 1.22 million additional affordable rental homes over 2026–2035, which we have simplified to a doubling of average production given political uncertainty and time for industry ramp-up. See Lawrence, P. (2025, July 2).

These programs are vital for deep affordability but limited in scale.

### Discretionary Programs—Demand-Side (Capital A Affordable)

Discretionary demand-side tools subsidize households rather than units.

- Housing Choice Vouchers (HCV): Resident-based subsidies for residents to rent market-rate units but only spend 30 percent of their own household income on rent.

Together, these programs serve about 4.2 million households nationwide, as noted earlier in our section on [Demand](#). They reduce rent burdens for extremely low-income households but depend on congressional appropriations and housing provider participation.

### By-Right Programs—Supply-Side (Third Path)

By-right programs reduce costs automatically, without negotiation. By offsetting property taxes, fees or regulatory burdens, they allow private developers to build or preserve affordable units at scale.

Examples include:

- New York 421a (now replaced by 485-x): grants tax abatements for new rental housing including affordable set-asides.
- Texas Public Facility Corporations (PFCs): allow local governments to exempt property taxes in exchange for affordability commitments.
- Minneapolis 4d program: provides a property tax reduction for owners who keep units affordable.

These programs typically target moderate-income affordability or offset the cost of “good” regulation. Their strength lies in speed, predictability and lower per-unit cost. See our detailed [Policy Case Study—Tax Incentives](#) for further discussion.

### By-Right Programs—Demand-Side

Less common, but possible. Portable tax credits or automatic voucher expansions could function as demand-side entitlements without annual appropriations. Such tools remain rare in U.S. practice, but the concept illustrates the potential of scaling demand assistance with less friction.

## Public Housing

Public housing is directly developed, owned and managed by government entities such as NYCHA (New York City Housing Authority) or the Chicago Housing Authority. Once the dominant form of subsidized/Capital A Affordable housing, it now represents a shrinking share of the stock. Unlike in Public/Private Housing, the government is the housing provider rather than a partner. Public housing plays an essential role for extremely low-income households but has been underfunded for decades. We discuss public housing more in the [Supply](#) and [Affordable Housing Glossary](#) sections of this report.

## A Framework: 2x2 of Public/Private Housing Tools

	SUPPLY-SIDE (UNITS)	DEMAND-SIDE (HOUSEHOLDS)
<b>Discretionary</b>	LIHTC, PBRA, PBV, PILOT, Ground Lease	Section 8 Housing Choice Vouchers
<b>By-Right</b>	Tax Abatement (NYC 421a, TX PFC, Minneapolis 4D)	Rare

## Conclusion: Why These Definitions Matter

Understanding the distinctions between Private, Public/Private and Public housing is foundational. Within Public/Private, recognizing the difference between discretionary subsidies and by-right incentives clarifies why some programs struggle to scale and others unlock dormant development. Distinguishing supply-side and demand-side strategies helps explain both the limits of today’s system and the opportunities for reform.

This definitional framework sets the stage for the next [Housing 101](#) sections, which detail how [sources and uses](#), [operating budgets](#) and [feasibility analysis](#) interact with these categories.

# Housing 101: Sources and Uses

## Introduction: Why Sources and Uses Matter

Every housing project begins with a budget. Housing providers must account for both uses (what the money is spent on) and sources (where the money comes from). This simple framework underpins real estate finance. Understanding sources and uses for private housing projects provides the foundation for analyzing how operating budgets (see [Housing 101: Operating Budgets](#)) and affordable housing projects (see [Affordable Housing 101: Capital Budgets](#)) differ from market-rate development.

## Ways Multifamily Housing Is Created

There are two basic ways multifamily rental housing is created: development (new construction) and preservation (acquisition and rehabilitation of existing units). Development adds to the physical housing stock, while preservation maintains affordability or extends the useful life of existing structures. Both approaches require careful alignment of costs and revenues to ensure financial feasibility. Preservation is often faster and less expensive than new development, but it may yield fewer long-term units unless supported by appropriate public policies.

## How Rental Housing Is Financed

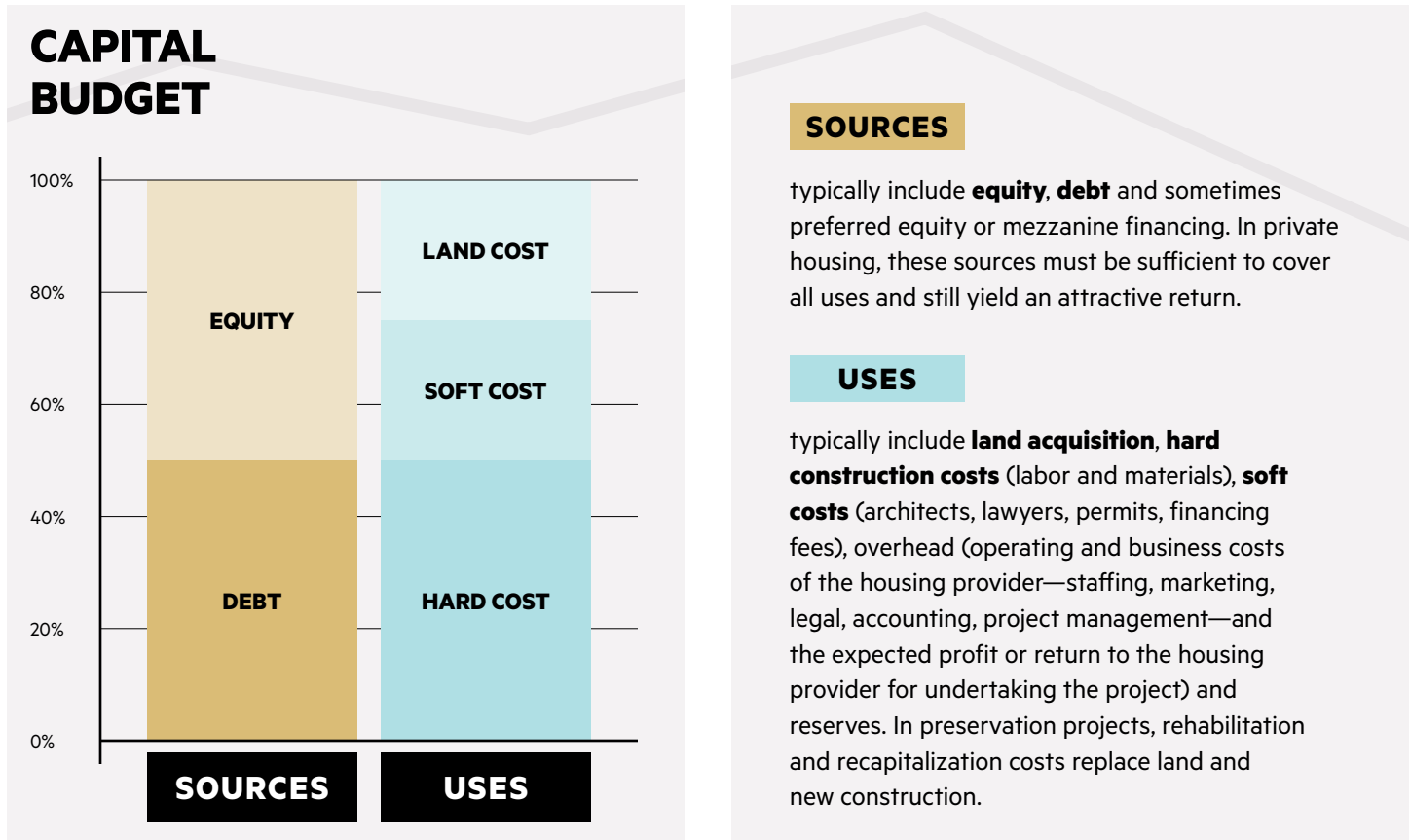
At its core, rental housing finance depends on cash flow. Residents pay rent; rents generate net operating income (NOI); and that NOI supports debt service and provides returns to equity investors. Financing comes primarily from two sources:

- Equity—capital invested by owners or outside investors who take risk in exchange for future profits.
- Debt—capital provided by lenders, secured by the property and repaid from operating cash flow.

Global capital markets increasingly shape these flows. Multifamily housing is largely financed by long-term institutional capital sources such as pension funds, insurance companies and real estate investment trusts (REITs), with other private capital sources also participating on a more limited basis. Across these investors, decisions are generally driven by expected risk-adjusted returns, making stable and predictable rental income important to both new development and preservation activity.

## Capital Budgets: Uses vs. Sources

Every development or preservation project organizes its capital budget into two columns: uses and sources.



### SOURCES

typically include **equity, debt** and sometimes preferred equity or mezzanine financing. In private housing, these sources must be sufficient to cover all uses and still yield an attractive return.

### USES

typically include **land acquisition, hard construction costs** (labor and materials), **soft costs** (architects, lawyers, permits, financing fees), overhead (operating and business costs of the housing provider—staffing, marketing, legal, accounting, project management—and the expected profit or return to the housing provider for undertaking the project) and reserves. In preservation projects, rehabilitation and recapitalization costs replace land and new construction.

If projected rents cannot generate enough NOI to cover debt service and equity returns, the project does not move forward. In later chapters (see [Affordable Housing 101: Capital Budgets](#)), we explore how subsidies and incentives change this balance; here, the focus remains on private financing.

## Preservation vs. Development Budgets

While both preservation and development projects use the same sources-and-uses framework, the proportions differ. Development projects tend to have higher land and hard construction costs, longer permitting and predevelopment timelines and higher exposure to regulatory costs. Preservation projects often require substantial rehabilitation or recapitalization but avoid the largest cost driver—new construction.

This difference makes preservation an attractive strategy where feasible: it can deliver affordability more quickly, with lower capital intensity and with less exposure to entitlement delays. However, preservation depends on the availability of at-risk properties and may be constrained by rising operating costs, as discussed in earlier chapters on [NOAH](#) and [cost drivers](#).

## Bridge to Operating and Affordable Housing Analysis

Understanding private sources and uses sets the stage for two critical extensions. First, the operating budget (see [Housing 101: Operating Budgets](#)) determines whether projected NOI is sufficient to support debt and equity expectations. Second, affordable housing projects (see [Affordable Housing 101: Capital Budgets](#)) incorporate subsidies, income assistance or by-right incentives that alter both sources and uses.

For private housing, the equation remains straightforward: the cost of land, construction, soft costs, overhead and financing must be matched by the combined contributions of equity and debt, supported by projected rental income. For affordable housing, the equation becomes more complex—but the foundation is the same. By grounding the analysis in private housing, we establish the benchmark against which all later interventions are measured.

# Housing 101: Operating Budgets

## Introduction: Why Operating Budgets Matter

Once a property is acquired—or constructed on acquired land if it is a development project—it enters a lease-up and stabilization period. During this time, vacant apartments are rented until the property reaches its planned occupancy level. At that point, the property generates income primarily from rent, along with fees to help cover the costs of amenities such as parking, laundry or storage. These revenues make up the **operating income**.

Operating a property also generates costs. Property management, maintenance, utilities, insurance and taxes (which are largely uncontrollable by the housing provider) are all **operating expenses**. Subtracting expenses from income produces **Net Operating Income (NOI)**. A positive NOI is essential: without it, the property loses money every month, jeopardizing its long-term feasibility.

## From NOI to Debt and Equity

NOI is not simply profit. In most cases, the property was financed with borrowed money—debt and equity. Debt has contractual repayment requirements; equity expects a return for its risk. The housing provider agrees, as a condition of financing, that NOI will first go toward repaying debt. Only after debt service is covered does any remaining income flow to equity. If there is a surplus after both are paid, it can be used for overhead and profit.

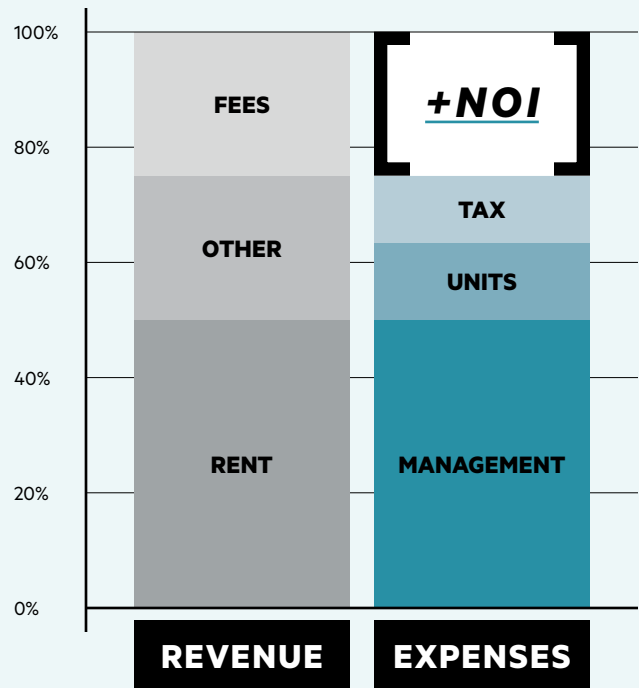
- Debt typically provides a fixed return (through an interest rate) and is secured by the property. If NOI is insufficient to cover debt service, the lender can take control of the property.
- Equity is not secured, making it riskier. Equity investors stand last in line; if NOI is insufficient, they can lose their entire investment. However, if the property performs well, they share in profits beyond debt repayment, giving equity the potential for higher returns.

## Risk, Return and Capital Markets

Debt and equity do not exist in isolation. Both compete with other global investment opportunities: office buildings, hotels, logistics or even non-real estate assets. For housing providers to attract financing, they must offer competitive risk-adjusted returns. If returns from housing projects fall short relative to other asset classes, investors will place their capital elsewhere, and new development or preservation will stall.

This linkage to global capital markets explains why operating budgets matter far beyond an individual property. If operating expenses rise faster than rents, NOI shrinks. When NOI shrinks, debt and equity returns fall, making rental housing less attractive to capital providers. Without adequate capital, supply growth slows, feeding the broader affordability challenge.

## OPERATING BUDGET



## Overhead and Profit

Beyond debt and equity, housing providers must cover overhead: the ongoing business costs of running an enterprise, including staffing, marketing, accounting, legal and project management. Overhead also includes the expected profit or return to the housing provider for undertaking the project. Profit is not a “bonus”—it is the incentive that brings providers into the market. If projects do not reliably generate overhead and profit, housing providers will exit, further constraining supply.

## Connection to Policy and Cost Drivers

As the [Sources and Uses](#) and [Cost Drivers](#) chapters make clear, feasibility depends on whether rents can cover all costs—operating expenses, debt service, equity returns and overhead. If costs rise due to regulatory burdens or entitlement delays, NOI may no longer be sufficient to meet investor expectations. Conversely, when costs are reduced—through preservation, efficient operations or by-right incentives—NOI improves and projects become financeable.

## Bridge to Affordable Housing Analysis

This chapter focuses on private housing operating budgets. Affordable housing introduces additional complexity: subsidies, income assistance and regulatory restrictions reshape both income and expenses. Those distinctions are addressed in [Affordable Housing 101: Capital Budgets and NOI](#). But the underlying logic remains the same: NOI is the fulcrum of feasibility. Whether financed privately or with subsidy, every housing provider must balance income against expenses, debt, equity and overhead.

## Conclusion

Operating budgets are the engine room of real estate finance. They determine whether a property can sustain itself month to month and whether capital providers will continue to fund housing supply. A property that generates positive NOI rewards lenders, investors and operators, ensuring continued participation in housing markets. A property with negative NOI risks foreclosure, investor losses and withdrawal of capital from the sector. Understanding NOI is thus essential not only to property performance but also to the broader affordability pipeline.