



Using Income-Averaging to Preserve LIHTC Properties

*by Tommy Lowmon
Sr. Vice President of Development
Woda Cooper Companies*

Since its creation in the Tax Reform Act of 1986, the Low-Income Housing Tax Credit program has financed more than three million affordable housing units nationwide and has evolved from a production tool into a critical mechanism for long-term preservation. Yet as properties age, operating costs rise, and tenant incomes become increasingly stratified, developers have adopted more sophisticated tools to ensure long-term viability. In 2018, income-averaging was added as a third minimum set-aside option.

Early implementation came with understandable challenges. Limited IRS guidance, investor hesitation, and concerns about compliance risk led many allocating agencies to proceed cautiously. From a state housing finance perspective, the primary concern was ensuring that the added flexibility did not create unintended exposure to credit loss.

Over time, however, it became clear that when structured carefully, income-averaging allowed developments to better reflect real-world income diversity while creating the financial capacity to serve the most vulnerable households. In preservation transactions in particular, the ability to balance higher-income units with deeper targeting has proven to be one of the most valuable tools available to maintain long-term affordability.

A More Accurate Reflection of Community

Traditional LIHTC elections (20/50 and 40/60) required uniform income targeting across units. While effective, these structures often limit flexibility. Income-averaging, by contrast, allows properties to designate units at varying income levels. In practice, this means a property can include units at 30%, 40%, 50%, 60%, 70%, or even 80% AMI so long as the overall average does not exceed 60% of Area Median Income.

While serving as Division Director over Housing Finance at the Georgia Department of Community Affairs, I oversaw both tax credit allocation and portfolio management of over 1400+ properties. We noticed that this structure created communities that more accurately represented real-world income diversity. Families rarely cluster neatly into one income band. Income-averaging acknowledges that reality and allows developments to serve a broader spectrum of working households. More importantly, it creates the financial architecture to serve those most vulnerable populations which further stabilizes the entire community.



Leveraging Higher Rents to Reach Deeper Affordability

Preservation deals are increasingly complex. Rising insurance costs, inflationary pressures, capital repair needs, and higher interest rates have tightened margins across the board. Income-averaging provides a mechanism to stabilize operations while deepening affordability.

Units designated at 70% or 80% AMI generate modestly higher rents than traditional 60% units. Those additional revenues strengthen debt coverage and operating sustainability, particularly critical in preservation transactions where replacement reserves and capital needs are substantial.

But the real value lies in what those revenues enable.

By incorporating higher AMI units, developers can offset the reduced rents from deeply targeted 30% or 40% AMI units. This cross-subsidization allows properties to serve residents who are often one unexpected expense away from housing instability or homelessness (a medical bill, a car repair, a reduced work schedule).

Income-averaging allowed properties to better serve extremely rent-burdened households without compromising financial feasibility. That lesson continues to guide preservation strategies today.

Another key advantage of incorporating 80% AMI units is the ability to serve a broader segment of the workforce. This broader income mix can help address community concerns—from reducing opposition to new development to supporting more balanced, inclusive neighborhoods.

Even when these units are not leased at their maximum allowable rents, they provide meaningful flexibility. For example, an 80% unit rented at a 60–65% level allows a higher-earning household to qualify while still benefiting from a reduced housing cost burden.

In this way, 80% units do more than enhance project feasibility—they can also support local economic stability by housing essential workers and contributing to more sustainable, mixed-income communities.

Market Study Considerations for Higher AMI Units

As income-averaging strategies rely on the inclusion of 70% and 80% AMI units to strengthen financial feasibility, it is critical that market studies clearly support the viability of these rent levels. The success of this structure depends not only on design but on demonstrated market alignment.



Market studies should establish a clear rent advantage relative to comparable market-rate properties, typically in the range of 10–15%, to confirm competitive positioning. Capture rates should remain conservative—generally at or below 10% within the Primary Market Area—to ensure sufficient depth of demand, particularly at higher income bands.

Absorption assumptions are equally important. Lease-up projections extending beyond eight to nine months may indicate demand constraints and introduce risk to stabilization timelines. As such, studies must reflect realistic absorption across all AMI levels, including 80% units.

In addition, alignment with current Qualified Allocation Plan (QAP) requirements is essential, as is the use of comparable properties that reflect similar unit sizes, amenities, and overall market positioning. These factors ensure that projected rents are both credible and achievable.

In the context of income-averaging, the market study is a foundational component of underwriting. Properly supporting 80% AMI rents strengthens financial assumptions, reduces risk, and reinforces the long-term sustainability of the development.

A Tool for Long-Term Preservation

While reviewing the portfolio in Georgia, I realized that the program grew from placing three properties in service at its inception to more than 30+ per year in recent years. Many LIHTC properties are reaching Year 15 and beyond. Capital needs assessments frequently reveal significant rehabilitation requirements—roof replacements, HVAC systems, accessibility upgrades, and modernization to remain competitive and compliant.

Income-averaging strengthens recapitalization strategies in several ways:

- Improves underwriting flexibility
- Enhances debt capacity in resyndications
- Supports layered financing structures
- Reduces reliance on scarce soft funding sources
- Promotes income diversity that mirrors surrounding neighborhoods

For developers committed to long-term stewardship, this flexibility is invaluable. It allows us to recapitalize aging properties while preserving affordability across a broader income spectrum.



Addressing Common Concerns

Income-averaging is not without complexity. Compliance monitoring is more nuanced. Unit designation strategy must be deliberate. Developers must carefully model income mix scenarios to ensure both regulatory compliance and operational stability.

However, when implemented thoughtfully, the benefits outweigh the administrative challenges.

From a state allocating agency perspective, income-averaging offers a pathway to deeper targeting without sacrificing financial feasibility. Today, as Sr. Vice President of Development at Woda Cooper Companies, a company whose mission is long-term ownership of the properties we build and manage, we are using this provision strategically to preserve LIHTC assets throughout the useful life of the property.

A Balanced Path Forward

At its core, income-averaging aligns with the original intent of the LIHTC program: expanding access to safe, affordable housing while fostering economically integrated communities.

The most vulnerable residents benefit from deeper affordability made possible by cross-subsidization. Working families benefit from access to quality housing that may have otherwise been financially out of reach. Properties benefit from enhanced financial resilience and the capital required to keep those developments safe and sanitary for the residents they serve.

As we face growing affordability challenges nationwide, preservation must remain a priority. Income-averaging is not a silver bullet, but it is one of the most effective tools available to ensure that aging LIHTC properties remain viable, inclusive, and reflective of the communities built to support.

Having observed its impact from both the regulatory and development sides, I am confident that income-averaging will continue to play a central role in preserving our nation's affordable housing stock for decades to come.

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