

## IMPACT REPORT

# The Cost of Eliminating 50,000 Affordable Housing Units in North Carolina

*An Analysis of House Bill 1042 and Its Projected Consequences for Residents, Municipalities, and the State Economy*

Prepared by Opportunity South Carolina | May 2026

## Executive Summary

House Bill 1042, filed April 27, 2026, restructures North Carolina's nonprofit affordable housing property tax exemption under G.S. 105-278.6 and creates a new statute, G.S. 105-278.7A, with materially narrower qualification criteria. Industry analysis projects that approximately 50,000 currently exempt affordable rental units would lose qualification under the new framework, either because the ownership structure (nonprofit managing member with for-profit equity) is no longer eligible, the operating history requirement disqualifies the sponsor, or the post-reapplication economics no longer support continued affordability.

This report quantifies the downstream consequences of removing those 50,000 units from North Carolina's affordable housing inventory. The analysis draws on peer-reviewed research, federal and state agency data, and industry-standard economic modeling from the National Association of Home Builders (NAHB), the National Low Income Housing Coalition (NLIHC), the National Bureau of Economic Research (NBER), and the U.S. Department of Housing and Urban Development (HUD).

The findings are summarized below.

|  |  |   |
|--|--|---|
| <b>~115,000</b>  | <b>\$400M to \$950M</b>  | <b>~62,500</b>  |
| Residents directly affected<br><i>based on 2.3 persons per household</i> | Annual public cost if 10% become homeless<br><i>across NC municipalities</i> | Construction and operations jobs at risk<br><i>over the development cycle</i> |

The property tax exemption value at issue is approximately \$50 million to \$90 million in annual local revenue across all affected counties. The downstream public costs documented in this report exceed that figure by an order of magnitude in nearly every modeled scenario.

## 1. The Affected Population

North Carolina is already experiencing a documented affordable housing shortage. The National Low Income Housing Coalition's 2026 Gap report shows the state has only 38 affordable and available rental homes for every 100 extremely low-income (ELI) households, down from 41 the prior year.

**Approximately 350,000 ELI households exist statewide, and 89 percent are cost-burdened with 76 percent severely cost-burdened, meaning they spend more than half of their income on housing. The NC Chamber Foundation projects a five-year inventory gap of 764,478 units.**

**Removing 50,000 units from the qualifying inventory means the following:**

- Approximately 115,000 individuals lose access to rent-restricted housing, using HUD's average household size for the affected income bands.
- An estimated 35,000 to 45,000 of those residents are children, seniors on fixed incomes, or people with disabilities, populations that have the least capacity to absorb a rent increase or relocate.
- The market does not contain replacement supply at affordable rents. With only 38 units per 100 ELI households today, the displaced population enters a market with no available alternative and competes with existing renters for the same scarce inventory, driving rents higher across the bottom of the market.

## 2. Direct Public Cost of Homelessness and Housing Instability

Peer-reviewed studies are remarkably consistent on what unhoused individuals cost municipal and county governments. The National Alliance to End Homelessness pegs the average annual public cost of chronic homelessness at \$35,000 per person. A Florida study of 107 chronically homeless individuals found per-person annual costs of \$31,065 in inpatient hospitalizations, emergency room fees, and incarceration. A Santa Clara County study found per-person costs reaching \$83,000. The University of Texas, on the lower end, found \$14,480 per person primarily in jail costs.

Even with conservative assumptions about how many displaced residents become homeless versus doubled-up or relocated to substandard housing, the public cost is substantial.

### Projected Annual Public Cost to NC Municipalities

| Scenario                      | Persons Becoming Homeless | Per-Person Annual Cost | Total Annual NC Cost |
|-------------------------------|---------------------------|------------------------|----------------------|
| Low (5% rate, low cost)       | 5,750                     | \$31,065               | <b>\$179 million</b> |
| Moderate (10% rate, NAEH avg) | 11,500                    | \$35,000               | <b>\$402 million</b> |
| Higher (15% rate, NAEH avg)   | 17,250                    | \$35,000               | <b>\$604 million</b> |
| Severe (15% rate, urban cost) | 17,250                    | \$55,000               | <b>\$949 million</b> |

*Sources: National Alliance to End Homelessness (2016 update); Central Florida Commission on Homelessness; Santa Clara County Home Not Found Cost Study.*

**These figures cover only the public services associated with homelessness itself: emergency shelter, jail, hospitalization, EMS response, encampment cleanup, and case management. They do not include the costs absorbed by the displaced household in lost wages, lost personal property, and degraded health, which return to the public ledger over time through Medicaid utilization, disability claims, and child welfare involvement.**

**The Denver Supportive Housing Social Impact Bond evaluation found that providing supportive housing reduced public costs by \$36,579 per person per year compared to homelessness, a figure that exceeded the program's per-person operating cost of \$18,600. The implication for the H1042 analysis is direct: the existing exemption is itself a low-cost mechanism for keeping people housed, and removing it shifts the same individuals into far more expensive public service streams.**

### **3. Healthcare System Impact**

**Housing instability drives healthcare costs through three documented channels. First, emergency department utilization rises sharply. Research published in the New England Journal of Medicine found that homeless patients spend an average of four days longer per hospital admission than comparable housed patients, adding approximately \$2,414 in excess cost per hospitalization.**

**Second, Medicaid expenditures increase. A Portland, Oregon study of supportive housing residents found that Medicaid costs decreased by \$8,724 per person in the first year after housing placement, with additional decreases in year two. Reversing housing stability reverses those savings.**

**Third, behavioral health crisis utilization expands. A New York City study of 5,000 individuals with severe mental illness and homelessness found average annual service costs of \$40,500 per person, dominated by psychiatric hospitalization at rates more than 100 times higher than the housed cohort.**

**North Carolina hospitals, particularly the rural and safety-net systems, would absorb a meaningful share of these costs as uncompensated care, with the balance flowing to NC Medicaid. The state's recently expanded Medicaid program is particularly exposed because the displaced population skews toward the income bands now covered by expansion.**

### **4. Children and Education**

**Approximately one in three residents of LIHTC and similarly restricted affordable rental properties is a child. The 50,000-unit reduction modeled in this report would directly affect an estimated 35,000 to 45,000 NC schoolchildren.**

**A 2025 study from researchers at the University of Notre Dame, University of Chicago, Yale, and University of Nebraska, using court records linked to school administrative data, established that eviction is a causal driver of educational disruption, not merely a correlate. Specifically:**

- **Eviction nearly triples the likelihood of a child experiencing homelessness in the first year after the case is filed.**
- **Children directly affected by eviction are 19.6 percent more likely to change schools, 13 percent more likely to be chronically absent, and 34 percent more likely to be held back a grade by the second year.**
- **The negative impact of eviction on high school graduation is comparable to the impact of juvenile incarceration.**

**School districts also bear direct fiscal costs. McKinney-Vento federal mandates require districts to identify, transport, and provide wraparound services to homeless and unstably housed students. Districts**

that experience an inflow of housing-displaced students face increased transportation budgets (because students retain the right to attend their school of origin), increased counseling and social work staffing, and increased per-pupil costs that are not fully reimbursed by federal McKinney-Vento dollars. Charlotte-Mecklenburg Schools alone reported nearly 300 vacancies in 2024 driven in part by housing affordability for educators, and has launched a teacher housing initiative in response.

The school disruption effects compound. Students who change schools mid-year score lower on standardized tests, are more likely to drop out, and earn measurably less in adulthood. The lifetime fiscal cost of a single student dropping out (in lost tax revenue, increased public benefit utilization, and increased criminal justice contact) is estimated at \$200,000 to \$400,000 per student in current research.

## 5. Workforce and Economic Impact

**The 50,000 units at issue serve workers earning at or below 80 percent of area median income, which in most NC counties means the population includes teachers, certified nursing assistants, EMTs, paramedics, sheriff's deputies, corrections officers, child care workers, restaurant and retail workers, and home health aides. NC's housing wage (the hourly wage required to afford a fair-market two-bedroom apartment) is \$19.18, and ranges as high as \$28.19 in Buncombe County, well above what a substantial share of these occupations earn.**

**The downstream effects on the labor market include the following:**

- Recruitment and retention costs rise across the public sector. The CMS teacher housing initiative is one of several NC efforts already responding to a workforce that cannot afford to live in the county where it is hired.
- Long commutes substitute for affordable housing. Workers priced out of the county where they work commute longer distances at higher fuel and time costs, which reduces real wages, increases turnover, and increases highway maintenance and congestion costs.
- Child care capacity contracts further. NC has 260,000 fewer child care slots than children under five who need them. Eliminating affordable housing for child care workers, who earn an average wage well below the state's housing wage, accelerates closures and lengthens waitlists, with cascading effects on parental labor force participation.
- Site selection competitiveness erodes. The NC Department of Commerce's Certified Sites program has supported 13,000 announced jobs and \$11 billion in investment since 2006. Major site selection decisions increasingly weigh available workforce housing as a determining factor.

## 6. Construction and Operations Activity

**Affordable housing construction and operations are themselves significant economic activity. NAHB's Local Economic Impact model, which is the industry standard, estimates the following per 1,000 multifamily rental units constructed:**

- 1,250 jobs supported during the development cycle, of which approximately 60 percent are in construction trades and the remainder in manufacturing, transportation, professional services, and supply chain.
- \$55.91 million in federal, state, and local tax and fee revenue.
- \$11.7 million in local income and \$2.2 million in local government revenue per 100 units in the first year alone.

- An ongoing 44 local jobs per 100 units after construction completes, supported by property operations, maintenance contracts, and resident spending.

Applied to the 50,000 units at issue (over their development cycle), this represents approximately 62,500 jobs and \$2.8 billion in tax and fee revenue. Beyond the units themselves, H1042 introduces enough underwriting uncertainty into the broader NC affordable housing pipeline that new starts will slow regardless of whether existing properties retain their exemption. Every LIHTC equity investor, conventional construction lender, and bond purchaser will reprice or decline NC nonprofit-structured deals until the post-reapplication landscape clarifies, and the 2027 reapplication deadline guarantees at least 18 months of paralysis.

## 7. The Tax Revenue Reality Check

The principal argument advanced for H1042 is that the existing exemption deprives NC counties and municipalities of property tax revenue. That framing is incomplete in three respects.

**The exemption value is small relative to the offsets.**

Industry estimates put the total annual property tax exemption value across the 50,000 affected units at approximately \$50 million to \$90 million statewide. The homelessness public service cost modeled in Section 2 of this report is \$400 million to \$950 million annually, before accounting for healthcare, education, and lost economic activity. The state and local fiscal calculus is net negative even in the most optimistic scenario.

**Affordable properties generate substantial non-property-tax revenue.**

Residents pay state income tax, sales tax, vehicle excise tax, and utility fees. Properties pay payroll taxes on operations staff, sales tax on materials, business license fees, and water and sewer fees. Construction generates one-time impact fees, permit fees, and sales tax on materials. NAHB's national model estimates ongoing local government revenue of approximately \$440,000 per 100 units annually after construction. Across 50,000 units, that is \$220 million per year in non-property-tax revenue that depends on the housing remaining occupied and operating.

**Property tax revenue is not a static comparison.**

If the exemption is removed and the property cannot operate at the new tax cost, the unit either converts to market rate (eliminating the affordability that justified the original deal), is sold to a different operator at a price reflecting its new tax burden (which lowers the assessed value and the actual tax recovery), or is foreclosed and goes through a period of vacancy and deferred maintenance that suppresses surrounding property values. None of these scenarios produce the full theoretical tax recovery that opponents of the exemption typically cite.

## 8. Geographic and Demographic Concentration

The 50,000 units are not evenly distributed across NC. The largest concentrations are in the Charlotte-Concord-Gastonia, Raleigh-Cary, and Greensboro-High Point metropolitan areas, with meaningful presence in Asheville, Wilmington, Fayetteville, and Pitt County. Rural counties hold a smaller absolute count but a higher share of the local affordable inventory, meaning the per-county impact is more concentrated.

The Charlotte-Concord-Gastonia metro alone has approximately 75,000 ELI renter households, and the Gap report identifies it as one of three NC metros with severe affordable housing shortages. Removing 10,000 to 15,000 units from this single metro would functionally eliminate the bottom of its affordable inventory and push displaced households into Mecklenburg County's already strained shelter, hospital, and school systems.

Demographically, the affected population concentrates in three groups:

- Seniors on fixed Social Security or SSI income, who cannot increase earnings to absorb a rent increase.
- Single-parent households with children, who face the highest documented eviction rates and the largest measured educational disruption when displaced.
- People with disabilities receiving SSDI, for whom federally subsidized vouchers are insufficient because there are not enough landlords willing to accept them in the absence of a dedicated affordable unit.

## 9. Long-Term Fiscal Math

The cost-benefit balance for H1042, summarized across all the channels documented above, is negative for the state and for the affected counties under any reasonable set of assumptions.

| Annual Fiscal Channel                                    | Direction            | Estimated Annual Magnitude |
|--|----------------------|----------------------------|
| Recovered property tax (theoretical maximum)             | Revenue gain         | \$50M to \$90M             |
| Public services for newly homeless residents             | Cost increase        | \$400M to \$950M           |
| Excess Medicaid and uncompensated hospital cost          | Cost increase        | \$80M to \$200M            |
| School district displacement and McKinney-Vento          | Cost increase        | \$40M to \$100M            |
| Lost ongoing local government revenue (non-property-tax) | Revenue loss         | \$30M to \$80M             |
| Lost construction-cycle tax and fee revenue (annualized) | Revenue loss         | \$60M to \$120M            |
| <b>NET FISCAL IMPACT</b>                                 | <b>Cost increase</b> | <b>\$560M to \$1.36B</b>   |

*Estimated annualized fiscal impact across NC state and local governments. Magnitudes are author estimates based on the cited research applied to NC scale.*

The bottom-line math: every \$1 of recovered property tax revenue under H1042 is offset by an estimated \$7 to \$15 in increased public service costs, lost economic activity, and lost non-property-tax revenue.

## 10. Additional Considerations

### Loss of Federal Match and Leveraged Capital

Many of the 50,000 units carry LIHTC equity, federal HOME funds, NCHFA Workforce Housing Loan Program participation, USDA Rural Development financing, or HUD project-based Section 8 contracts. When property tax exemption is removed mid-cycle, deals trigger investor recapture, NCHFA compliance issues, and federal funder claw-back risk. The ripple effects extend to NC's competitive position for federal LIHTC allocations and HOME funds in future years.

### **CRA Investment Pullback**

NC banks have made substantial Community Reinvestment Act investments in nonprofit-structured affordable housing. If those properties lose exemption and become economically nonviable, banks reduce future NC affordable housing investment in favor of other states with stable exemption frameworks. This is not theoretical: the pattern repeated when Tennessee narrowed its nonprofit exemption in 2018 and Alabama did the same in 2021.

### **Pipeline Freeze and Reapplication Bottleneck**

H1042's December 31, 2026 reapplication deadline creates a procedural bottleneck independent of the substantive narrowing. County tax assessors, NCHFA staff, and operator compliance teams will need to process thousands of reapplications simultaneously in a compressed window. Industry experience in other states suggests that even properties that should qualify under the new framework will face initial denials, appeals, and 12 to 18 months of operational uncertainty, during which lenders, investors, and operators all retrench.

### **Disproportionate Rural Impact**

Rural NC counties have fewer affordable housing alternatives, fewer shelter beds, fewer hospital systems to absorb uncompensated care, and fewer school district resources to manage displacement. The per-resident downstream cost of removing affordable units in a rural county is higher than in an urban county, even though urban counties hold more units in absolute numbers. Counties such as Pitt, Robeson, Halifax, and Edgecombe are particularly exposed.

## **Conclusion**

H1042 is presented as a property tax recovery measure. The data summarized in this report demonstrate that the property tax recovery is small, uncertain, and in many cases illusory once secondary market effects are considered. The cost side, by contrast, is large, well-documented, and immediate. The bill, as currently drafted, transfers cost from one line of the public ledger (the foregone property tax exemption) onto multiple other lines (homelessness services, Medicaid, public schools, criminal justice, lost economic activity), with a multiplier on the cost side that compounds over time.

The 50,000 affected units exist because the existing statutory framework made them economically viable. Removing the framework does not make those residents disappear; it relocates them to higher-cost public service streams. The single most cost-effective intervention for keeping people housed is to keep them housed, and the existing nonprofit affordable housing exemption is one of the lowest-cost tools the state has for that purpose.

Targeted reform, including disclosure requirements, audit authority, minimum affordability terms, and clearer eligibility standards, can address the legitimate oversight concerns that animated H1042

**without producing the cascade of costs documented in this report. Stakeholders are prepared to engage on that narrower frame.**

## Sources and Methodology

### Primary research and data sources cited in this report:

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- NC Chamber Foundation. Five-year housing inventory gap projection.
- NC General Assembly. House Bill 1042, filed April 27, 2026.

*Methodology note. The 50,000-unit figure used throughout this report is the working industry estimate of NC affordable rental units that would not qualify under H1042's narrowed framework. Actual displacement would depend on final bill language, county assessor implementation, NCHFA guidance, and the duration of any transition period. Cost ranges are constructed by applying published per-unit and per-person research findings to NC scale and should be treated as order-of-magnitude estimates rather than precise forecasts.*