

# A Detailed Look at Prospects for Tax-Exempt Multifamily Housing Bond Executions in 2026\*

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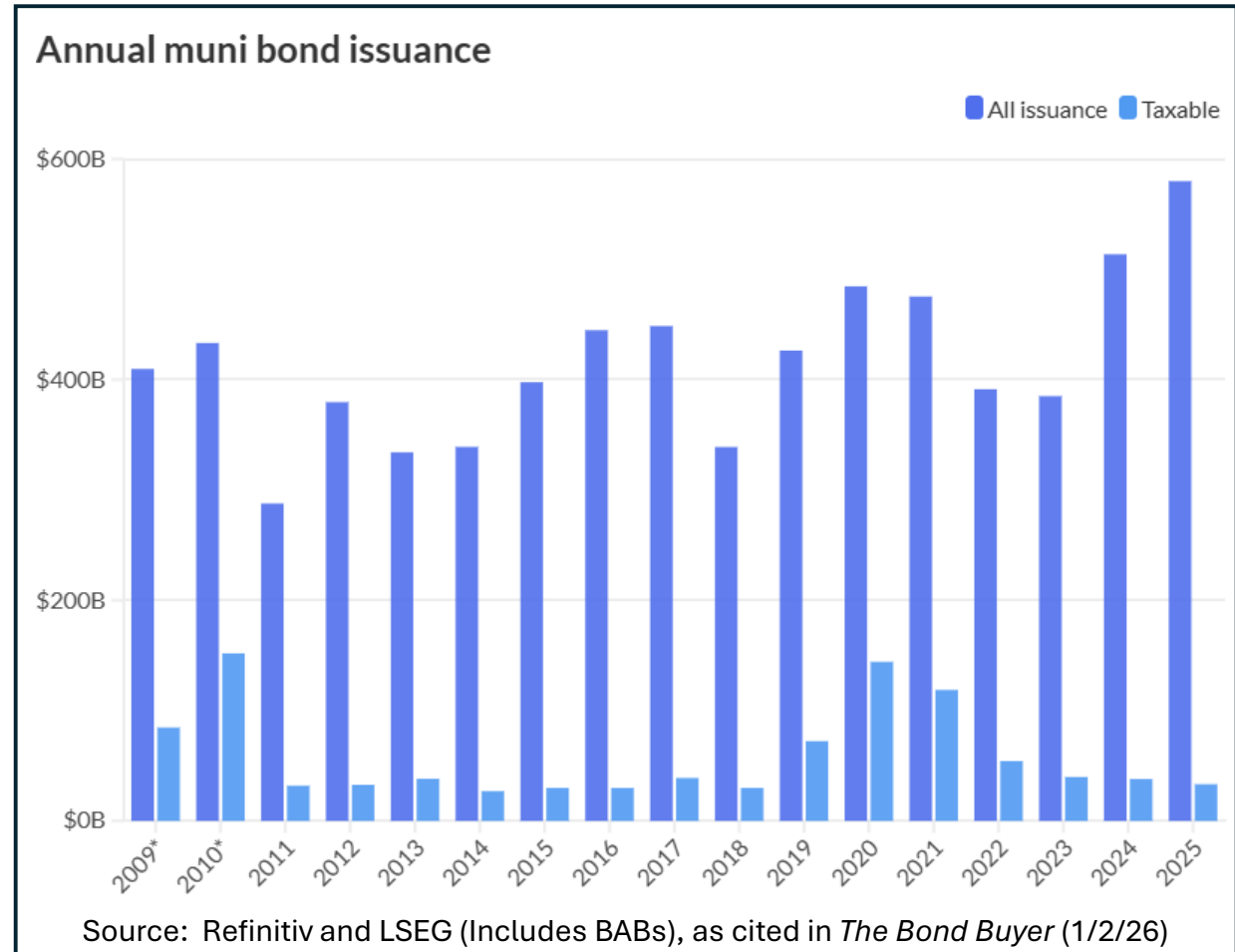
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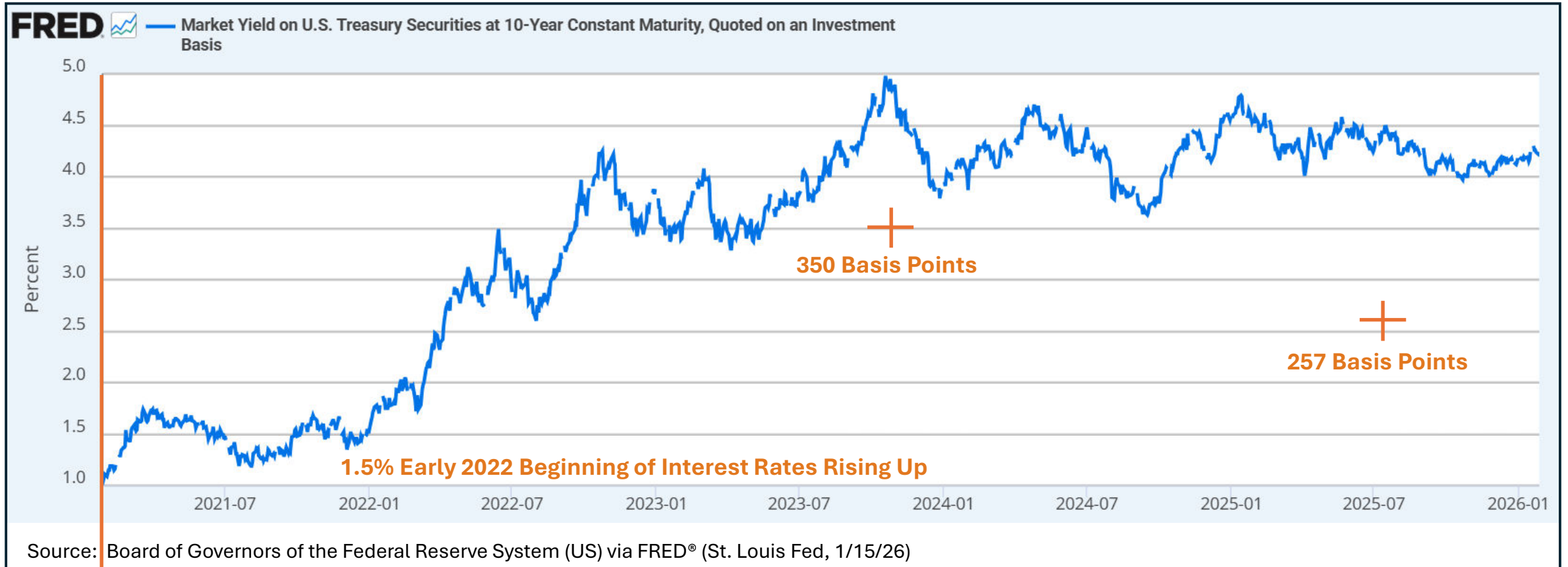
# Our General Outlook for 2026

We think the outlook for the tax-exempt bond market in 2026 is **very** good. As the *Bond Buyer* chart shows to the right, there were about \$400 billion of muni bonds issued in 2023, about \$500 billion issued in 2024 and in 2025 we just issued \$580 billion – **two years of major bond volume increases**. Some have forecast \$600 billion in 2026.



The muni market saw a record \$579.936 billion of debt issued in 2025, up 12.9% from \$513.652 billion in 2024, according to LSEG data.

- The 10-year U.S. Treasury bond yield is often thought of as the base level for many longer term interest rates. The attached, annotated chart of the 10-year U.S. Treasury bond yield from the Saint Louis Fed shows that the 10-year U.S. Treasury bond yield began to rise in early 2022 and rose about 350 basis points to a high of about 5% in mid-2023.



August 2020 Levels 0.52%

- Since that time the 10-year treasury yield has hovered between about 4% and 5% and stands at about a 4.2% today, or around 250 basis points above the level which existed when the rise began in early 2022.
- **This basic flattening of 10-year U.S. Treasury bond yield has been extremely helpful in maintaining a favorable market for all debt products.** Bloomberg has estimated that \$16 trillion in U.S. money market funds earning 3% to 5% in early 2023 have begun to seek longer maturities for a higher yield as interest rates have stabilized. As the above-described bond market volume shows, the muni bond markets have greatly benefited from that flattening of yields as have other debt markets.
- Tax-exempt municipal bond funds account for about 25% of the buy side in the tax-exempt muni market. **In 2020 and 21, muni bond funds were experiencing inflows of about \$8 billion a month,** or about 20% of annual muni bond volume, greater than redemptions. The muni bond funds had to put that money to work, which forced bond yields down to some of **the lowest yields we have seen in decades.**
- **That trend obviously reversed dramatically in 2022 and 23** when we saw muni bond fund **outflows** over inflows which were about 10% of the market in 2023 and 5% of the market in 24. Muni bond yields, like the 10-year treasury bond yield, rose dramatically.
- **Fortunately, in 2024 we saw muni bond fund outflows reversed to inflows** equal to about 6% of the market in 2024 and about 7% of the market in 2025. October saw the greatest monthly muni bond fund inflows since 2020-21 (about \$10 billion!), and this trend seems to be **continuing into 2026.** In addition, Muni ETF's have become a significant new class of buyers, with annual volume rising from \$17 billion in 2024 to \$46 billion last year, according to the MSRB. As a result, muni tax-exempt rates are very attractive going into 2026. **One of our clients priced an issue this week which was 14 times oversubscribed at initial pricing!**

# Possible Effects of 50% Tests Dropping to 25%

- We agree with general industry estimates that perhaps two dozen states are oversubscribed for multifamily private activity bond volumes, roughly 10 or 12 states are more or less at parity and perhaps 12 to 15 states are still not using all of their available private activity bond volume.
- **We think there is no question that lowering the 50% test to 25% will allow more 4% LIHTC financings to go forward** in 2026 and beyond. Of course, **states are differing in how quickly they are moving to a lower maximum tax-exempt private activity bond allocations** for multifamily.
- **California is one state leading the charge from 53 or 54% down to 30% or so**, offering borrowers incentives to reduce their requests and potentially imposing scoring penalties for borrowers who request higher amount than the new lower targets.
- By way of contrast, we believe the **Colorado** Housing Finance Agency (half the State's multifamily volume) is moving the maximum down more slowly, **targeting 45% for much of 2026**, especially for projects which had applied last year. They are encouraging borrowers who need higher tax-exempt debt levels than 25-30% to make their projects work to top off a lower new or carryforward volume allocation with recycled volume from their active recycling program.

# More Use of Recycled Bond Volume

- We think **we will see more use of recycled volume to maintain higher tax-exempt leverage but there are only 5 or 6 really active recycling programs (e.g., NY, CA, CO, WA)**. It is important to remember that even in those jurisdictions, capturing pay-offs or paydowns of prior bond issues on the one day when that occurs has proven to be a major administrative challenge, so that half or more of potential recycled bond volume is lost under most programs.
- In addition, **two years from now the per project potential recycled volume opportunity may be half or just a bit more than it is today** due to the 50% Test dropping to 25%. In any event, we think the timing of the transition to lower per project private activity bond volume allocations will vary from state to state and from one financing to another.

# Negative Impact on Per Project Proceeds from the 50% Test Dropping to 25%

- As we have explained in a separate PowerPoint\*, we think having a higher percentage of debt being taxable as well as more LIHTC volume in the market will raise interest rates on the debt side and lower tax credit pricing and thus decrease both debt side and equity side proceeds on most projects. **We think the hit on the debt side could be as high as 3% of total development cost (“TDC”) and perhaps as much as 2.5% of TDC on the equity side if 4% LIHTC pricing drops by 5 cents – or could total as high as 5-6% of TDC!**
- Of course, even though we know 9% LIHTC volume could rise by 12% and 4% LIHTC volume is likely to rise even more, with Fannie Mae and Freddie Mac each now authorized to buy an additional \$1 billion of LIHTC in a \$25 billion annual market, that potential 8% increase in demand could dampen the adverse impact on pricing. That, combined with the fact that some states will not immediately lower per-project allocations to 25-30%, might suggest **a better guesstimate at an average per project negative proceeds impact is probably 2-3% of TDC.** Not nearly as bad, but developers and other financing participants will have to plan for this. Notwithstanding this adverse impact, absent a major increase in interest rates or other such factors, we think 2026 will be an even more robust year than a very successful 2025.

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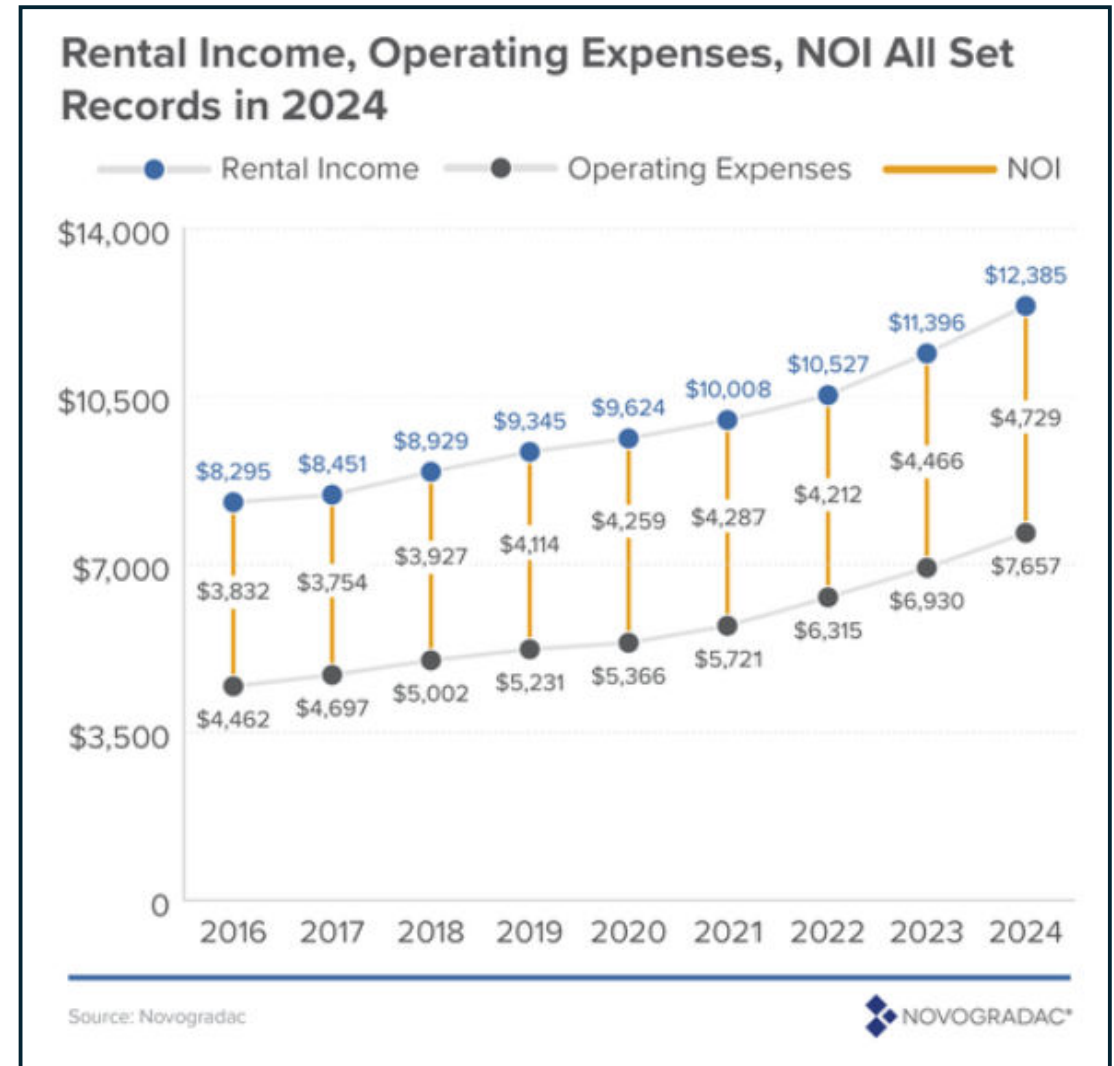
\* *A Quick Guesstimate on the Proceeds Impact of the 50% Test → 25% and Six Proceeds Enhancers in a 25% World* – dated February 2, 2026.

# Use of Recycled Bond Volume

- **To offset any negative proceeds** impacts, we will use **recycled tax-exempt bonds** as described above where we can capture the volume, we will **amortize tax-exempt debt first where we can**, we may use split rate mortgage notes and mortgages, we will **continue to innovate on combining short term cash backed bonds with tax-exempt perm loan private placements**, and we will use **other techniques** explored in the PowerPoint referred to on slide 7 to dampen the adverse proceeds impact.

# Final Thoughts About 2026

- Now that interest rates in general seem to have plateaued since mid-2023 and a lot of short-term money has already moved to longer term debt investments, **we don't think we will see the dramatic improvements in the muni bond markets we have seen in the last two years, but, absent surprises, we expect conditions to be very favorable.**
- In a January 8, 2026 article entitled “Rental Income, Operating Expenses, NOI All Hit New Peaks for Properties in Novogradac LIHTC Data Set,” **Novogradac points out that** rental income, operating expenses, and – most importantly – NOI all set records in 2024. Moreover, as the chart from the article to the right shows, these very favorable operating statistics of affordable multifamily rental housing continue what appears to be a **very predictable positive NOI trend – wait for it! – going back to 2016!**
- We think this provides a **good backdrop as we enter 2026.**



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