

Multifamily Market Commentary – May 2013

Despite an Increase in Supply, Fewer Affordable Rentals

According to the 2011 American Housing Survey (AHS), released in the fourth quarter of 2012, affordability of multifamily rental units has declined during the past few years even as the number of units has increased. This outcome is not surprising as wages have not kept pace with rent growth in many metropolitan areas. As a result, lack of affordability is of significant concern. Dedicating a higher portion of household income toward rent results in less money available for food, transportation, healthcare, and other essential spending. This issue is most acute for those renters classified as Very Low Income, or those households earning no more than 50 percent of the Area Median Income (AMI) for their locality.

How Much Rental Housing is Occupied?

In order to determine affordability, rents for occupied units must be examined since rent for a single unit is not known until a unit is leased and occupied. As shown in the table below, there are a total of 38.9 million occupied rental units in the U.S., representing a 9.8 percent increase in occupied units from 2009. This total includes 21.3 million occupied 1-4 unit rentals, 1.5 million occupied manufactured housing rental units, and 16.1 million occupied multifamily rental units.

Occupied Rental Units Segmented by Affordability

Affordable To:	Estimated 1-4 Unit (Millions)		Estimated Multifamily (Millions)		Estimated Manufactured Housing (Millions)		Estimated Total (Millions)	
	1-4 Units	Cumulative	5+ units	Cumulative	Units	Cumulative	Units	Cumulative
Extremely Low Income Income ≤ 30% of AMI	3.7	3.7	2.5	2.5	0.3	0.3	6.5	6.5
Very Low Income 30% of AMI < Income ≤ 50% of AMI	5.4	9.1	3.8	6.3	0.7	1.0	9.9	16.4
Low Income¹ 50% of AMI < Income ≤ 60% of AMI	3.7	12.8	3.3	9.6	0.3	1.3	7.3	23.6
Low Income¹ 60% of AMI < Income ≤ 80% of AMI	4.9	17.7	3.8	13.4	0.2	1.5	8.9	32.5
80% of AMI < Income ≤ 100% of AMI	1.9	19.6	1.2	14.6	0.0	1.5	3.2	35.7
Income > 100% of AMI	1.7	21.3	1.5	16.1	0.0	1.5	3.2	38.9
Total Market	21.3	21.3	16.1	16.1	1.5	1.5	38.9	38.9

Source: 2011 American Housing Survey

¹ A household which has an income above 50%, up to and including 80% of AMI is defined by HUD to be a "Low Income" Household. Cumulative (Cum.) Column represents cumulative affordable units. For instance, if a unit is affordable at Extremely Low Income – i.e., affordable to income ≤ 30% of AM – it is also affordable at the Very Low Income (≤ 50% of AMI) category; therefore total units affordable to Very Low Income under the Multifamily category is 2.5M + 3.8M = 6.3M. Cumulative totals may not foot due to rounding.

For purposes of this affordability analysis, rents (including utilities) are compared to the Area Median Income (AMI) for that locality – the midpoint household income for a metropolitan area as calculated each year by the U.S. Department of Housing and Urban Development. Units are placed in the income cohort where the rent is no more than 30 percent of the maximum AMI for that cohort.

How Affordable is Multifamily Rental Housing?

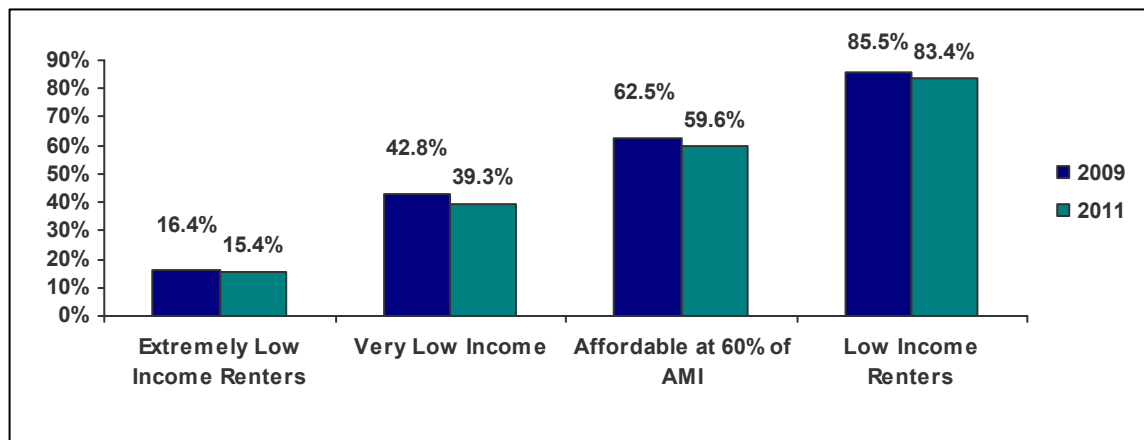
As shown in the table above, 14.6 million multifamily rental units are affordable to households earning 100 percent of AMI, which is the vast majority of the total 16.1 million occupied units. While the total number of units affordable to renters at 100 percent of AMI is up by 5.0 percent from 13.9 million in 2009, as a percentage of the total multifamily stock, rental

affordability has declined. In fact, based on the 2011 AHS, 90.8 percent of multifamily units were affordable at 100 percent of AMI, down from 91.4 percent in 2009.

Some Good News: More Workforce Rental Housing

Workforce rental housing is a subset of all affordable rental housing. While the definition of workforce housing can vary, in this case workforce households are those earning more than 60 percent of AMI up to and including 100 percent of AMI. According to the Urban Land Institute's Terwilliger Center for Housing, a workforce housing gap persists in high-cost areas that are major centers of employment, such as Washington, DC; Boston; and San Francisco. According to the 2011 AHS, 5.0 million units could be considered multifamily workforce rental housing, up from 4.4 million units in 2009. Not only are there more units overall, but the proportion of units affordable as workforce rental housing actually increased to 31.2 percent in 2011 from 28.9 percent in 2009. Most likely, the gain in these types of units is only partially due to new construction. As wage growth has lagged multifamily rent growth over the past few years, units once affordable at lower income levels are now only affordable at higher AMI categories, including workforce housing.

Relative Proportion of Affordable Multifamily Housing 2011 vs. 2009



Source: 2011 American Housing Survey. Based on cumulative affordable units. For instance, if a unit is affordable at Extremely Low Income – i.e., affordable to income $\leq 30\%$ of AMI – it is also affordable at the Very Low Income ($\leq 50\%$ of AMI) category.

Lower Income Renters Losing Ground

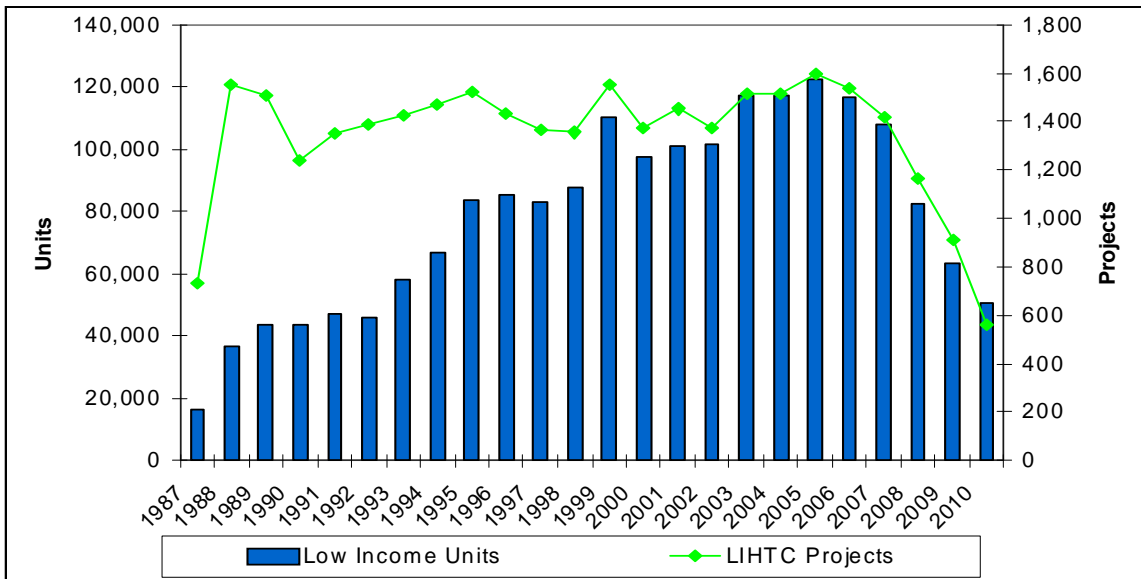
As seen in the chart above, the decline in affordability is significant when comparing the units available at lower AMI levels. The biggest drop in affordability is seen in those units affordable to households earning 50 percent of AMI. The proportion of multifamily units affordable to these Very Low Income renters declined to 39.3 percent in 2011 from 42.8 percent just two years prior. In fact, the total number of units affordable to this cohort actually declined by 200,000 units, falling to 6.3 million in 2011.

Furthermore, the number of multifamily rental units available to Extremely Low Income renters remained unchanged at 2.5 million units. Since the total number of multifamily units increased, renters in the Extremely Low Income cohort actually lost ground with only 15.4 percent of the multifamily stock being affordable to them, down from 16.4 percent in 2009.

The Low Income Housing Tax Credit Program (LIHTC) is the primary subsidy program for the construction of new subsidized multifamily units. However, with the LIHTC program now 25 years old, many states have redirected a portion of their annual LIHTC funds toward preservation of existing aging stock – properties that needs maintenance and modernization – rather than using 100 percent of allocated LIHTC funds to building new subsidized housing. This may be part of the reason for the decline in subsidized units, since even as fewer new units are being placed in service, subsidized units are lost each year to obsolescence.

The chart on the next page shows the decline in new subsidized housing units placed in service under the LIHTC Program.

Low Income Housing Tax Credit Projects/Units Placed in Service Since 1987



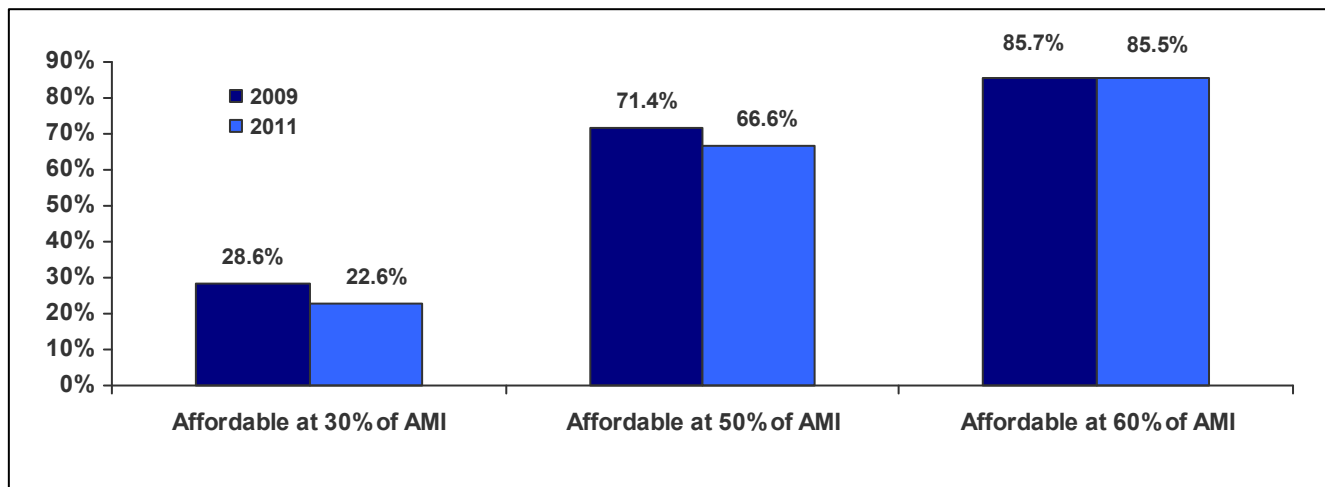
Source: HUD Low Income Housing Tax Credit Database as of October 2012

Manufactured Housing Remains a Highly Affordable Type of Rental

According to the AHS, there were 1.5 million occupied manufactured housing rental units in 2011, which is up slightly from 1.4 million occupied units in 2009. Almost a quarter of these units – 22.6 percent – are affordable to those households earning 30 percent of AMI, and two-thirds are affordable to households at 50 percent of AMI. There has been less of a change at the higher end of the AMI scale, with about 85.5 percent of all units affordable to those earning 60 percent of AMI, compared to 85.7 percent in 2009.

Nevertheless, as shown in the chart below, the affordability of manufactured housing has declined. Based on the 2009 AHS, almost one-third (28.6 percent) was affordable to the lowest income households, those earning 30 percent of AMI. By 2011, just two years later, only 22.6 percent were affordable to these renters. The story is similar for those earning 50 percent of AMI, with 66.6 percent of units being affordable in 2011, down from 71.4 percent in 2009.

Relative Affordability of Manufactured Housing 2009 to 2011



Source: 2011 American Housing Survey. Based on cumulative affordable units.



Continued Demand for Multifamily Affordable Housing

Multifamily housing grew slightly less affordable in 2011 from 2009, with the biggest drop in affordability coming in the number of units affordable to Very Low Income renters – those earning 50 percent of AMI and below – which declined to 39.3 percent of multifamily rental units in 2011, compared to 42.8 percent just two years prior. The actual number of units available to this income group is likely even smaller, since a unit affordable to a renter earning 50 percent of AMI may actually be occupied by someone earning a higher income.

Demand for rental housing is expected to grow over the coming decade. While multifamily construction starts are increasing, rents on new units tend to be higher on average than rents on existing units. Concurrently, more than 100,000 multifamily rental units are lost each year to obsolescence. As a result, it is becoming increasingly important to preserve the stock of affordable housing, particularly, those multifamily rental units that are affordable at lower AMI levels.

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