SitusAMC

SITUSAMC / COMMERCIAL REAL ESTATE RESEARCH

Texas Housing Finance Corporations

From Traveling HFCs to HB 21

How the 2025 reforms changed property-tax exemptions, local approvals and investment underwriting.

OCTOBER 2026 / INVESTOR RESEARCH

Niles Almarinez
Director, Equity Advisory & Asset Surveillance
nilesalmarinez@situsamc.com



A conditional exemption changes the underwriting, not just the tax bill

1. **Original intent.** Texas HFCs, authorized by the 1979 Housing Finance Corporations Act (now Chapter 394), are local nonprofit instrumentalities created to expand housing finance and affordable housing.

2. **Investor adoption.** Some sponsors used HFC ownership to obtain a property-tax exemption on multifamily property, including outside the sponsor's own jurisdiction ('traveling HFCs').

3. **HB 21 (signed May 28, 2025).** Retains the HFC property-tax exemption subject to additional requirements, including applicable local approvals, specified affordable-unit allocations (10% at ≤60% AMI plus 40% at ≤80% AMI, or 10% at ≤50% AMI plus 40% at ≤100% AMI), a rent-reduction test tied to property-tax savings, tenant protections, and annual independent compliance audits.

4. **Legacy assets.** Out-of-area properties owned on Sept. 1, 2025 lose eligibility after Jan. 1, 2027 without the required local resolutions or orders. Full affordability tests follow later, and earlier on a refinance, title transfer or majority ownership change.

5. **Value at risk.** The loss of an HFC property-tax exemption can materially reduce NOI, property valuation, and debt coverage while creating refinancing shortfalls. Investors and lenders should evaluate these risks through downside sensitivity analysis rather than assuming the exemption will remain in place throughout the investment hold period.

6. **What to do.** Underwrite every HFC asset with and without the exemption, verify required approvals, understand the annual compliance and audit process, and stress-test floating-rate debt before committing capital or extending credit.

Sources: Texas HB 21 (89th Leg., 2025), §§4, 9, 11, 13; Texas Local Government Code, Ch. 394; TDHCA, HFC Compliance Monitoring.

KEY DATES

May 28, 2025

HB 21 signed into law and effective immediately.

Sept. 1, 2025

Statutory ownership reference date for the special legacy portability provision

Jan. 1, 2026

Deadline for applicable legacy properties to satisfy specified tenant, marketing, website and lease protections.

June 1, 2026

First independent compliance audit reports due to TDHCA; annually thereafter.

Jan. 1, 2027

Required local approvals must be obtained for qualifying legacy out-of-area HFC properties to preserve the exemption beyond the transition date.

Tax year 2035*

Legacy properties must satisfy specified affordable-unit allocations, rent limits, unit parity, and rent-reduction requirements. Refinancing, title transfers, or qualifying majority ownership changes can accelerate the deadline.

Why HFCs were created and why investors used them

Texas established Housing Finance Corporations in 1979 to facilitate financing for affordable residential ownership and development. Over time, public-private investment structures increasingly utilized HFC participation to obtain property-tax exemptions, creating financial incentives for multifamily investors while raising questions about whether the resulting tax benefits translated into meaningful housing affordability.

1979

Texas Housing Finance Corporations Act creates local nonprofit HFCs to finance housing (now Chapter 394).

June 2023

HB 2071 reforms Public Facility Corporations under Chapter 303, introducing geographic restrictions, affordability requirements, tenant protections and public-benefit testing.

2023 to 2024

Following the 2023 PFC reforms, traveling HFC arrangements attracted increased legislative scrutiny as concerns emerged over out-of-area property-tax exemptions.

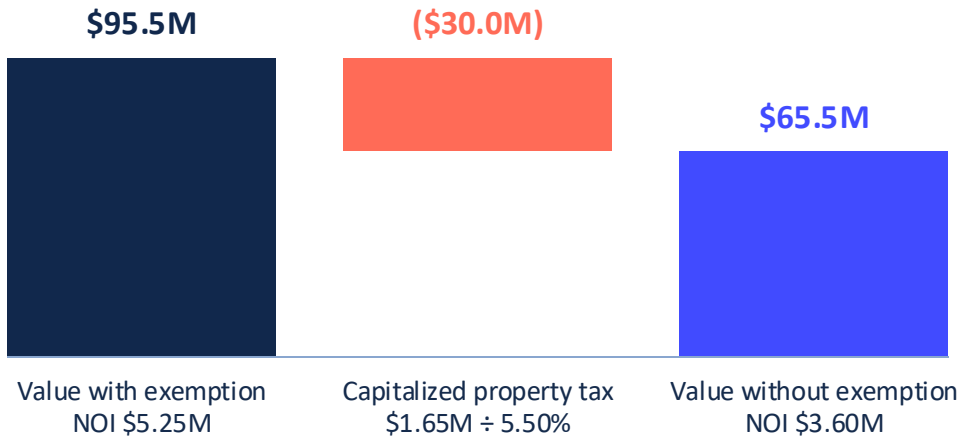
Oct. 2024

Texas legislators formally request an Attorney General opinion on whether Chapter 394 permits HFC developments outside sponsoring jurisdictions.

May 28, 2025

HB 21 signed and effective immediately, adding geographic limits, affordability tests and annual audits.

ILLUSTRATIVE NOI-TO-VALUE BRIDGE ($M, 300-UNIT EXAMPLE, 5.50% CAP RATE)



WHERE THE STRATEGY WAS APPLIED (BENEFIT WAS DEAL-SPECIFIC)

Existing acquisitions. Where existing market rents were already within applicable affordability thresholds, investors could potentially obtain property-tax exemptions without materially reducing rental revenue.

Value-add multifamily. Property-tax savings could improve projected cash flow and support renovation strategies. However, the investment benefit depended on achievable rent growth, affordability restrictions, and the continued availability of the exemption.

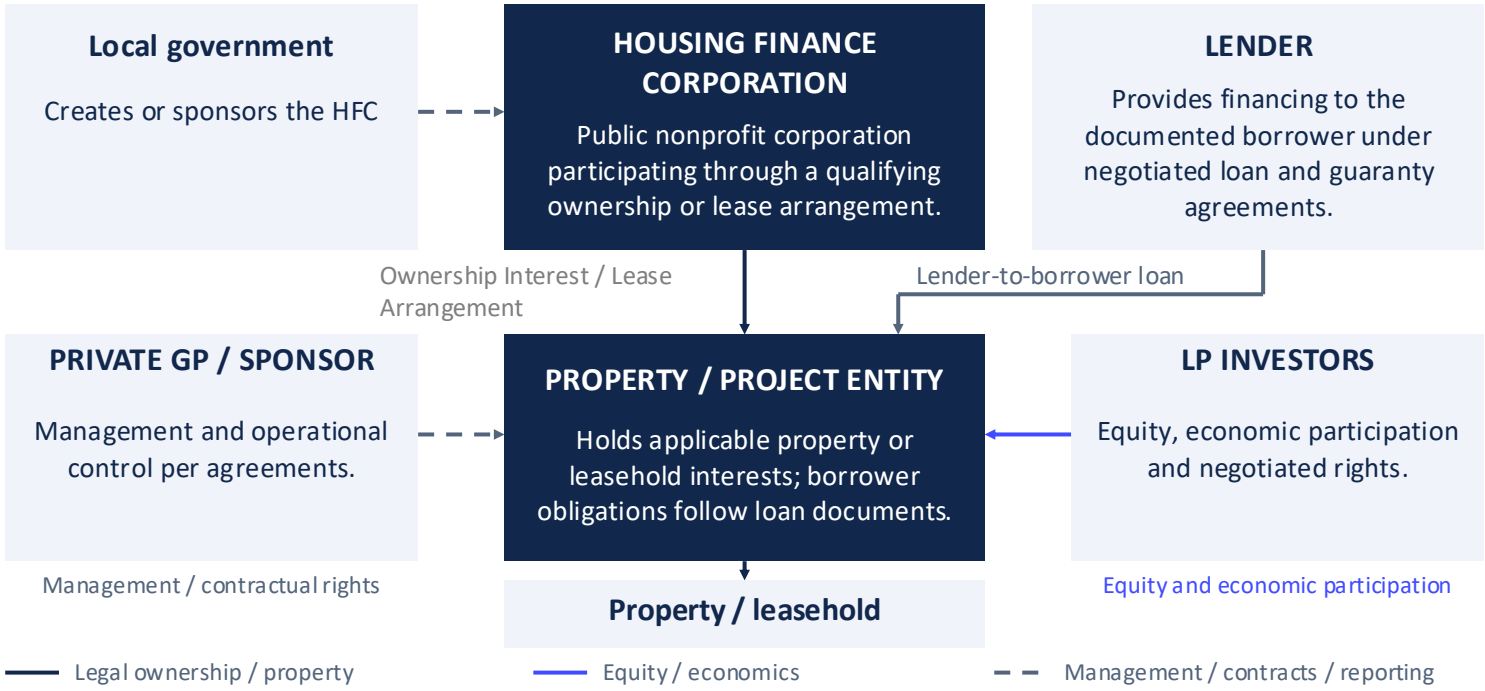
New development. Reduced property-tax expenses could improve projected stabilized NOI and support development financing and valuation assumptions, subject to the applicable affordability and transaction requirements.

Student housing. Certain student housing investments also utilized HFC structures. Individual-bedroom leasing, household composition, student income qualification and guarantor arrangements can create additional compliance considerations.

Sources: Texas Local Government Code §394.002; HB 2071 (88th Leg., 2023); Texas Attorney General Opinion Request RQ-0566-KP (Oct. 2, 2024); HB 21 (89th Leg., 2025). Financial illustration based on hypothetical assumptions.

Understanding HFC Ownership, Financing and Investor Control

HFC transactions combine public participation with private capital. Legal title, economic ownership, borrower obligations and governance rights depend on the transaction documents.



REGULATORY OVERSIGHT

TDHCA
Receives independent compliance audits and administers applicable monitoring.

COUNTY APPRAISAL DISTRICT
Administers property-tax appraisal and exemption determinations.

SUPPORTING DOCUMENTS

OWNERSHIP & CONTROL

Deed, ground lease, organizational chart, partnership and operating agreements.

FINANCING

Loan agreement, guaranties, interest-rate cap, cash-flow waterfall.

HFC PARTICIPATION

HFC resolutions, board approvals, regulatory agreements.

COMPLIANCE & EXEMPTION

Applicable underwriting assessment, host-area approvals, independent compliance audits, and county appraisal district exemption documentation.

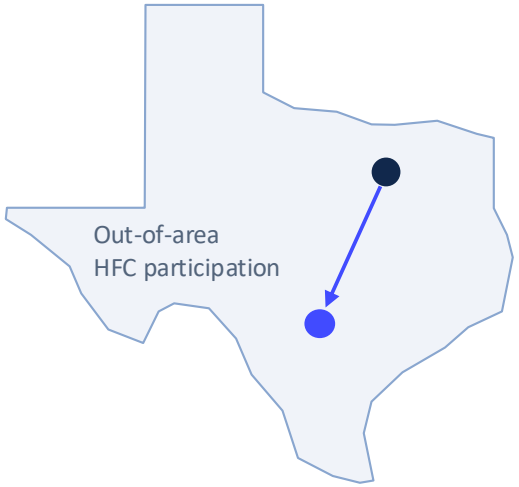
INVESTMENT IMPLICATION

The entity holding legal title may differ from the party receiving the economic benefit of the property-tax exemption. Investors should reconcile tax savings, HFC payments, debt service and distributions to the transaction's ownership structure and cash-flow waterfall.

Illustrative structure. Actual ownership, financing obligations and exemption eligibility depend on transaction documents and applicable statutory requirements.

Traveling HFCs: The Geographic Divide Between Sponsorship and Tax Impact.

Prior to HB 21, traveling HFC structures could create financial incentives for sponsoring HFCs and private investors while shifting the property-tax impact to jurisdictions outside the sponsoring HFC's boundaries. This disconnect between economic benefits, local tax revenue, and measurable affordability outcomes became a central focus of the 2025 legislative reforms.



Dallas Area Sponsoring HFC

The sponsoring HFC may receive negotiated compensation for participating in qualifying residential transactions.

San Antonio Property Location

Investor / multifamily property outside the sponsoring jurisdiction.

Illustrative, not a specific transaction

Different Parties, Different Economic Effects

SPONSORING HFC

Negotiated compensation and public-purpose participation

PRIVATE INVESTOR / PROPERTY

Potential property-tax savings and investment economics

HOST TAXING JURISDICTIONS

Potential reduction in property-tax revenue

WHY INVESTORS USED TRAVELING HFCS

Private investors could pursue qualifying residential investments outside an HFC's sponsoring jurisdiction. Where exemption requirements were satisfied, reduced property-tax expenses could increase NOI, valuation and projected equity returns.

WHY A SPONSORING HFC PARTICIPATED

Sponsoring HFCs could receive negotiated compensation through upfront transaction fees, recurring ground lease payments, administrative fees, developer fee participation, and cash flow or capital-event sharing. These revenues could support the HFC's operations and affordable-housing objectives, while the property-tax impact occurred in the jurisdiction where the asset was located.

WHY HOST JURISDICTIONS RAISED CONCERNS

The tax impact occurred where the property was located. Municipalities, counties, school districts and other taxing units could lose revenue despite not sponsoring the transaction. Questions also arose about sufficient incremental affordability for local residents.

WHY HB 21 MATTERS HB 21 established geographic approval requirements for applicable out-of-area HFC transactions and strengthened affordability, tenant-benefit and compliance standards to better align tax exemptions with local housing objectives.

Illustrative geographic example. Actual HFC participation, exemption eligibility, and local approval requirements depend on the applicable statutory framework and transaction documents.

HB 21: How the HFC Exemption Framework Changed

The 2025 legislation retained the exemption while introducing more prescriptive affordability, geographic approval, tenant-protection and compliance requirements.

Category	Before HB 21 (General Framework)	After HB 21 (Statutory Requirements)
Geographic Authority	Certain HFCs participated in residential developments outside their sponsoring jurisdictions under a framework whose geographic scope became disputed.	Out-of-area residential developments require applicable local government and HFC approvals under §394.031(d).
Affordable Units	Chapter 394 contained broader low- and moderate-income housing provisions. Specific affordability commitments depended on the transaction structure and governing agreements.	Two affordable-unit alternatives: 10% at ≤60% AMI plus 40% at ≤80% AMI, or 10% at ≤50% AMI plus 40% at ≤100% AMI.
Rent Restrictions	Rent restrictions were generally established through regulatory agreements, financing documents and applicable program requirements.	Restricted rents are subject to statutory AMI-based limits. Mandatory recurring charges are included; specified optional fees are excluded.
Rent Reduction	No comparable standardized statutory rent-reduction test applied to HFC exemptions.	Aggregate qualifying rent reductions must generally equal at least 50% of estimated property-tax savings, subject to the statutory shortfall-payment mechanism.
Underwriting & Governance	HFC approvals and transaction diligence were governed by the prior statutory framework and applicable transaction documents.	Applicable new acquisitions require a documented assessment of economic and public benefits. HFC governance and public disclosure requirements also apply.
Tenant Protections	Tenant protections depended on applicable law, regulatory agreements and lease provisions.	Additional voucher, marketing, lease, nonrenewal, notice, antiretaliation and unit-comparability requirements apply.
Annual Compliance	Compliance monitoring was generally established through HFC oversight, regulatory agreements and applicable financing requirements.	Independent annual compliance audits are required, with reports submitted to TDHCA and applicable appraisal districts. Noncompliance may jeopardize the exemption.
Existing Properties	Existing properties operated under the applicable statutory framework and transaction documents.	Legacy properties face phased compliance obligations, including tenant protections, annual audits, geographic approvals where applicable, and specified affordability requirements subject to transition provisions.

INVESTMENT IMPLICATION HB 21 changes how investors must evaluate the durability of property-tax savings. Exemption eligibility now requires greater attention to ownership structure, local approvals, tenant affordability, operating compliance and transaction-specific transition provisions.

Unit Tiers, Rent Caps and the 50% Rent-Reduction Test

AFFORDABLE-UNIT ALTERNATIVES (§394.9026(c)(1))

Alternative A

10% ≤60% AMI	40% of units at ≤80% AMI	Remaining 50% Other restrictions may apply

Alternative B

10% ≤50% AMI	40% of units at ≤100% AMI	Remaining 50% Other restrictions may apply

Percentages represent minimum affordable-unit allocations. Additional restrictions may apply under the governing transaction documents.

INCOME ELIGIBILITY VERSUS RENT CAPS (ASSUMED AMI: $90,000)

AMI Tier	Household Income Limit	Illustrative Maximum Monthly Rent
50% AMI	$45,000	$1,125
60% AMI	$54,000	$1,350
80% AMI	$72,000	$1,800
100% AMI	$90,000	$2,250

Illustrative calculations using an assumed $90,000 AMI. Actual income eligibility and rent limits depend on the applicable statutory methodology, household size, unit characteristics and program requirements. Rent caps limit the unit's rent, not a fixed share of actual tenant income. Applicable income certification is required.

Sources: Texas Local Government Code §394.9026, as amended by HB 21 (2025); applicable TDHCA guidance.

Annual Rent-Reduction Requirement: Illustrative $1.65MM Property-Tax Savings

300-unit multifamily property. Assumed annual taxes without exemption

$1,650,000 × 50% = $825,000

Required Annual Rent-Reduction Threshold

Illustrative Rent-Reduction Scenarios

Scenario	Qualifying Rent Reduction	Illustrative Shortfall Payment	Net Tax Benefit Before Other Costs
No qualifying rent reduction	$0	$825,000	$825,000
Full qualifying rent reduction	$825,000	$0	$825,000
Partial qualifying rent reduction	$400,000	$425,000	$825,000

Assumes the full exemption, dollar-for-dollar rental revenue reductions and an available statutory shortfall mechanism. Excludes other rent restrictions, HFC fees and compliance costs. Residual benefit is not guaranteed.

Illustrative Per-Unit Impact: 300 units, including 150 restricted
$825,000 ÷ 150 ÷ 12 ≈ $458 per restricted unit per month
$825,000 ÷ 300 ÷ 12 ≈ $229 per total unit per month

Aggregate scale only, not a uniform unit discount. Shortfall payments to taxing units are distinct from tenant rent reductions.

UNDERWRITING IMPLICATION

HB 21 preserves the potential for a 100% property-tax exemption but generally requires qualifying rent reductions equal to at least 50% of estimated tax savings, or payment of the applicable shortfall. Investors must evaluate the net economic benefit after rent reductions, HFC compensation and ongoing compliance costs.

Legacy Assets: Local Approval Is a Gating Item, Not a Formality

Existing HFC investments face separate deadlines for tenant protections, annual compliance, geographic approvals and affordability requirements. Qualifying legacy status does not automatically preserve the exemption.

May 28, 2025
HB 21 becomes effective.

September 1, 2025
Ownership reference date for special legacy portability.

January 1, 2026
Specified voucher, website, marketing and lease protections apply to qualifying legacy properties.

June 1, 2026
First independent HFC compliance audit reports due. Annually thereafter.

Before January 1, 2027
Required local resolutions or orders must be obtained before this date to preserve the exemption for applicable legacy out-of-area properties.

End of Tax Year 2035, or Earlier
Specified affordable-unit allocations, rent limits, unit parity and the 50% rent-reduction test.*

*Certain refinancing, title-transfer or majority beneficial-ownership transactions can accelerate the deadline for specified affordability and rent-related requirements. The applicable deadline is determined under HB 21's transition provisions.

THREE ELIGIBILITY GATES

GATE 1 — CONFIRM LEGACY OWNERSHIP

1

Was the development owned by the HFC on September 1, 2025?

Confirm the reference date, legal title and transaction documents. If the special legacy portability provision does not apply, evaluate the transaction's geographic approval requirements.

GATE 2 — DETERMINE GEOGRAPHIC ELIGIBILITY

2

Is the property outside the HFC's authorized geographic area?

Compare the site with sponsor municipality or county boundaries. If within the authorized area, special out-of-area approval may not apply. Other statutory and contractual obligations remain.

GATE 3 — VERIFY LOCAL APPROVALS

3

Were the required host-area approvals obtained before January 1, 2027?

Verify the required resolutions or orders under §394.031(d). Without these approvals, an applicable legacy out-of-area development is ineligible for the exemption after January 1, 2027. Underwrite full property taxes until continued eligibility is documented.

DALLAS-TO-SAN ANTONIO DILIGENCE

1. **Confirm Ownership.** Verify HFC ownership on the reference date against deed, ground lease and ownership structure.
2. **Establish Authorized Geography.** Identify the HFC and its sponsoring municipality or county boundaries.
3. **Determine Property Location.** Confirm whether the property lies outside the authorized area.
4. **Identify Required Host Approvals.** Determine applicable municipal, county and HFC resolutions or orders under §394.031(d).
5. **Obtain Required Resolutions.** Secure resolutions or orders before the deadline. Do not assume local approval.
6. **Verify Continued Exemption Eligibility.** Reconcile approvals, ownership, affordability obligations, regulatory agreements and exemption records.
7. **Maintain Ongoing Compliance.** Retain annual independent audits, tenant records, rent calculations and continuing-compliance evidence.

Sources: Texas HB 21 (89th Leg., 2025), Section 13; Texas Local Government Code §394.031; TDHCA HFC Compliance Monitoring.

Compliance Is an Annual Operating Cycle Built Around June 1

Annual HFC compliance requires ongoing tenant documentation, independent audits, regulatory reporting and active asset-management oversight.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

PREPARATION / RECOMMENDED
Validate certifications, rents and unit designations; engage independent auditor.

JUNE 1
Annual audit
Statutory filing

MONITORING / RECOMMENDED
Resolve findings, monitor compliance, prepare next cycle.

AUDIT & REGULATORY REVIEW
Submit independent audits to TDHCA for compliance review and corrective action. Submission does not establish exemption eligibility. County appraisal districts administer exemptions.

Illustrative calendar; statutory deadlines and review periods apply separately.

ANNUAL CONTROL FRAMEWORK

Control	Required Monitoring
Income Eligibility	Tenant certifications and supporting documentation
Unit Mix	AMI allocations, bedroom distribution and unit comparability
Rent Compliance	Rent caps, mandatory fees and qualifying reductions
Tenant Protections	Voucher policies, marketing, screening and leases
Audit & Review	Annual submissions, findings and corrective action

COSTS & POTENTIAL OBLIGATIONS

Cost Category	Classification / Basis
TDHCA Service Fee	$35 per sampled restricted unit; $500 annual minimum
Independent Audit	Annual third-party expense
HFC / Sponsor Fees	Negotiated contractual payments
Legal / Regulatory	Transaction-specific professional expense
Tenant-File Administration	Ongoing compliance expense
Underwriting Assessment	Applicable acquisition expense
Shortfall Payment	Potential statutory economic obligation

STUDENT HOUSING
Additional Compliance Considerations

Household Income
Student earnings, parental support and guarantor treatment.

Leasing Structure
Bedroom leases versus unit-level affordability requirements.

Compliance Documentation
Income certifications, restricted-unit designations and records.

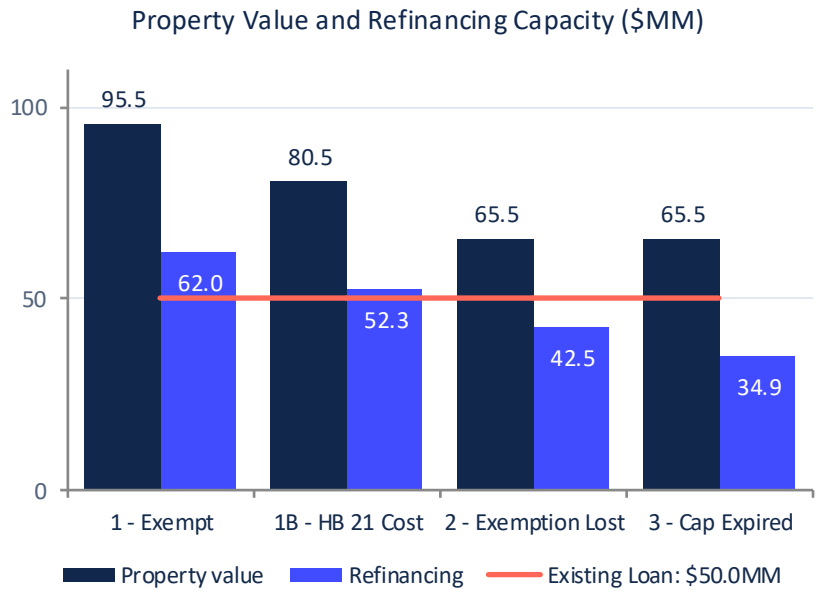
Student housing requires transaction-specific review of income and leasing requirements.

INVESTMENT IMPLICATION Annual HFC compliance should be treated as an asset-management control. Investors and lenders should monitor audit status, tenant eligibility, rent restrictions and unresolved findings.

Sources: LGC §394.9027; 10 TAC HFC provisions; TDHCA monitoring and service-fee instructions.

Losing the Exemption Moves Value, Coverage and Refinancing Together

Metric ($MM except ratios)	1 - Exemption Maintained	1B - Exemption + HB 21 Cost	2 - Exemption Lost	3 - Exemption Lost + Cap Expired Assumed SOFR: 5.50%
Property tax / HB 21 cost	$0.00	$0.83	$1.65	$1.65
NOI	**$5.25**	**$4.43**	**$3.60**	**$3.60**
Annual debt service	$3.75	$3.75	$3.75	$4.50
DSCR	**1.40x**	1.18x	0.96x	0.80x
Cash flow after debt service	$1.50	$0.68	**($0.15)**	**($0.90)**
Value at 5.50% cap	**$95.5**	**$80.5**	**$65.5**	**$65.5**
Change vs. scenario 1	N/A	($15.0)	($30.0)	($30.0)
Debt yield on $50.0M loan	10.5%	8.9%	7.2%	7.2%
LTV on $50.0M loan	52.4%	62.1%	76.4%	76.4%
Supportable refinance	**$62.0**	**$52.3**	**$42.5**	**$34.9**
Proceeds vs. $50.0M loan	+$12.0	+$2.3	**($7.5)**	**($15.1)**



INVESTMENT IMPLICATION

In this illustrative 300-unit investment, losing the HFC exemption reduces NOI by **31%** and indicated property value by $30.0MM. Combined with the assumed interest-rate stress, DSCR declines to **0.80x** and supportable refinancing falls to $34.9MM, creating a **$15.1MM** funding shortfall against the existing $50.0MM loan.

ILLUSTRATIVE ASSUMPTIONS

300 units | $75.0MM taxable value | 2.20% property-tax rate | 5.50% cap rate | $50.0MM interest-only loan at SOFR + 3.50% | 4.00% SOFR cap strike.

REFINANCING ASSUMPTIONS

Interest-only refinance; lesser of 65% LTV, 1.25x DSCR, or 8.00% debt yield. Assumed refinance rates: 6.75% for Scenarios 1–2 (including 1B) and 8.25% for Scenario 3.

RATE STRESS

Baseline assumes SOFR at the 4.00% cap strike (7.50% all-in). Scenario 3 assumes cap expiration and 5.50% SOFR (9.00% all-in), raising annual debt service from $3.75MM to $4.50MM.

Illustrative financial sensitivity; not an appraisal or forecast. Excludes additional HFC fees, compliance expenses, and changes in capitalization rates. Statutory reference: Texas Local Government Code §394.9026(c)(2).

Interest-Rate Exposure: How Cap Expiration Compounds HFC Investment Risk

Cap expiration removes interest-rate protection. The financial impact depends on subsequent SOFR movements and the property's ability to service debt.

HOW THE INTEREST-RATE CAP WORKS

Loan Structure: $50.0MM interest-only loan at SOFR + 3.50%, with a 4.00% SOFR cap strike.

Capped Rate: At or above the strike, the effective rate is 7.50%, or $3.75MM in annual debt service.

After Expiration: The borrower is exposed to actual SOFR plus the contractual spread.

Rate Stress: At an assumed 5.50% SOFR, debt service increases to $4.50MM annually.

Additional Exposure: Replacement-cap costs and lender requirements may create liquidity needs.

Below the strike, the borrower pays actual SOFR plus the spread. The cap does not establish a fixed interest rate.

DSCR SENSITIVITY AFTER CAP EXPIRATION

SOFR (uncapped)	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%	6.00%
All-In Interest Rate	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%
Annual Debt Service ($MM)	3.25	3.50	3.75	4.00	4.25	4.50	4.75
DSCR: Exemption Maintained	1.62x	1.50x	1.40x	1.31x	1.24x	1.17x	1.11x
DSCR: HB 21 Economic Cost	1.36x	1.26x	1.18x	1.11x	1.04x	**0.98x**	**0.93x**
DSCR: Exemption Lost	1.11x	1.03x	**0.96x**	**0.90x**	**0.85x**	**0.80x**	**0.76x**

Uncapped SOFR sensitivity; hypothetical rates, not forecasts. Blue indicates the original cap strike. Lavender: DSCR of 1.00x–1.19x; coral: below 1.00x.

NOI assumptions ($MM): Exempt 5.25 | HB 21 cost 4.425 | Exemption lost 3.60.

INVESTMENT IMPLICATIONS ACROSS THE CAPITAL STACK

ACQUISITION UNDERWRITING Evaluate exempt and fully taxed NOI. Validate the exemption before capitalizing tax savings.

OPERATING CASH FLOW Model rent restrictions, shortfall payments, tax normalization and financing costs.

LOAN COVENANTS Stress-test DSCR, debt yield and borrower liquidity under adverse scenarios.

REFINANCING CAPACITY Size proceeds on supportable NOI and lender requirements; evaluate HB 21 compliance triggers.

EXIT VALUATION Assess buyer discounts for uncertain exemptions, approvals and compliance findings.

EQUITY DISTRIBUTIONS Evaluate reduced distributions, reserves, capital calls and GP/LP waterfall impacts.

INVESTMENT IMPLICATION At an assumed **5.50% SOFR**, annual debt service increases to $4.50MM. DSCR is **1.17x** with the exemption maintained versus **0.80x** if lost, illustrating how property-tax and interest-rate risks compound.

Source: SitusAMC illustrative financial model; Texas HB 21 (2025), applicable legacy transition provisions.

REAL-WORLD INVESTMENT LESSONS

When Investment Assumptions Fail: Lessons for LPs, GPs and Lenders

Three anonymized situations illustrate how aggressive underwriting, insufficient diligence and financing exposure can contribute to investment distress.

1 LP / GP Value-Add Investment

SITUATION

A Texas multifamily acquisition assumed significant rent growth and an HFC exemption. The LP committed equity based on the GP's projections.

WHAT WENT WRONG

1. HFC approval did not materialize
2. Rent growth materially underperformed
3. Interest-rate cap expired, exposing the loan to higher SOFR.
4. Higher debt service weakened cash flow
5. GP capital support was limited
6. The loan required modification

INVESTMENT LESSON

GP execution risk and insufficient LP diligence compounded the investment's exposure. Independent underwriting should have challenged rent growth, HFC approval assumptions, sponsor capitalization and downside debt coverage before equity was committed.

2 Texas Multifamily Portfolio

SITUATION

A multi-property Texas portfolio acquisition relied on the sponsor's operating projections, financing assumptions and investment strategy.

WHAT WENT WRONG

1. Asset-level operating assumptions were optimistic
2. Financing assumptions understated downside risk
3. Cash flow and debt coverage weakened
4. In one instance, the sponsor surrendered collateral to the lender

INVESTMENT LESSON

Consolidated sponsor projections cannot replace independent asset-level underwriting. Evaluate each property's operations, property-tax exposure, financing, capital needs and exit assumptions.

3 Lender Workout & Recovery

SITUATION

Illustrative lender framework: when original assumptions fail, reassess collateral using current performance and realistic recovery alternatives.

RESPONSE FRAMEWORK

1. Normalize current property cash flow
2. Quantify full property-tax exposure
3. Recalculate DSCR, debt yield and collateral value
4. Assess sponsor liquidity and capital support
5. Evaluate modification and recapitalization
6. Compare foreclosure, disposition and recovery

INVESTMENT LESSON

Base workout decisions on current collateral economics, sponsor capacity and realistic recovery alternatives rather than the original investment business plan.

Illustrative investment scenarios presented for discussion purposes. Certain details have been generalized.

HFC Investment Risk: Priorities for Owners, Investors and Lenders

HB 21 requires stakeholders to reassess exemption eligibility, operating compliance, financing exposure and investment returns.

Stakeholder	Priority Actions	Investment Decision Test
Existing Owners	1. Confirm exemption eligibility, required host approvals and applicable deadlines. 2. Verify annual audits, tenant restrictions and rent-reduction compliance. 3. Evaluate refinancing triggers and potential property-tax normalization.	Can the property maintain adequate **NOI**, **DSCR** and **value** if the exemption is reduced or lost?
LP Investors	1. Independently validate GP underwriting and operating assumptions. 2. Assess sponsor liquidity, capitalization and capital-call capacity. 3. Stress-test HFC approval, rent growth, debt service and exit assumptions.	What is the potential impact on **equity returns**, distributions and **additional capital** requirements?
Prospective Buyers	1. Underwrite both exempt and fully taxed cash flows. 2. Verify HFC ownership, approvals, regulatory agreements and audit history. 3. Budget HFC fees, compliance costs and potential rent restrictions.	Does the acquisition meet **return requirements** without relying on uncertain tax savings?
Lenders	1. Validate exemption documentation and ongoing compliance. 2. Size debt using sustainable NOI and downside property-tax assumptions. 3. Evaluate floating-rate exposure, interest-rate cap requirements and sponsor support.	Does the collateral maintain acceptable **DSCR**, **debt yield**, **LTV** and **refinancing capacity** under stress?
Portfolio Managers	1. Inventory HFC exposure by property, sponsor and host jurisdiction. 2. Monitor approval deadlines, audits and unresolved compliance findings. 3. Prioritize assets with weak coverage, liquidity constraints or refinancing exposure.	Which assets require enhanced **surveillance**, **capital planning** or **intervention**?

Sources: Texas HB 21 (2025); Texas Local Government Code Chapter 394; TDHCA HFC Compliance Monitoring; SitusAMC analysis.

SitusAMC

Assess the Exemption. Underwrite the Downside.

SitusAMC supports investors, lenders and asset managers through independent acquisition and equity due diligence, financial underwriting, portfolio acquisitions and dispositions, asset surveillance, and tailored advisory solutions. Our services help clients evaluate investment opportunities, identify financial and operational risks, optimize asset performance, and make informed investment and capital allocation decisions.

Evaluating an HFC investment or portfolio exposure?

Contact us to discuss independent underwriting, property-tax exemption risk and investment alternatives.



Niles Almarinez

Director, Equity Advisory & Asset Surveillance

nilesalmarinez@situsamc.com

ACQUISITION & EQUITY DUE DILIGENCE

Independent underwriting, GP/sponsor assessment, LP diligence, portfolio acquisitions and dispositions, valuation and investment-return analysis.

HFC EXPOSURE & COMPLIANCE DILIGENCE

Review of HFC ownership structures, local approvals, property-tax exemption assumptions, regulatory documentation and supporting compliance evidence.

PORTFOLIO SURVEILLANCE & RISK MANAGEMENT

Monitoring of operating performance, debt coverage, capital requirements, refinancing exposure, portfolio concentrations and emerging investment risks.

FINANCIAL UNDERWRITING & STRATEGIC ADVISORY

Cash flow forecasting, valuation, financing sensitivities, investment-return analysis, capital planning and evaluation of strategic alternatives.

IMPORTANT INFORMATION

This publication is provided for general informational purposes and does not constitute investment, legal, tax or financial advice. The analysis reflects information and assumptions available as of October 2026. Financial illustrations are hypothetical and may not reflect actual investment outcomes. SitusAMC does not provide legal opinions or regulatory approvals. Readers should independently verify applicable requirements and consult qualified professionals before making investment decisions.