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Affordable-Housing Projects Stall Over Proposed Cuts to Rental Assistance

Trump administration's plan to cut \$27 billion would make it harder to maintain and pay debt on these properties, developers say

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Rendering of a Queens, N.Y., affordable-housing project that is now on hold because of uncertainty around Section 8 voucher availability. PHOTO: NEWMAN DESIGN

The Trump administration is proposing a \$27 billion reduction in federal programs that provide rental assistance to low-income individuals.

The proposed 43% cut in these programs is creating enough uncertainty that some lenders are already pulling back, stalling new

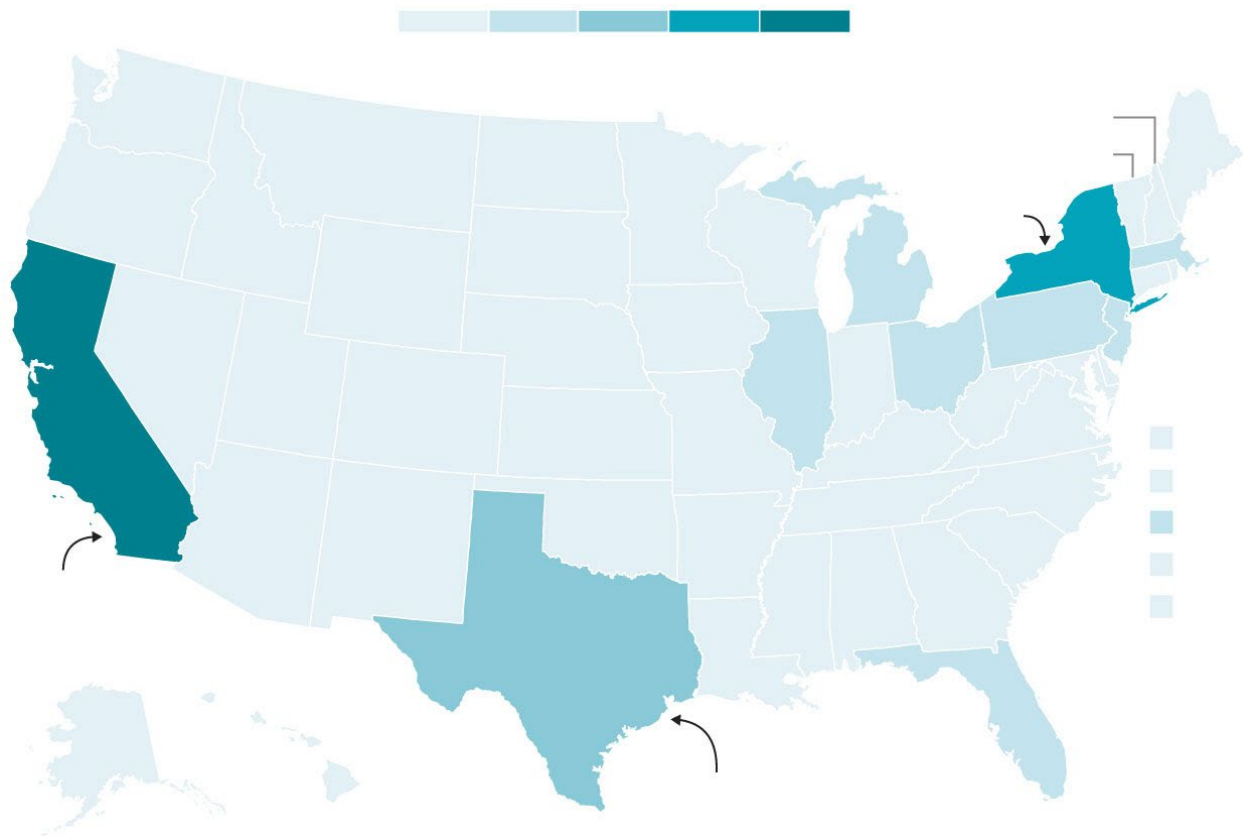
affordable-housing projects.

That is the case for Jeff Fox. In June, the New York City-based real-estate developer was on pace to start construction on a senior affordable-housing facility in Queens, N.Y., by the fall.

Then New York's housing-development department called with bad news. The July round for Section 8 housing subsidies was going to be "indefinitely postponed" because of a lack of funding from the Department of Housing and Urban Development, or HUD, this year and the prospect of President Trump's proposed further cuts for next year.

Fox, who relies on this federal voucher program to finance his projects, said his Queens development is now on hold.

“No one knows what’s going to happen, so rather than overcommit, they’re pumping the brakes,” he said.



Usage of federal rental housing subsidies Note: Data aggregates reported Housing Choice Vouchers program and project-based Section 8 units.

Sources: U.S. Department of Housing and Urban Development; WSJ analysis

Drew An-Pham/WSJ

The House Appropriations Committee last week stripped out Trump’s plan to overhaul these rental-aid programs, but that hasn’t deterred the Trump administration from pushing ahead.

HUD, which provides funding to local governments for low-income housing, is continuing to meet with congressional leaders to lobby for these changes, a spokeswoman said. The Senate Appropriations Committee is scheduled to conduct its own assessment of Trump’s proposed budget on Thursday.

The \$27 billion cut would be part of an overall 44% reduction to HUD’s budget intended to slim down government spending.

“We want to be lean and mean, not bloated and bureaucratic,” HUD Secretary Scott Turner said at a June Senate hearing.

More than five million people across the U.S. use Section 8 vouchers to pay at least part of their rent. The vouchers are most heavily used in states such as New York and California, where housing costs are skyrocketing for renters and owners.



An apartment complex in New York. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

Landlords and developers say these budget cuts would shrink a crucial piece of revenue for affordable apartments, making it harder to maintain and pay debt on their properties.

About \$50 billion of multifamily loans purchased by [Fannie Mae](#) and [Freddie Mac](#) between 2018 and 2023 would be at risk of default, according to [an analysis](#) by the New York Housing Conference, a nonprofit affordable-housing advocacy group.

It would “be destabilizing to the entire housing system,” said Rachel Fee, executive director of the New York Housing Conference. Some affordable-housing lenders say they are already slamming on the brakes.

“We’re definitely gun-shy,” about using HUD funding, said Deborah La Franchi, chief executive of investment-fund manager SDS Capital Group. “This is only going to make that worse.”

As lenders retreat, housing developers have been forced to stall or cancel new projects because of the threat of budget cuts, said Noah Hale, managing director of development at national developer Fairstead.

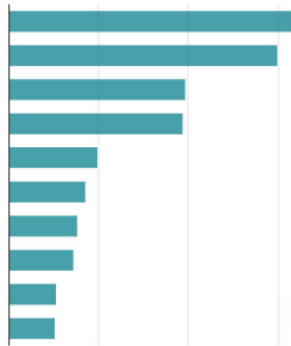
Michael Dury, chief executive of lender Merchants Capital, said he has seen several affordable-housing deals face delays because of the proposed HUD budget cuts and lenders' "fear of will the money be there?"

The Trump administration has delivered some victories to the housing sector in the new tax law. A provision in the law makes it easier for developers to access the Low-Income Housing Tax Credit, the federal government's largest program for incentivizing affordable housing.

This LIHTC expansion could spur more than one million new affordable units over the next decade, according to a Novogradac analysis. The law also made permanent

Opportunity Zones and the New Markets Tax Credit, programs that aim to promote new development in low-income areas.

Top states by value of Fannie Mae, Freddie Mac loans at risk under proposed budget cuts, 2018-23



Note: Chart shows value of federally financed multifamily loans bought by Fannie Mae and Freddie Mac from 2018 to 2023.
Source: New York Housing Conference analysis
Drew An-Pham/WSJ

"It's a huge, huge win for the industry," said Dury of Merchants Capital.

Still, without voucher programs like Section 8, developers say that newly built housing could be left without necessary operating revenue.

The proposed budget cut "completely contradicts" the victory on LIHTC, said Amy Albery, chief executive of affordable-housing developer Wallick. Nearly all of her firm's 10,000 affordable-housing units use some kind of HUD housing assistance to finance their loans.

The HUD spokeswoman said the administration "will ensure there are proper safeguards to protect the integrity" of the federal government's mortgage-insurance fund.

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