



More Than Checking a Box: How LIHTC Elections Shape Long-Term Performance

*by Austin Pittman
Vice President & Director of Development
The Lawson Companies*

Every Low-Income Housing Tax Credit (LIHTC) application is ultimately a series of deliberate elections. While those elections often appear to be simple scoring decisions made to maximize competitiveness, each decision carries long-term implications for project feasibility, operations, and compliance. To be blunt, these elections can dictate a property's financial success or failure for years to come. To understand why developers make these elections and why they matter, it is essential to start with the Qualified Allocation Plan (QAP).

Section 42 of the Internal Revenue Code establishes the boundaries for the LIHTC program, while granting states discretion to define priorities within those parameters. The QAP is the primary policy instrument through which state allocating agencies translate federal requirements and housing needs into a competitive framework. In essence, the QAP establishes the selection criteria and scoring priorities that govern the competitive process to determine which developments receive an allocation of LIHTCs. Though the specifics vary by state, QAPs may give preference to projects with experienced sponsors that commit to serving the lowest-income households, while ensuring long-term affordability. Additional emphasis is often placed on developments located in Qualified Census Tracts (QCTs) or Difficult Development Areas (DDAs), projects that incorporate leasing preferences and accessible design features for individuals with disabilities, and proposals that advance energy efficiency and sustainability goals. Equally important are QAP incentives related to financial feasibility, cost efficiency, and readiness. States expect applicants to demonstrate efficient use of scarce LIHTC resources while demonstrating project feasibility through achievable development budgets and clear evidence of municipal approvals and entitlement progress. These thresholds shape underwriting assumptions, partnership structures, and long-term operating strategies.

For developers, understanding the QAP is not just about winning an allocation of LIHTCs; it is about making binding commitments that must be fulfilled for decades to come. The elections made in the application reverberate through construction, lease-up, asset management, and compliance monitoring. Through much trial and error, this article explores why developers make specific elections, how those decisions align (or conflict) with operational realities, and what their long-term impact means for a specific project. As a LIHTC Developer, trial and error are words that you become accustomed to - you'll have to trust me on this one!



After establishing baseline eligibility, the LIHTC application becomes an exercise in making informed decisions regarding elections in response to the state's QAP. These elections are driven by the scoring framework adopted by the allocating agency and are the primary differentiator between competitive and non-competitive applications. While these elections are voluntary in the truest sense, many elections are required to meaningfully compete for an award of LIHTCs. I view these elections as falling into two categories: operational and physical. Operational elections govern how the property will be leased, managed, and operated. Whereas physical elections are geared more toward project location, design, and construction. Developers must proceed with caution; each election can be binding for the life of the compliance and extended use periods.

Operational elections set the framework for a development's income targeting structure, tenant population, leasing preferences, and rental subsidy requirements. Each election requires long-term operations and compliance oversight. The minimum set-aside election establishes the project's income targeting framework and is codified with the IRS in Form 8609. This election influences unit mix, achievable rents, underwriting assumptions, and ongoing compliance obligations. In the case of the communities that I have been part of developing, we have historically chosen the standard 40% at 60% of AMI election. However, our recent projects have made the Average Income Test election, which requires more complex compliance and monitoring practices. Many QAPs award points for adopting leasing preferences tied to specific populations or policy objectives. These preferences affect tenant selection plans and marketing strategies. Much collaboration with property management and compliance is required by developers to evaluate and implement these leasing preferences. Developers may elect to include rental subsidies, such as project-based vouchers or other operating assistance, to support deeper affordability or strengthen project feasibility. These elections often improve application competitiveness but add layers of complexity during the pre-development and operational phases.

Physical elections relate to site selection and building design. While site selection is just as point-driven as it is market-driven, this choice will carry both short and long term implications for development costs, constructability and operating performance. In my experience, while spread throughout the state, QAPs commonly prioritize development in specific market types and targeted redevelopment or revitalization areas. To a greater extent, sites located in Qualified Census Tracts (QCTs) or Difficult Development Areas (DDAs) typically receive scoring incentives. Even more impactful, a project located in either of these census tracts may receive a positive adjustment to its eligible basis, making census tracts a meaningful factor in site selection. Key decisions surrounding building design are required at the time of the reservation application.



These decisions include, but are not limited to, accessibility, green building enhancement, and building materials. Enhanced accessibility features beyond minimum code requirements are often incentivized and affect unit layouts, construction costs, and ongoing maintenance. Sustainability standards and energy-efficient design elements are frequently rewarded under QAP scoring and influence both upfront costs and long-term operating expenses. Elections related to material quality, durability, and resilience are increasingly driven by QAP incentives and have lasting implications for capital replacement and asset longevity.

Developers cannot evaluate these choices in isolation; project stakeholder input is paramount for long-term success. Each election requires insight from the groups tasked with implementing them - ownership, general contractor, operations, and compliance. It is most important to note that the objective is not only to achieve a winning score, but to ensure financial sustainability. There have been many instances where developers have not been able to execute certain aspects of their application, the impact of which will reverberate for years in the form of penalties that may impact the developer's ability to win future allocations of LIHTCs.

Every election carries a cost - some easier to quantify than others. These costs can be, but are not limited to, up-front development costs, construction costs, or ongoing operational expenses. In addition to those that are quantifiable, some elections carry a higher risk profile than others, specifically those that carry compliance exposure. With input from the general contractor, operations, and compliance teams, developers must analyze which elections and associated points make the most sense for the project. These elections should be weighed against underwriting assumptions to ensure that the project remains feasible for the hold period. By engaging project stakeholders well in advance of the application, developers identify which elections can be executed upon and sustained over time. Elections that create disproportionate compliance risk or operational strain should be avoided, even when they carry meaningful point value, in favor of choices that support long-term stability.

It would be short-sighted and overly risky to approach a LIHTC application as simply a means to secure an allocation. The elections in the application are long-term commitments from the owner and will shape a property's financial performance, and both operational and compliance requirements (and maybe a few headaches) for years to come. It is a true balancing act when developers thoughtfully align QAP incentives with operational realities. The outcome of this thoughtful balancing act is vibrant communities that support families in need of quality, affordable housing. For that specific reason, I remain committed to this arduous but rewarding process year after year!



NAHB is providing this information for general information only. This information does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind nor should it be construed as such. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action on this information, you should consult a qualified professional adviser to whom you have provided all of the facts applicable to your particular situation or question. None of this tax information is intended to be used nor can it be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. The information is provided "as is," with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.