VIEWPOINT

Northmarq

2025 Affordable Housing Tax Changes:

New legislation reshapes LIHTC, Opportunity Zones and NMTC

September 2025

VIEWPOINT

September 2025

With the passage of the One Big Beautiful Bill (OBBBA) Act on July 4, 2025, Congress enacted the most significant expansion of housing incentives in more than two decades. For developers, investors and capital providers, this means new tools, more flexibility and a broader opportunity set.

At the heart of the legislation are updates to the Low-Income Housing Tax Credit (LIHTC) program, alongside permanent extensions to the Opportunity Zone (OZ) and New Markets Tax Credit (NMTC) incentives. According to Novogradac, the LIHTC enhancements alone could finance 1.22 million new affordable rental homes between 2026 and 2035.

Opportunity doesn't always mean simplicity, though. These changes introduce new tools, but also new complexities.

The topic surfaced in several conversations at the 2025 Texas Affiliation of Affordable Housing Providers (TAAHP) Conference, offering a timely lens into how industry professionals are beginning to interpret and respond to the new policy landscape.

What Changed:
Key Provisions at a Glance

Lower Bond Financing Threshold

The most impactful change is the reduction from 50% to 25% of the amount of tax-exempt multifamily bonds required for 4% LIHTC deals. To qualify, at least 5% of the aggregate basis must be financed by bonds from an issue dated after Dec. 31, 2025, and the building must be placed in service after that date.

This shift is expected to significantly expand the number of projects that can qualify for 4% credits, especially in states with limited private activity bond (PAB) cap.

At the TAAHP Conference, the mood around this change was mixed. While many attendees agreed it could unlock more deals, there was uncertainty about how states would implement it and how developers would fill the financing gap.

12% Increase in 9% LIHTC Allocations

Starting in 2026, states will receive a permanent 12% boost in 9% LIHTC allocations. This is a meaningful increase, especially since the 9% credit is oversubscribed in all states.

The increase applies to both the per-capita allocation and the small-state minimum, giving state agencies more flexibility to fund additional deals.

100% Bonus Depreciation Returns

OBBBA restores permanent 100% bonus depreciation for qualified property acquired after Jan. 19, 2025, with a transitional election for property placed in service in the first taxable year ending after that date.

This change improves investor yield and could enhance equity pricing, though its impact will vary by deal structure.

Opportunity Zones and NMTC Made Permanent

OBBBA also made two other major incentives permanent:

Opportunity Zones (OZs): Permanency plus new rural-focused rules. In rural OZs, the substantial improvement threshold drops to 50% of adjusted basis (down from 100%), and investors receive a 30% basis step-up after five years. Treasury will refresh designations every 10 years and require new reporting, including public impact data on jobs, housing units and income levels.

New Markets Tax Credit (NMTC): Permanently extended at $5 billion per year, with a five-year carryforward for unused authority. This provides long-term stability for community facilities and mixed-use projects that complement LIHTC housing.

What These Changes Mean in Practice

Does the lowered bond financing threshold really change the game?

Yes—and no. Reducing the threshold from 50% to 25% means more developers can now access 4% credits. That opens the door for more affordable housing deals to qualify, which is especially important in a high-cost or complex capital stack environment. But it also introduces new challenges.

At the TAAHP Conference, the mood was one of cautious optimism:

- Supportive voices saw the potential for expanded deal flow, especially in high-cost markets.
- Projects may still need taxable debt or soft financing, which is difficult to secure.
- For some developers, bonds at 50% were not needed to fill their capital stack and were therefore paid down quickly; for them, this simply formalizes that approach.

Developers are also exploring creative bond structures like cash-backed forward executions. These approaches can reduce interest costs and generate additional equity but come with increased costs and require close coordination with bond counsel and investors.

What does the FHFA expansion mean for rural deals?

With $4 billion in annual LIHTC equity now available and a significant portion reserved for rural and underserved markets, developers in these areas may find new feasibility where deals previously stalled.

Additional Developments Outside the Bill

FHFA Doubles GSE LIHTC Equity Capacity

Separately from OBBBA, the Federal Housing Finance Agency (FHFA) announced in July 2025 that Fannie Mae and Freddie Mac can each invest up to $2 billion annually in LIHTC equity (previously $1 billion each).

Half of this combined $4 billion is reserved for difficult-to-serve markets, and at least 20% of that half is earmarked for rural communities. This is a regulatory action, not part of the bill itself, though FHFA described it as aligned with OBBBA's goals.

VIEWPOINT

What Could Get in the Way?

While the new rules are promising, several real-world challenges could limit their impact.

- Construction cost inflation and tariffs continue to pose headwinds. Rising material and labor costs are putting pressure on budgets, and tariff-related uncertainty adds another layer of complexity.
- Slowing rent growth is forcing underwriters to adjust assumptions. As rent growth slows down in many markets, feasibility becomes harder to achieve.
- LIHTC equity pricing is another wild card. Some expect increased investor interest to push pricing up, while others worry that market volatility could dampen demand.
- Financing gaps will depend on access to soft funding. Experts emphasized the importance of local relationships, nonprofit partnerships and programs like HOME, CDBG and AHP grants to make deals pencil out.
- State-level implementation will determine how benefits are realized. Each state will interpret and roll out the new provisions differently, which could create uneven access depending on Qualified Allocation Plans and bond program guidance.

Final Thoughts

We're looking at the most significant expansion of affordable housing incentives in a generation. But incentives alone don't build housing. People do.

At the Texas Housing Conference, one theme that came through clearly was that success in this new era will depend not just on understanding the policy, but on leveraging local relationships, structuring creatively and securing soft funding.

Developers who act early, stay close to state-level guidance and build with long-term stewardship in mind will be the ones who turn this policy into progress.

For more information please contact:

Pamela Wilkes | *Chief Underwriter Affordable Housing & Freddie Mac*
pwilkes@northmarq.com | (952) 356-0082

Brandon Geis | *Director of Agency Affordable Production Management*
bgeis@northmarq.com | (952) 356-0093

Bianca Farrington | *Content Marketing Manager*
bfarrington@northmarq.com | (972) 637-2159

Lanie Beck | *Senior Director, Content & Marketing Research*
lbeck@northmarq.com | (918) 494-2690

Northmarq

3500 American Blvd W
Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com