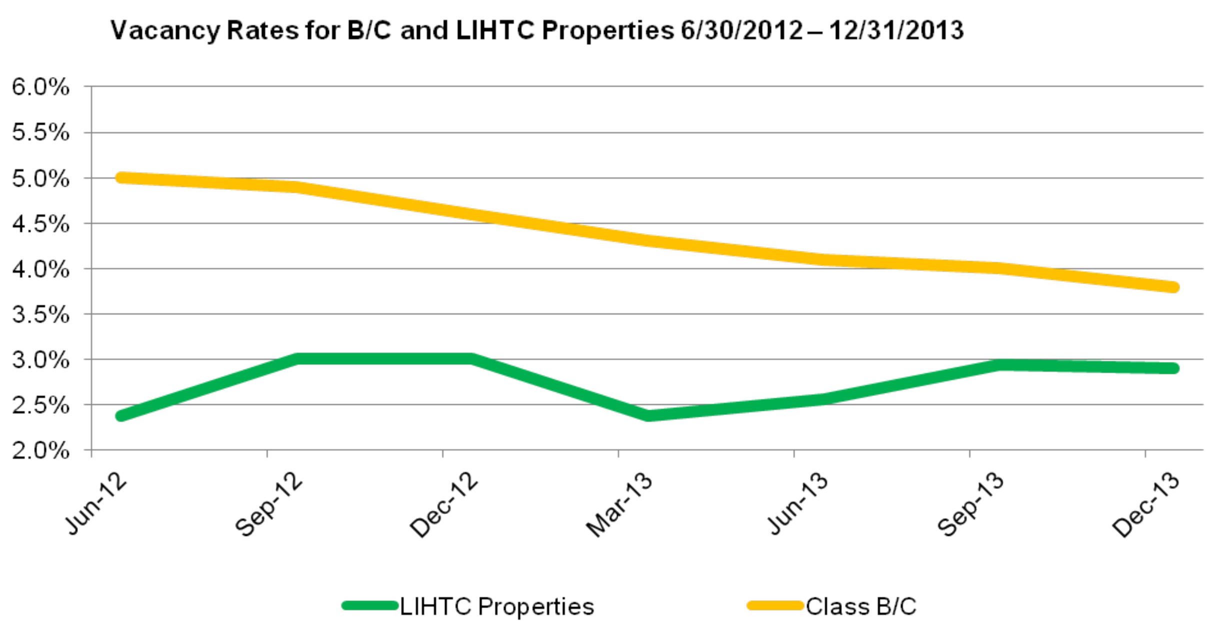
Multifamily Market Commentary – December 2014
Vacancies at Low Income Housing Tax Credit Properties Remain Tight

According to the 2013 American Housing Survey, there are approximately 18.7 million multifamily rental units across the country. Approximately one-fifth of the units are subsidized, with Low Income Tax Credit Properties (LIHTC) units representing the biggest segment of the subsidized market.

According to the Harvard Joint Center for Housing Studies' report *State of the Nation's Housing 2014*, between 2001 and 2012 the real median rent paid for all types of rental housing increased by approximately 4.0 percent but real median renter incomes fell by nearly 13.0 percent. As a result, more Americans fell into the Very Low Income category, earning less than 50 percent of Area Median Income for their metro location, qualifying them for subsidized housing. The current tight vacancy levels at LIHTC properties clearly reflect this trend.

National LIHTC Vacancy Rate Below 3.0 Percent

While multifamily housing development is on the rise, most new units are not affordable to lower income households. In addition, LIHTC subsidized affordable housing units placed in service have fallen from approximately 120,000 annually in the years leading up to the Great Recession to under 80,000 units placed in service annually after 2009. Given increased demand coupled with a decrease in production, it is unsurprising that national vacancy rates for LIHTC properties were a low 2.9 percent based on the most recent audited results as of the end of fourth quarter 2013, according to Tax Credit Central, a new LIHTC portal created by Integratec, an affiliate of CohnReznick. In fact, the vacancy rate for LIHTC properties has remained at or below 3.0 percent for the last seven quarters, as shown in the chart below.



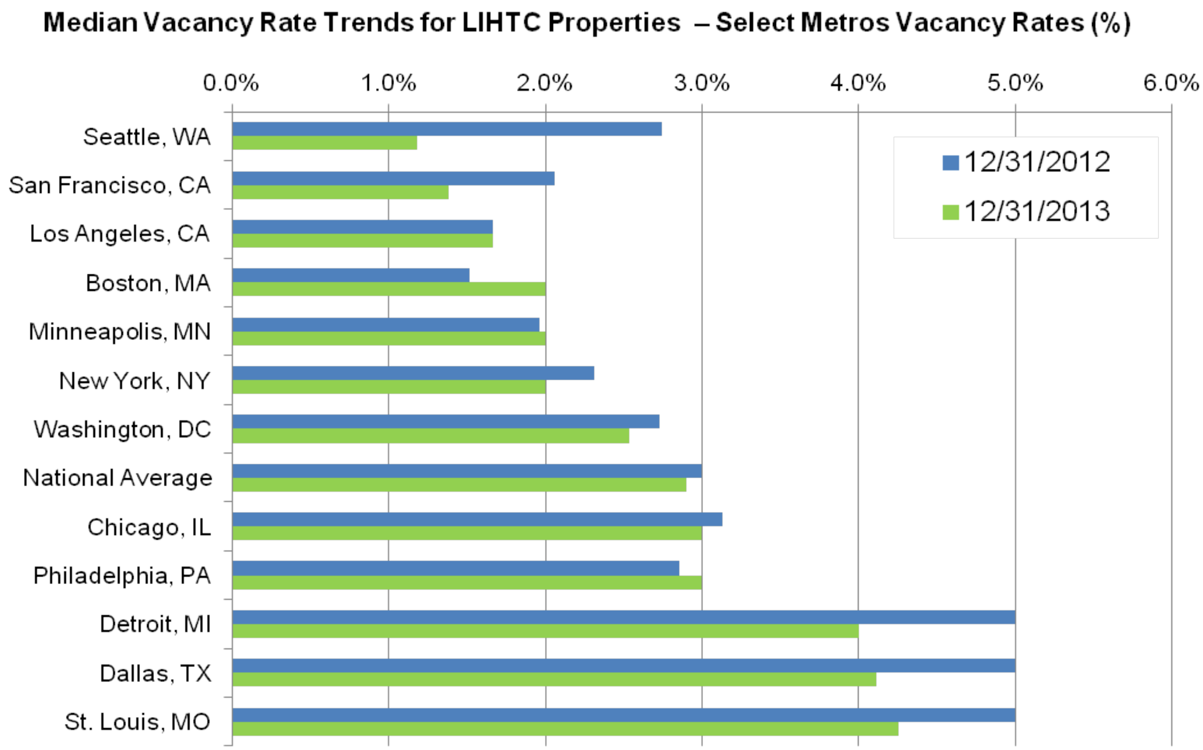
Source: Integratec Tax Credit Central based on most recent audited results; Reis, Inc.

Vacancy Rate for B and C Properties is Also Falling

Since class B and C properties are the affordable segment of the conventional market, tightening vacancies in this segment of the market have put additional pressure on LIHTC properties to meet affordable housing needs. Interestingly, vacancies at class B and C properties have fallen steadily over the last seven quarters, decreasing to just 3.8 percent as of the fourth quarter of 2013, according to data from Reis, Inc. This is just 0.9 percent above the national vacancy rate at LIHTC properties.

Vacancy Rates in Some Major Metros Tighter than the National Average

Nationally, average LIHTC vacancy rates fell slightly to 2.9 percent as of December 31, 2013 from 3.0 percent a year earlier. As low as these vacancy rates are, LIHTC vacancies in some metros are even lower. As shown in the chart below, vacancies in markets where median incomes are well above the national average are below the 2.9 percent national average LIHTC vacancy rate. The vacancy rate in Seattle and San Francisco fell below 1.5 percent as of December 31, 2013 while the vacancy rates in Boston and Minneapolis were 2.0 percent.



Source: Integratec Tax Credit Central

Vacancies in Some Major Metros are Higher than the National Average

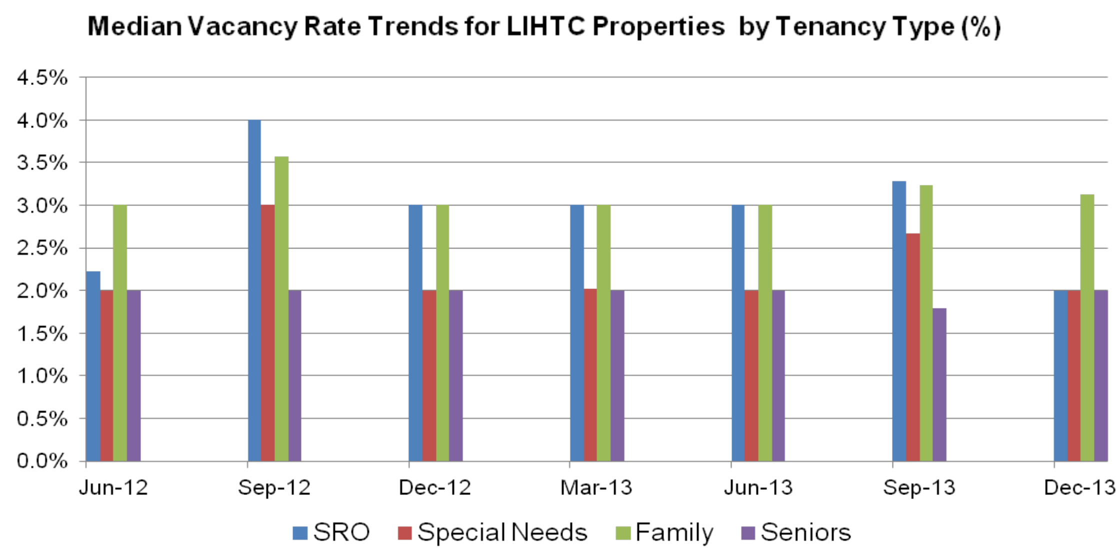
As shown in the chart above, in some metros LIHTC vacancy rates remain higher than the national LIHTC average. These typically are metros with weaker economies along with higher-than-average vacancy levels in their conventional sectors. LIHTC vacancies in Detroit and St. Louis fell to approximately 4.0 percent as of December 31, 2013, which is down from 5.0 percent as of December 31, 2012. Vacancies in Chicago and Philadelphia remained essentially flat to the prior year at 3.0 percent, as of December 31, 2013.

Despite above average job growth, LIHTC vacancies in Dallas remained at 4.1 percent as of December 31, 2013, well above the national average LIHTC vacancy rate of 2.9 percent. This most likely is due to the fact that it is easier to build conventional multifamily housing in Dallas. As new class A units enter the market, the older stock moves to the class B and C category, thereby potentially competing with the metro's LIHTC housing stock. Relatively speaking, however, vacancies remain tight even in those metros with above-average LIHTC vacancy.

Vacancy Rates Lowest for Seniors and Newly Constructed Projects

As shown in the chart below, LIHTC vacancy rates for seniors, special needs tenants, and single-room occupancy properties (SRO) were at a low 2.0 percent as of December 31, 2013. Vacancies for LIHTC properties with a senior tenancy type consistently have remained at 2.0 percent or below for the last seven quarters. This is not surprising. With the aging of the large Baby Boom generation and an increase in average life expectancy, this trend is likely to continue, particularly since many seniors are living on fixed incomes and need affordable housing.

Interestingly, the vacancy rate for LIHTC properties with a family tenancy type is slightly higher than the other three tenancy types, coming in at 3.1 percent as of December 31, 2013. This can be attributed to the fact that many tenants at the other three tenancy types are less likely to have the financial means to move out of their current housing.



Source: Integratec Tax Credit Central

Continued Pressure on LIHTC properties

While the nation has recovered all the jobs lost in the Great Recession, wages have not yet risen at a substantial rate, resulting in a large population of renters eligible for subsidized affordable housing. Concurrently, the stock of conventional affordable class B and C housing shrank by almost 7.0 percent from 2000 to 2013, according to data from Reis, Inc. As a result, there likely will be continued pressure on LIHTC properties.

In particular, a new report by the Harvard Joint Center for Housing Studies and the AARP Foundation, *Housing America's Older Adults: Meeting the Needs of An Aging Population*, estimates that the number of renter households aged 60 and older, which will be eligible for rental assistance because those households fall into the very low income category, will likely increase by another 2.6 million by 2030, making additional development of senior LIHTC properties particularly important.

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