Multifamily Economic and Market Commentary

Fannie Mae®

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# Assessing the Market Rate Affordable Multifamily Sector

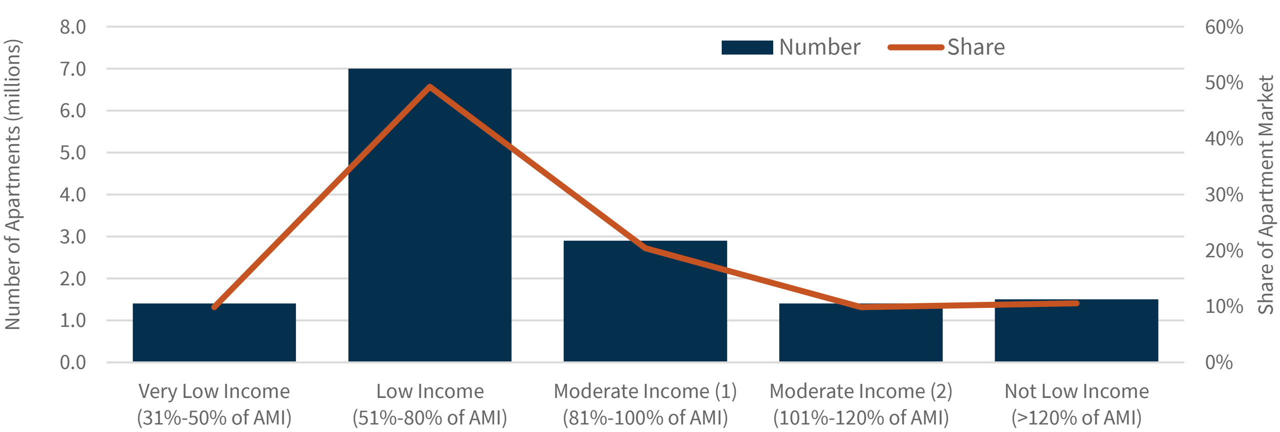
In setting the 2021 multifamily loan purchase caps for the GSEs at $70 million each, FHFA required that 50 percent of the units acquired by Fannie Mae be used for "mission-driven" affordable housing, defined as units whose rents are affordable to tenants at or below 80 percent of area median income (AMI). Fannie Mae also defines affordability by incorporating the U.S. Department of Housing and Urban Development (HUD) standard; namely, an apartment is affordable if a potential renter household would not have to pay more than 30 percent of its household income on rent and utilities. There are several categories of mission-driven housing, but this piece addresses the nationwide scope of market-rate affordable units, meaning they are not subject to a government-based affordability requirement such as a regulatory agreement, recorded use restriction, or federal assistance program. Market-rate affordable units are generally affordable for a variety of reasons, such as being in older properties or in less expensive locations.

Using Fannie Mae housing goals methodology, Fannie Mae partnered with third-party commercial real estate data firm CoStar, Inc., to identify the estimated universe of market rate apartment properties affordable to low-income renters, defined as those households earning at or below 80 percent of their local AMI. This allowed for an examination of the overall market rate affordable multifamily sector. It also provided the means to estimate Fannie Mae's share of this critical sector.

## A Sizeable Number of Market Rate Affordable Properties/Apartments Exist in the U.S.

Applying Fannie Mae's housing goals methodology to the CoStar database of apartment properties shows that there are just over 8 million market rate affordable multifamily units nationally, as shown in the chart below. These units are in approximately 111,000 properties nationwide. A total of 59 percent of the units are in the nation's 50 major multifamily metros, with the remaining 41 percent located elsewhere and usually in smaller properties. These market rate affordable multifamily units represent about 60 percent of the more than 14 million apartments for which CoStar had current market rents as of fourth quarter 2020, excluding special housing segments such as student and seniors housing.

Estimated Distribution of Units by Market Rate Affordability Level – 4Q2020




*Note: Excludes U.S. Census bureau designated Outlying Areas which tend to have few apartments.*

*Source Data: CoStar*

### Higher-Income Renters Can – and Do – Displace Lower-Income Renters

As shown in the chart on the previous page, just under 11 percent of market rate apartments are only affordable to higher-income renter households – those earning over 120 percent of the AMI for their location. However, there is a mismatch, as CoStar data shows that just over 20 percent of all renter households fall into this higher-income category. In addition, for a variety of reasons, including the desire to save money, a higher-income renter household may rent an apartment affordable far below its means, thereby making the apartment unavailable to a lower-income renter household. This leads to a cascade effect and many displaced lower-income renter households spend more than they can afford on rent. In fact, in 2019, approximately one-quarter of renters were severely cost-burdened, indicating they were spending over half of their household income on rent and utilities.

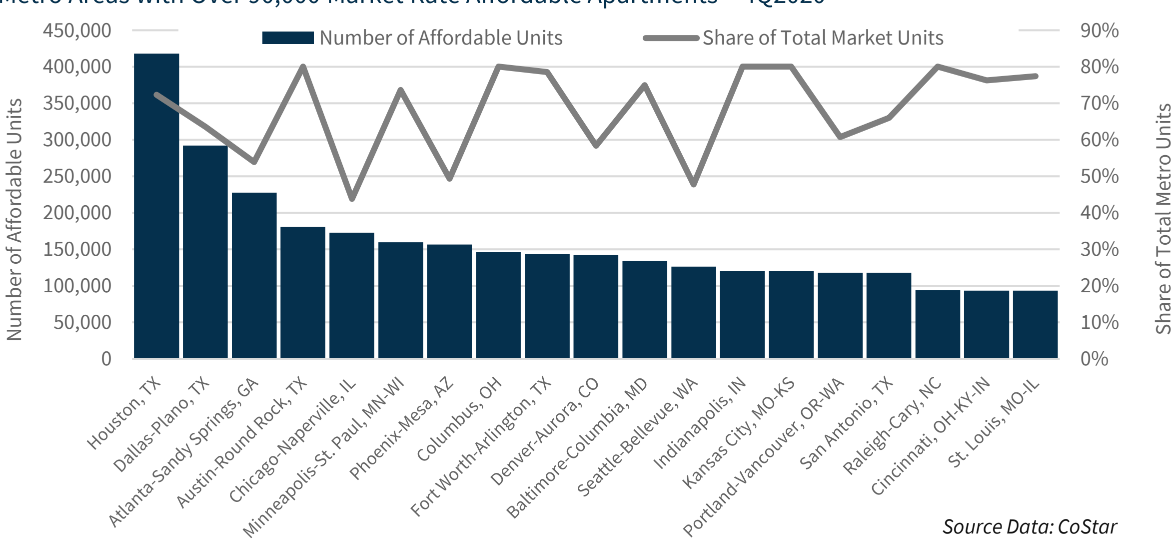
### Market Rate Affordable Multifamily Units Are Usually Quite Affordable

As of fourth quarter 2020, CoStar's estimated average vacancy rate for market rate affordable multifamily units was 5.7 percent, 110 basis points lower than its estimated nationwide multifamily vacancy rate of 6.8 percent. CoStar's fourth quarter 2020 estimated average monthly asking rent for market rate affordable multifamily units was $965. This is 30 percent below CoStar's estimated nationwide multifamily average asking rent and a sizeable 45 percent below its estimated asking rent for Class A units, which tend to command the highest rents for their locations.

### Which Metros Have the Most Market Rate Affordable Multifamily Units?

There are an estimated 20 metro areas each with more than 90,000 market rate units affordable to low-income households when applying the Fannie Mae housing goals methodology to the CoStar database of multifamily properties. As seen below, with over 415,000 units, representing more than 70 percent of the metro's stock, the **Houston** metro area is estimated to have far and away the most market rate affordable multifamily units. **Dallas-Fort Worth** is second with over 290,000 market rate affordable apartments. Rounding out the top three metros is the **Atlanta** metro area with just over 225,000 market rate affordable units.

Metro Areas with Over 90,000 Market Rate Affordable Apartments – 4Q2020



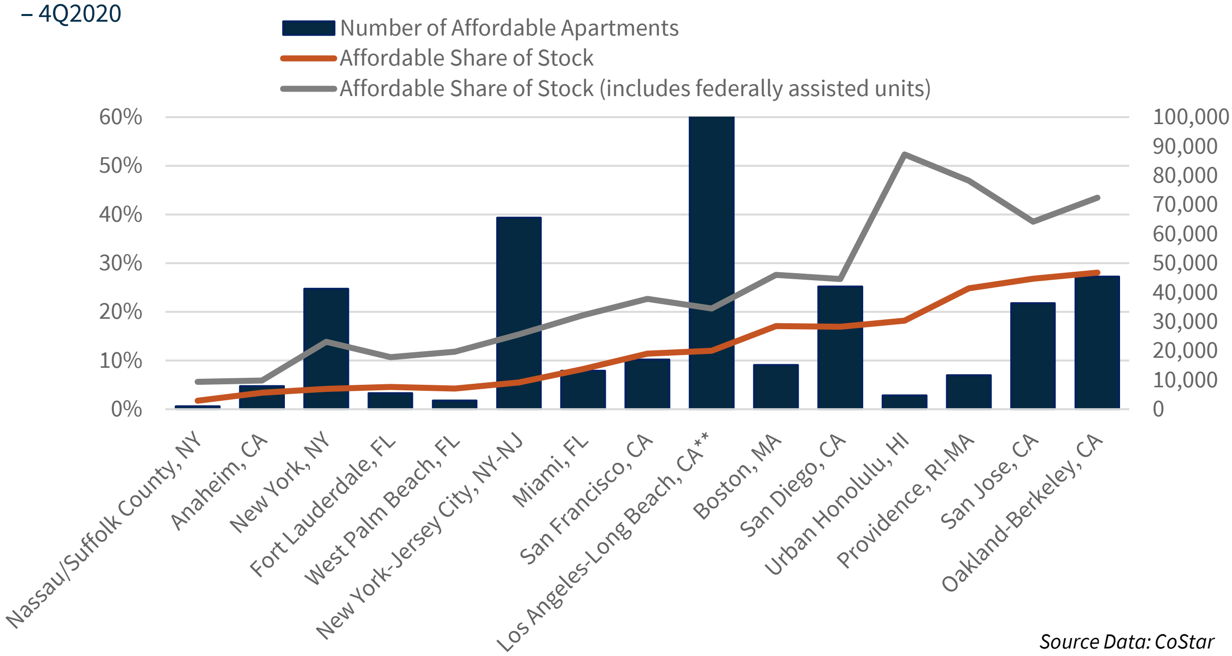

*Source Data: CoStar*

*Note: Excludes U.S. Census bureau designated Outlying Areas, which tend to have few apartments.*

## Expensive Metros Offer the Fewest Market Rate Affordable Units

As shown below, many of the metros where there are a limited number of market rate affordable units are the usual suspects. Applying Fannie Mae housing goals methodology to the CoStar database appears to show that only an estimated 15,000 apartments in **Boston**, 17,000 apartments in **San Francisco,** and fewer than 10,000 apartments in **Orange County, CA** could be classified as market rate affordable units. Only these units would potentially qualify as mission-driven business should they obtain financing from Fannie Mae under the 2021 multifamily loan purchase cap requirements from FHFA.

Metro Areas with Relatively Few Market Rate Affordable Units* or Where Market Share of Affordable Units Is Low – 4Q2020




*Source Data: CoStar*

** Local Programs such as rent control programs in New York and San Francisco excluded because they do not fall under Federal Assistance*
*** Los Angeles metro area has 110,000 apartments affordable at market rents*

However, some surprising metros also fall into this category, such as **West Palm Beach** and **Miami**, each having fewer than 15,000 apartments that would qualify as market rate affordable units. One possible reason is that tenant incomes tend to be lower, even with more affordable rents in Florida as a whole.

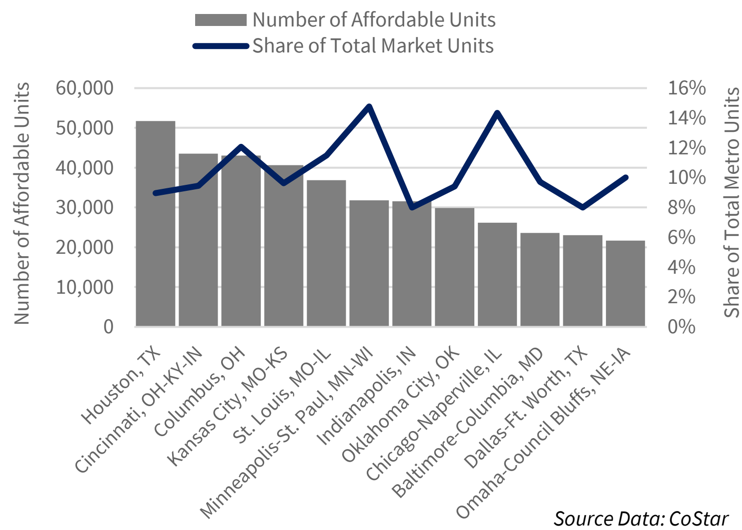
## Federally Assisted Housing Aids Greatly

As shown in the chart above, federally assisted rent- and income-restricted units significantly increase the affordable multifamily housing stock in some metro areas with few market rate affordable apartments. For instance, the 65,000 market rate affordable units in the greater **New York** metro area only represent about 5 percent of all apartments. Including federally assisted units increases the share of all affordable units to 15 percent of the metro's multifamily housing stock. The greater **Oakland** metro area, including Contra Costa County, fares somewhat better with approximately 45,000 units affordable at market rates, representing just under 30 percent of market rate stock. However, including federally assisted rent- and income-restricted units increases the share of all affordable units to just under 45 percent of the metro's multifamily stock.

### Few Metros with Market Rate Apartments Affordable to the Lowest-Income Renters

As shown in the adjacent chart, there are very few metros with a significant number of market rate apartments affordable to renters with very low incomes. In fact, it appears only 12 metro areas have more than 20,000 market rate apartments that are affordable to households earning 50 percent of AMI. In addition to **Houston**, with 50,000 apartments, **Cincinnati**, **Columbus**, and **Kansas City, MO**, each have only slightly more than 40,000 market rate units that are affordable to renter households earning 50 percent of AMI.

Metro Areas with Over 20,000 Market Rate Apartments Affordable to Renters Earning Half of Local AMI – 4Q2020




*Source Data: CoStar*

*Note: Excludes U.S. Census bureau designated Outlying Areas which tend to have few apartments.*

### Updated Rents on Fannie Mae-Financed Units

Although the GSEs report on the affordability of their acquisitions each year in the Annual Housing Activities Report (AHAR), both only receive rent roll information in the year a multifamily property is financed. As a result, it is difficult to ascertain if a multifamily property financed several years ago is still affordable today.

CoStar collects data on rents for most multifamily properties in its database on a quarterly basis. By matching Fannie Mae properties to the CoStar database, estimated updated asking rents and vacancies are available, providing a method to approximate current affordability. CoStar was able to estimate current asking rents and vacancies for about 90 percent of Fannie Mae-financed multifamily properties as of fourth quarter 2020.

### What is Fannie Mae's Current Share of the Market Rate Affordable Multifamily Sector?

As shown in the table below, using updated CoStar data, it appears that Fannie Mae currently finances an estimated 10,000 properties with market rate affordable units. Taken all together, these properties appear to contain an estimated 1.7 million market rate apartments affordable to lower-income renter households.

As a result, it seems that Fannie Mae currently finances an estimated 21 percent of all market rate affordable units. Approximately 65 percent, or 1.1 million market rate affordable apartments financed by Fannie Mae, are in the top 50 metro areas for multifamily units. The remaining 35 percent, or about 600,000 units, are in smaller metros and tend to be in smaller multifamily properties.

Select Statistics – Properties with at Least One Market Rate Affordable Apartment – 4Q2020

| Category | Properties | Units | Average Vacancy | Average Asking Rent |
|---|---|---|---|---|
| Fannie Mae | 10,000 | 1,700,000 | 4.8% | $1,050 |
| Nationwide Affordable | 111,000 | 8,100,000 | 5.7% | $965 |
| Nationwide Market Rate | 375,000 | 17 million | 6.8% | $1,375 |

*Note: Excludes U.S. Census bureau designated Outlying Areas which tend to have few apartments.*

*Source Data: CoStar*

### Lower Vacancy for Fannie Mae-Financed Market Rate Affordable Multifamily Units

As shown in the table on the previous page, as of fourth quarter 2020, Fannie Mae-financed market rate affordable units had an estimated average vacancy rate of 4.8 percent, according to CoStar. This is approximately 1 percent below its estimated vacancy rate for all market rate affordable units nationwide and 2 percent below CoStar's estimated average vacancy rate for all market rate multifamily units.

### Non-Fannie Mae-Financed Properties with Many Market Rate Affordable Multifamily Units

Market rate affordable multifamily properties contain about 75 market rate affordable units on average. However, these properties can be quite a bit larger, as shown in the table below. Three of the largest of these multifamily properties not financed by Fannie Mae – Dublin Village in the **Philadelphia** metro area; The Harbours Apartments in the **Detroit** metro area; and the Foxchase Apartments in the **Washington, DC** metro area – each appear to contain over 2,000 market rate affordable apartments. In all, CoStar identified just over 90 properties with 1,000 or more market rate affordable units based on Fannie Mae housing goals methodology.

Select Non-Fannie Mae Financed Properties* With Many Affordable Units – 4Q2020

| Property | Metro/Division | Affordable Units | Average Asking Rent | Vacancy |
|---|---|---|---|---|
| Dublin Village | Philadelphia, PA-NJ-DE | 3,140 | $1,150 | 0.1% |
| The Harbours Apartments | Detroit, MI | 2,390 | $1,080 | 1.8% |
| Foxchase Apartments | Washington (Hagerstown), DC-VA-MD | 2,110 | $1,500 | 0.4% |
| Ivy Hill Park Apartments | Newark, NJ-PA | 2,100 | $870 | 0.4% |
| Somerset Park | Detroit, MI | 2,090 | $1,210 | 3.1% |
| Riata | Austin, TX | 2,040 | $1,345 | 6.1% |
| Canterbury Green | Fort Wayne, IN | 2,000 | $980 | 3.0% |
| Timber Top Apartments | Akron, OH | 1,820 | $701 | 0.1% |
| Lynnewood Gardens | Philadelphia, PA-NJ-DE | 1,800 | $1,296 | 6.0% |
| Howard Crossing Apartment Homes | Baltimore (Ellicott City), MD | 1,610 | $1,315 | 6.1% |
| The Village in Wixom | Detroit (Wixom), MI | 1,610 | $815 | 1.7% |
| 5002 Apartments | Fargo, ND-MN | 1,560 | $760 | 0.0% |
| The Properties at Wright Field | Dayton, OH | 1,540 | $1,125 | 8.0% |
| Lantern Village | Houston, TX | 1,520 | $1,070 | 8.0% |
| Maple Gardens | Newark (Irvington), NJ-PA | 1,500 | $1,195 | 2.0% |
| Fox Meadow | Philadelphia, PA-NJ-DE | 1,490 | $1,375 | 2.5% |
| Brooklyn@9669 | Dallas-Ft Worth, TX | 1,470 | $990 | 10.6% |
| Prairie Shores Apartments | Chicago, IL-IN | 1,430 | $1,175 | 4.0% |
| Southview | Washington (Oxon Hill), DC-MD | 1,410 | $1,280 | 2.1% |
| Gardenvillage Apartments & Townhouses | Baltimore, MD | 1,400 | $920 | 1.1% |

*Source Data: CoStar* ** Excludes Condos, Co-ops, Student, Seniors, Military, Vacation, Corporate, and Federally Assisted housing*

### Fannie Mae Also Finances Larger Market Rate Affordable Properties

Applying housing goals methodology to the CoStar database of asking rents, it appears that Fannie Mae finances 21 properties with at least 1,000 market rate affordable units. These include York Creek Apartments in the **Grand Rapids** metro area; Riverhouse Apartments in Pentagon City in **Arlington, VA**; and Oakcrest Towers in Forrestville, MD, just outside of **Washington, DC**. Each property has more than 1,500 market rate affordable units.

### Larger Metro Areas with Highest Market Penetration

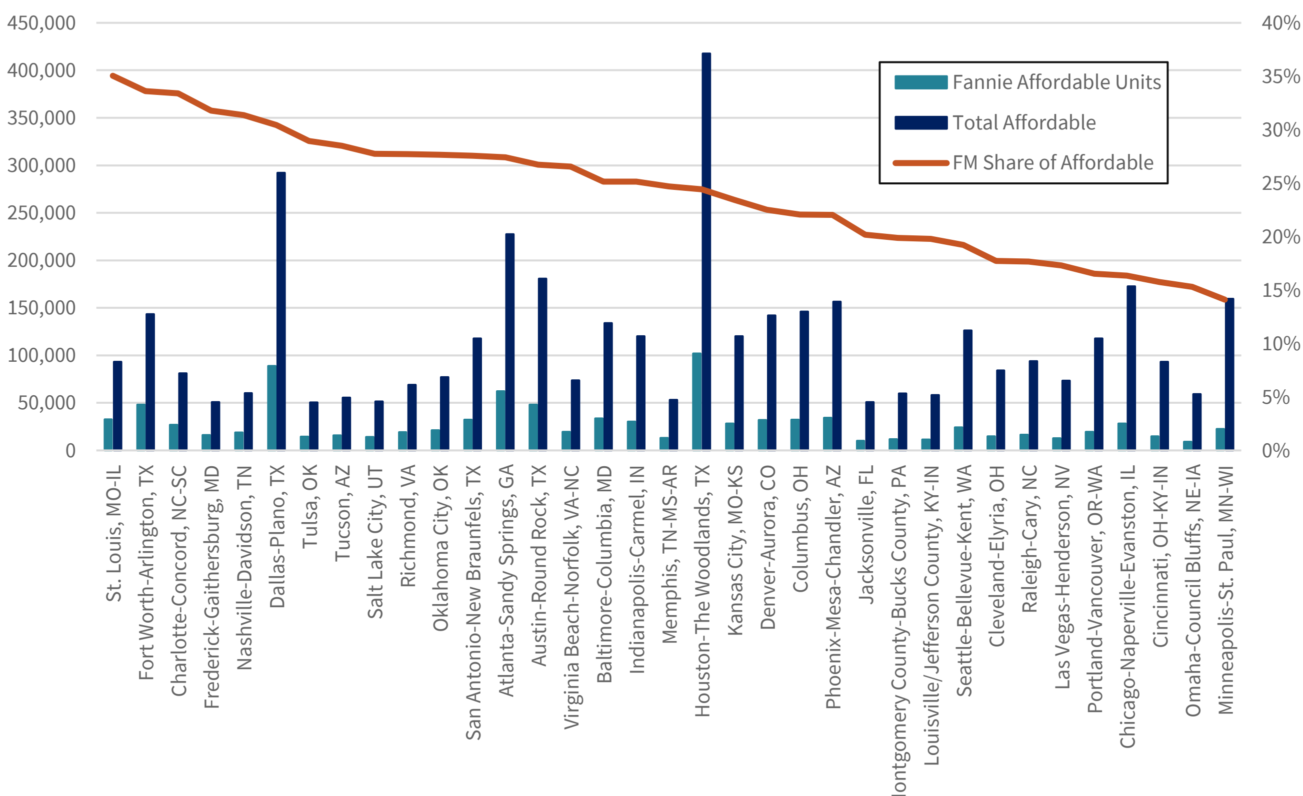
As shown in the chart below there are six markets in which Fannie Mae appears to finance 30 percent or more of market rate affordable multifamily housing units. These include the **St. Louis, Dallas-Plano, Fort Worth-Arlington, Charlotte, Nashville,** and **Frederick-Gaithersburg, MD** metros.

Applying Fannie Mae housing goals methodology to CoStar's multifamily database, it appears there are another 12 multifamily markets in which Fannie Mae finances between 25 percent and 29 percent of the market rate affordable units, including 27 percent of such stock in the **Atlanta** metro area and 25 percent in **Baltimore**.

### Other Markets

As shown in the chart below, among other metro areas, Fannie Mae appears to finance 24 percent of the market rate affordable multifamily housing units in **Houston**, 23% of the affordable units in **Kansas City**, 22% of the affordable units in **Columbus**, and about 20% of the market in **Jacksonville** and **Seattle**.

Fannie Mae Share of Market Rate Affordable Units in Select Metros with Over 50,000 Market Rate Affordable Units – 4Q2020




*Source Data: CoStar   * Excludes Condos, Co-ops, Student, Seniors, Military, Vacation, Corporate, and Federally Assisted housing*

*Note: Excludes U.S. Census bureau designated Outlying Areas which tend to have few apartments.*

### Additional Opportunity in Traditionally Affordable Metros

There are several metros that have been very affordable historically with ongoing opportunity. For instance, with more than 415,000 market rate affordable units in the **Houston** area and 155,000 affordable units in the greater **Phoenix** area, there is ongoing opportunity to finance market rate affordable units in these mostly affordable metros.

### Los Angeles and Chicago More Challenging

On the other hand, there are a couple of metros where it may be more challenging for any single entity to gain a significant share of the market rate affordable segment. **Chicago** and **Los Angeles** are two of the metro areas with the largest number of market rate affordable properties. However, CoStar estimates that there are more than 57,000 market rate affordable properties in the **Los Angeles-Long Beach** metro as of fourth quarter 2020, but the average property has fewer than 20 units. Similarly, the average market rate affordable property size in Chicago was just over 30 units. As a result, any single market entity would need to finance a sizeable number of properties to make significant inroads in coverage of market rate affordable units in these metros.

### Ongoing Market Opportunity for Mission-Driven Business

Nationwide, there appears to be over 8 million market rate affordable multifamily units in just over 110,000 properties affordable to lower-income tenants. While Fannie Mae's share appears to represent about one-fifth of all market rate affordable apartments as of the fourth quarter of 2020, there is additional opportunity for mission-driven business. That's because CoStar data indicates that there are potentially up to another 6.5 million existing market rate affordable units in just over 100,000 properties that could change hands in the future, providing ongoing additional opportunities to help finance and preserve market rate affordable multifamily units across the country.

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