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# Is Texas Poised for One Big Beautiful Boom in Affordable Housing?

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## You Can't Cook without LIHTC

Wolfgang Puck, the renowned chef and restaurateur, once said, "Cooking is like painting or writing a song. Just as there are only so many notes or colors, there are only so many flavors—it's how you combine them that sets you apart."[1] Like a chef, affordable housing developers work with a finite number of 'ingredients' to execute an economically viable project. But just as a meal does not transform into a delicacy with a pinch of salt or a sprig of parsley, an affordable housing project will not magically pencil out by adding a dash of rent increase or a slight change to vacancy assumptions. Often, it takes something with a bit more "oomph." And when it comes to affordable housing, sometimes you just can't cook without federal subsidies and tax credits (collectively, "**Subsidies**").

I recently attempted to pencil out a hypothetical affordable housing deal using the Urban Institute's online model.[2] I repeatedly adjusted net operating income ("**NOI**") assumptions to achieve financibility and maintain eligibility for Subsidies. Without Subsidies such as Low Income Housing Tax Credits ("**LIHTC**"), the deal was not economically viable. Ultimately, LIHTC was required to close the financing gap that existed after accounting for equity and traditional financing.

LIHTC is critical to successfully funding affordable housing deals, and the recent enhancements to the LIHTC program under the One Big Beautiful Bill Act (the "**Act**") make it more available than ever.[3] These enhancements under the Act will likely stimulate development of affordable housing by improving existing guidelines for LIHTC. Texas is well-positioned to take advantage of this increase due to its lower multifamily construction costs and glut of available land relative to most other states.[4] This article summarizes the changes to the LIHTC regime, highlights how each change benefits the affordable housing industry, and explains why even affordable housing is bigger in Texas.

## One Big Beautiful Bill Act: LIHTC Enhancements

LIHTC provides two types of subsidies tied to the same affordability requirements: the "4 percent credit" and the "9 percent credit", which names refer to the maximum credit available under each program. The IRS sets annual private activity bond (PAB) and low-income housing tax credit (LIHTC) multipliers for each state that determine allocations of the 4 percent and 9 percent credits, respectively. As discussed below, the Act's lower PAB requirements and overall increase in LIHTC allocations have enhanced both credits, which is anticipated to increase the number of affordable housing units over the next 10 years.[5]

#### A. Lower PAB Requirements Increase the Availability of the "4 Percent Credit"

The federal government is responsible for granting the 4 percent credit to qualifying projects. These projects must have obtained the required percentage of private activity bond ("**PAB**") financing for consideration, but the IRS caps the total amount of PAB financing available to each state in proportion to population size. Prior to the Act, PAB financing had to cover at least 50% of aggregate basis of land and building costs (the "**50% test**") of a project to qualify for the full 4 percent credit. As a result, a state's PAB cap limits the number of affordable housing units that can meet the PAB financing threshold and ultimately qualify for the full 4 percent credit. Demand often exceeds the PAB cap, particularly in states such as Texas. Increasing the cap or reducing the PAB threshold would each, independent of the other, further satisfy this demand.[6]

The Act replaced the 50% test with the "**25% test**", lowering the amount of PAB financing required to qualify for the 4% credit. Moreover, in April, the IRS published Internal Revenue Bulletin Notice 2025-18, raising the total national PAB cap by 5.2% year-over-year.[7] In some estimates, nearly 1.6 million additional affordable rental homes could be financed over the next ten years as a result of the Act alone, which number would likely increase with future PAB cap adjustments.[8]

#### B. Increase in LIHTC Allocations Enhances "9 Percent Credit"

Unlike the 4 percent credit, which is allocated by the federal government, the 9 percent credit is allocated by State Housing Finance Agencies ("**HFA**") through a competitive process according to available funds in the state's Qualified Allocation Program ("**QAP**"). The 9 percent credit is most often used for new construction, and sometimes for substantial rehabilitation of an existing property.[9]

The Act significantly expands the LIHTC program by permanently increasing by 12% the state LIHTC allocation ceiling used to fund the 9 percent credit.[10] This expansion will increase available funds to HFAs, which in turn will have additional flexibility in allocating to affordable housing projects. According to Novogradac, the permanent expansion of the 9 percent threshold alone would increase the number of affordable rental homes financed nationwide by 80,000 with Texas anticipated to be the 2nd largest beneficiary by state behind California and ahead of Georgia.

## Texas-Sized Advantages

Texas has several advantages over other states when it comes to affordable housing development. It is already a leader in the new construction of affordable units.[11] This volume comes with another advantage: cheap construction. According to a RAND Research Report, lower construction costs in states like Texas have increased housing affordability by slowing the rate of rental price increases.[12] In California, the most expensive state for multifamily construction, the average construction cost per net rentable square foot for market-rate housing is 2.3 times greater than that of Texas.

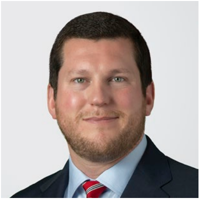
The RAND report identifies several factors fueling the dramatic discrepancy between Texas and California (as well as other more expensive states). Construction delays lead to increased costs, and Texas construction timelines are relatively shorter that in other states. This is attributable, at least in part, to less burdensome state and local government approvals in the Lone Star State.

Additionally, Texas developers benefit from lower hard costs. The ratio of wage to materials for California garden-style apartments is estimated at 60/40, whereas the same ratio is estimated at 45/55 in Texas. Overall, hard costs for California multifamily construction are 2.3 times more expensive than in Texas.

Texas construction projects also pay relatively lower municipal impact and development fees ("**impact fees**") than their state counterparts. The average cost per unit for impact fees in Texas for a LIHTC project is $1,196, whereas the same impact fee is $4,802 in Colorado, and between $14,292 and $31,872 in California depending on the metro region.[13]

## Conclusion

The One Big Beautiful Bill Act greatly enhances the LIHTC regime and signals a pending rise in affordable housing development generally. In Texas, which enjoys relatively cheaper construction than other states attributable to construction timelines, impact fees, and hard costs, there will likely be an even greater increase in affordable housing construction than in more expensive states. To belabor the cooking metaphor, affordable housing development in Texas is about to be cooking.



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**Endnotes:**

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[1] "*Puck Goes Back to His (Ginger) Roots*", Interview with Perry Garfinkel, www.huffingtonpost.com. February 3, 2012.
[2] This tool, titled "*The cost of affordable housing: Does it pencil out?*", was created in partnership with the National Housing Conference (NHC) to "explain through data visualization why in many places and at many times the market cannot build affordable multifamily housing without subsidies." *Technical Appendix* at p. 1, Rebekah King and Ethan Handelman, NHC, July 2016; https://apps.urban.org/features/cost-of- affordable- housing.
[3] For a detailed summary of how the Act, which was signed into law on July 4th, 2025 will impact almost all U.S. households and industries, *see* "*The One Big Beautiful Bill Act: Comprehensive Holland & Knight Analysis*", Holland and Knight LLP, July 3, 2025, https://www.hklaw.com/en/insights/publications/2025/07/the-one-big-beautiful-bill-act-a-comprehensive-analysis.
[4] The Act includes other tax changes that will affect affordable housing such as a "basis boost" for properties located in rural areas and "Opportunity Zones 2.0". Such other changes are not likely to be as impactful as the LIHTC changes (an opinion which is beyond the scope of this article), and therefore are not addressed in this article.
[5] "*Senate Finance Committee Releases FY 2025 Budget Reconciliation Bill that Includes Permanent LIHTC Expansion. Novogradac Estimates 1.22 Million Additional Affordable Rental Homes over 2026-2035*", Novogradac, by Dirk Wallace, CPA and Peter Lawrence, accessed June 26, 2025, at https://www.novoco.com/notes-from-novogradac.
[6] *See* Endnote 5.
[7] *See* Endnote 5.
[8] *See* Endnote 5.
[9] *See* Endnote 6.
[10] "*An Overview of the Low-Income Housing Tax Credit",* by Taylor LaJoie and Everett Stamm, Tax Foundation, Fiscal Fact, No. 77, Aug. 2020, https://taxfoundation.org/research /all/federal /low-income-housing-tax-credit-lihtc/.
[11] "*Realtor.com Releases New State-by-State Housing Report Card: South and Midwest Dominate in Homebuilding and Affordability*", https://www.realtor.com/news/.
[12] *See* "*The High Cost of Producing Multifamily Housing in California*", RAND, by Jason M. Ward and Luke Schlake, 2025 (comparing the costs of multifamily construction in relatively cheaper states such as Texas and Colorado, against those of California).
[13] *See* Endnote 12