Multifamily Market Commentary – May 2015

Lower-Income Renters Continue to Struggle

The early part of 2009 was a severe "dry spell" for affordable housing finance. There were virtually no buyers of low income housing tax credits (LIHTC), and the appetite for traditional tax-exempt bonds dried up. Despite a rebound in LIHTC pricing and continued low interest rates, less affluent renters have not regained all the ground lost during the recession as shown by the results of the recently released 2013 American Housing Survey (AHS).

How Much Rental Housing Is There?

According to the 2013 AHS, the total amount of U.S. rental stock, including occupied rental units, vacant rental units, and units rented but not yet occupied, now stands at 24.1 million single-family rental units, 18.6 million multifamily units, and 1.8 million manufactured housing units. Interestingly, while the total stock of multifamily rentals only increased by 2.8 percent in 2013 over 2011 (the last time the AHS was conducted), occupied multifamily rentals increased by 5.0 percent, indicating that multifamily supply has not kept pace with demand, nationally.

As shown in the table below, there are a total of 40.4 million occupied rental units in the U.S., representing a 3.9 percent increase in occupied units from 2011. This total includes 22.1 million occupied single-family rental units, 16.9 million occupied multifamily rental units and 1.4 million occupied manufactured housing rental units.

Occupied Rental Units Segmented by Affordability

	Estimated Single Family (Millions)		Estimated Multifamily (Millions)		Estimated Manufactured Housing (Millions)		Estimated Total (Millions)	
Affordable To:	1-4 Units	Cumulative	5+ units	Cumulative	Units	Cumulative	Units	Cum
Extremely Low Income **Income ≤ 30% of AMI**	3.8	3.8	2.7	2.7	0.3	0.3	6.8	6.8
Very Low Income **30% of AMI< Income ≤ 50% of AMI**	5.7	9.5	3.7	6.4	0.5	0.8	9.9	16.7
Low Income [1] **50% of AMI< Income ≤ 60% of AMI**	3.8	13.3	3.3	9.7	0.3	1.1	7.4	24.1
Low Income [1] **60% of AMI< Income ≤ 80% of AMI**	4.9	18.2	3.9	13.6	0.2	1.3	9.0	33.1
80% of AMI< Income ≤ 100% of AMI	2.1	20.3	1.4	15.0	0.0	1.4	3.5	36.7
100% of AMI< Income ≤ 120% of AMI	1.0	21.3	0.7	15.7	0.0	1.4	1.7	38.4
Income > 120% of AMI	0.8	22.1	1.2	16.9	0.0	1.4	2.0	38.7
Total Market	22.1	22.1	16.9	16.9	1.4	1.4	40.4	40.4

Source: 2013 American Housing Survey, 2013

[1] A household that has an income above 50%, up to and including 80%, of AMI is defined by HUD to be "Low Income"
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 AMI, 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 2.7M + 3.7M = 6.4M

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.

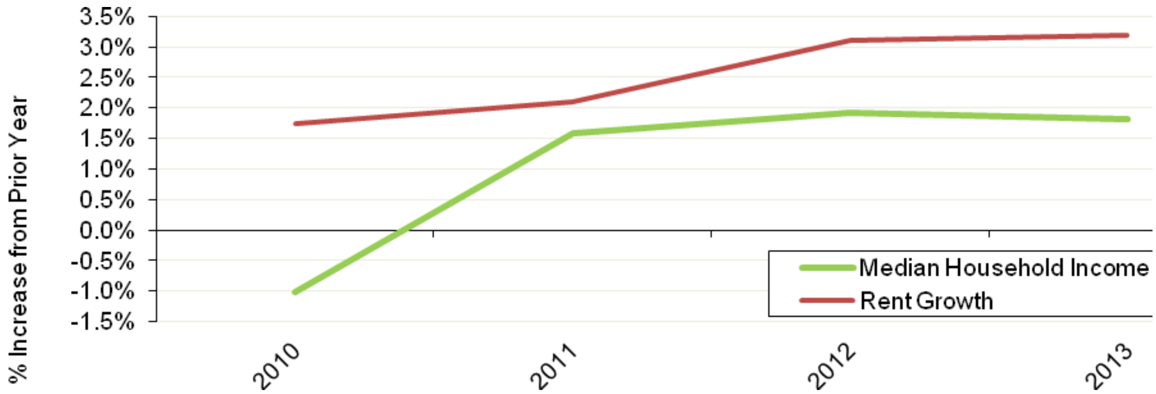
How Affordable is Rental Housing?

As shown in the table on the previous page, 15.0 million multifamily rental units are affordable to households earning 100 percent of the AMI for their locale, which is the majority of the total 16.9 million occupied units. However, while the total number of units affordable to renters at 100 percent of AMI is up by 2.9 percent from 14.6 million in 2011, affordability has declined. Only 88.9 percent of occupied multifamily rental units in 2013 are affordable to renters earning 100 percent of AMI for their locale, a decline of 2.0 percent from 2011 and a decline of 2.7 percent from 2009 AHS results.

Growth in Income Has Lagged Rent Growth

There is a logical reason why affordability in multifamily rental housing has been declining: Annual rent growth has been well above annual growth in median household income over the past few years. As shown in the chart below, growth in median household income has lagged rent growth by anywhere from approximately 1 percent to 3 percent annually between 2010 and 2013. As a result, renters have had to spend a greater proportion of wages on rent leading to a decline in affordability.

Year-Over-Year Increase in Multifamily Rent and Income from 2010 to 2013

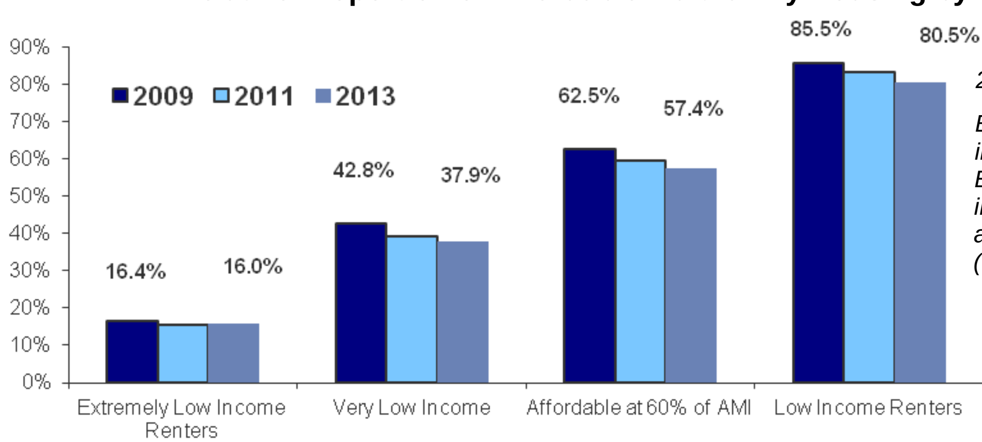


Source: U.S. Census Bureau, REIS, Inc.

Lower-Income Renters Continue to Lose Ground

As seen in the chart below, the decline in affordability from 2009 to 2013 is significant when comparing the units available at lower AMI levels. The biggest drop in affordability comes in rentals affordable to those earning 50 percent of AMI for their locale. While there are 6.4 million units affordable at 50 percent AMI, this represents a decrease of almost 100,000 units since 2009. In addition, the share of stock for Very Low Income renters – those earning 50 percent of AMI – fell by 4.9 percent from 2009 to 2013 to just 37.9 percent of total multifamily rental units.

Relative Proportion of Affordable Multifamily Housing by AMI: 2009 to 2013



Source:

2013 American Housing Survey

Based on cumulative affordable units. For instance, if a unit is affordable at Extremely Low Income, i.e., affordable to income <= 30% of AMI, it is also affordable at the Very Low Income (<= 50% of AMI) category.

Lower-Income Renters Continue to Lose Ground (continued)

While the number of those units affordable to Low Income households – defined as those earning 80 percent of AMI or less for their locale – grew by an estimated 600,000 units to approximately 13.6 million units in 2013, as seen in the chart on the previous page, low Income renters actually lost ground when looking at the proportion of multifamily units affordable to these renters. The proportion of multifamily units affordable to these Low Income renters declined by 5.0 percent from 2009 to 2013, leaving just 80.5 percent of multifamily rentals affordable to Low Income renters in 2013.

Workforce Rental Housing Trades Off With Low Income Housing

Workforce rental housing is a subset of all affordable rental housing generally targeted to police officers, firemen, teachers, nurses, medical personnel, and other “essential” workers. Workforce households can earn anywhere from 60 percent to 120 percent of AMI. According to the ULI’s J. Ronald Terwilliger Center for Workforce Housing, a workforce housing gap persists in high-cost areas that are major centers of employment, such as Washington, D.C. and San Francisco. According to the 2013 AHS, 6.0 million units are now considered multifamily workforce rental housing, up from 5.6 million units in 2011. However, it is unlikely that the gain in these types of units is solely due to new supply. More likely, since wage growth has not kept pace with rent growth, units once affordable at lower income levels are now only affordable at Workforce AMIs.

Affordable Units Are Not Always Available

Less affluent renters still have not regained all the ground lost in the recession, 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. Approximately 100,000 fewer units were affordable to Very Low Income renters in 2013 than in 2009. However, the problem for Very Low Income renters possibly is worse than it seems. It is likely that a unit affordable to a renter earning 50 percent of AMI may actually be occupied by someone earning a higher income, making fewer than 6.4 million units both affordable and available to Very Low Income renters.

While both the Federal Housing Administration and the Government-Sponsored Enterprises have recently created new debt products that reduce the financing cost of affordable projects, solving the challenge of rental affordability cannot be solved by addressing the supply-side alone. We expect that meaningful wage growth across the board must resume in order for there to be some relief for lower-income renters.

Tanya Zahalak
Senior Real Estate Economist

Multifamily Economics and Market Research
May 2015