



Understanding Stabilization in LIHTC Communities

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In affordable housing—particularly communities developed through the Low-Income Housing Tax Credit (LIHTC) program—there is significant emphasis placed on achieving “stabilization.” While the term is frequently used, its meaning can vary depending on who is defining it and their role in the development or operation of the property. For property management professionals, understanding what stabilization truly means—and how management directly influences it—is essential.

Development and Financing Context

After tax credits are awarded, developers typically sell those credits to investors, such as banks or syndicators, in exchange for equity. This equity significantly reduces the amount of permanent debt needed for the construction or rehabilitation of the community. In addition to equity, a construction loan is obtained to cover development costs, including architectural fees, materials, and construction labor.

These construction loans are often financed through tax-exempt bonds or HUD-insured loan programs such as HUD 221(d)(4) or HUD 223(f). HUD-insured loans, for example, commonly allow interest-only payments during the construction period—often for up to three years—before converting to long-term, amortized permanent debt. The ability to convert from construction financing to permanent financing is closely tied to a property achieving stabilization.

What Does “Stabilized” Mean?

Stabilization generally occurs when a property demonstrates consistent operational and financial performance. While exact requirements vary by lender and investor, several common benchmarks are typically reviewed:

- Construction is substantially complete
- Units are available for occupancy and actively leased
- Occupancy levels are stable and sustained
- Rental income is sufficient to cover debt obligations



A commonly referenced occupancy benchmark is “90 for 90,” meaning at least 90% physical occupancy maintained for a minimum of 90 consecutive days. Some investors and lenders require even higher thresholds, such as 93% occupancy for the same period, before considering a property stabilized.

Another critical metric is the **Debt Service Coverage Ratio (DSCR)**. DSCR measures whether a property’s income is sufficient to cover its debt obligations, including principal and interest payments. It is calculated using rental income and other operating income.

- A DSCR below 1.0 indicates the property is not generating enough income to cover debt.
- A DSCR of 1.0 means the property is breaking even.
- Most lenders prefer a DSCR of **1.25 or higher**, indicating sufficient income to cover debt with a margin for operating expenses and unforeseen costs.

Early Lease-Up and Management’s Role

While lenders may require sustained occupancy benchmarks, many owners begin preparing for loan conversion earlier—often when occupancy reaches the 60–70% range. During this phase, property management plays a critical role. Leasing momentum, income consistency, and operational readiness are closely monitored, and early performance can influence lender confidence.

Clear communication between ownership and property management is essential during lease-up. Expectations related to leasing pace, reporting, and issue resolution should be established early. Timing is especially important, as delays in one area can impact financing timelines and cash flow.

Marketing, Leasing, and Operational Best Practices

Successful stabilization requires proactive planning. Marketing efforts should begin well before units come online. Simple tools—such as banners with QR codes linking to property information or allowing potential residents to sign up on interest lists—can generate early demand and help build a pipeline of prospective residents.

Equally important is strong coordination between the development/construction team and property management. Accurate and timely updates regarding construction progress allow management teams to communicate realistically with prospects and avoid frustration caused by delayed move-in dates.

Rent setting may require ongoing evaluation. Rents must remain within LIHTC limits while also staying competitive within the local market. In areas with high housing supply, incentives may be



necessary to maintain leasing velocity. While rent concessions are common, they are not always the best long-term solution. Alternative incentives—such as move-in assistance, free broadband service, or limited-time gift cards—may attract residents without undermining future rent growth.

From a compliance standpoint, managing qualification documentation efficiently is also key. Aligning application timelines to minimize the need for refreshed documentation can reduce frustration for applicants and streamline the move-in process. The goal should always be to make the qualification and leasing experience as smooth and resident-friendly as possible.

Conclusion

Stabilization in an LIHTC community is not a single event—it is an ongoing process that reflects both financial performance and operational effectiveness. For property management professionals, stabilization is achieved through consistent leasing, reliable income, strong communication, and coordinated teamwork across ownership, development, and construction partners. When these elements align, stabilization becomes not only attainable, but sustainable.

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