Multifamily Market Commentary – March 2015

New Affordable Supply Remains Muted

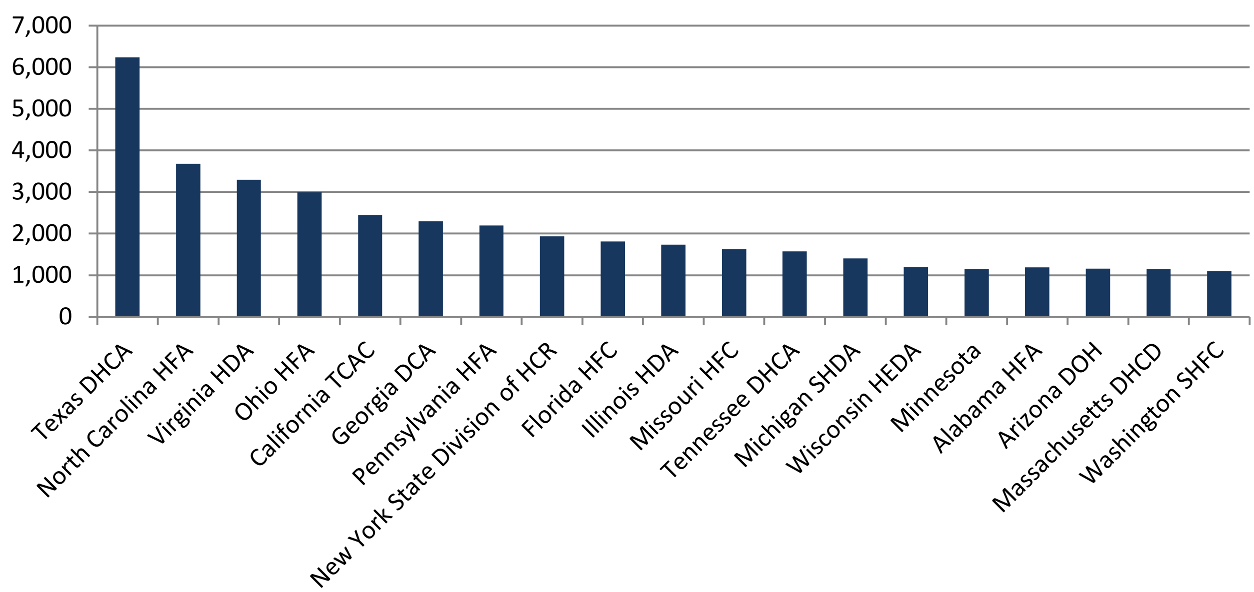
The supply of affordable housing has not kept pace with demand. In the overall multifamily market, about 100,000 units are removed from service each year due to obsolescence, and many of these obsolete units are the older and more affordable segment of the apartment market.

Multifamily supply is on the upswing, with the Dodge Data & Analytics Construction Pipeline data indicating the volume of new multifamily rental units currently underway is at 441,000 units compared to 377,000 units a year ago. However, very little of this new supply is expected to be affordable to those earning less than the area median income (AMI) for their locality. Looking specifically at the subsidized affordable market, only about 80,000 units per year are expected to be placed in service annually over the next few years – and the vast majority of these units will be produced utilizing Low Income Housing Tax Credits (LIHTC).

States Allocate 2014 Tax Credits for Affordable Housing

With most states wrapping up their 2014 LIHTC allocation process, 19 states have allocated tax credits in 2014 for at least 1,000 units of new supply, as seen in the chart below. These include both new developments and existing properties that will be acquired and rehabilitated into subsidized affordable properties. The overwhelming majority of these units will be rent restricted, meaning that they will be affordable to low-income renters earning either 50 or 60 percent of AMI. Another 15 states will develop between 500 and 999 units using 2014 allocations.

Total Units in LIHTC Properties Based on 2014 Allocations



Source: Integratec Tax Credit Central

States' Allocation Based on Population

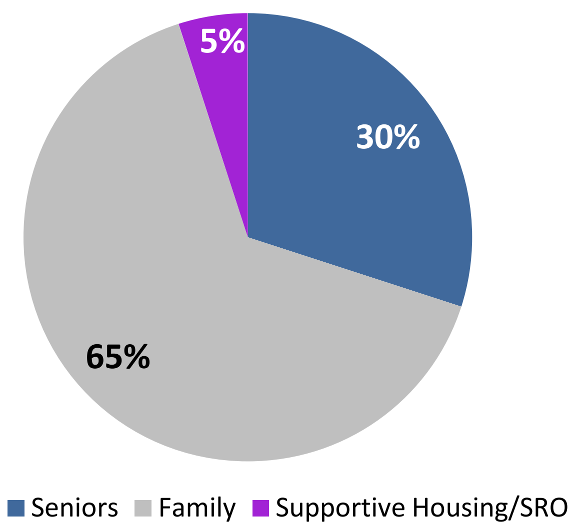
The LIHTC program is administered by the Internal Revenue Service and states have a fixed number of 9 percent LIHTC to allocate annually. For 2014, the amount used to determine each state's LIHTC ceiling was the greater of $2.30 multiplied by the state population or a minimum of $2.68 million. As a result, states with the largest populations, including Texas, California, Florida, New York, and Ohio, are among the states that also are expected to add a substantial number of units to the subsidized affordable supply based on 2014 allocations, as clearly seen in the chart above.

Size of Population Doesn't Always Matter

Interestingly, having a large population – and therefore receiving more tax credits – is no guarantee that a state will produce the highest number of affordable units. There are four states producing at least 3,000 units based on 2014 allocations: Texas, North Carolina, Virginia, and Ohio. While populous, these states are able to produce more units due to, in part, lower land and labor costs. Ohio and Virginia also benefit from dedicated state housing trust funds that provide important additional public funding, usually referred to as "gap financing," to private developers to help support the building of affordable properties.

Conversely, less populous Alabama is expected to produce at least 1,000 units, despite fewer tax credits and no dedicated state housing trust fund. This is most likely due to Alabama's Small Loan Fund, which provides gap financing at favorable rates, coupled with a strong development community dedicated to affordable housing.

Tenancy Type in New Affordable Projects Based on Units



Source: Integratec Tax Credit Central

Family Tenancy Still Most Prevalent

The vast majority of development projects were allocated credits to increase affordable supply for families. As seen in the chart above, based on data from states that reported a tenancy type in their 2014 allocation awards, 65 percent of new units will be in multifamily projects with a family tenancy type.

The second-most prevalent tenancy type for new awards is seniors housing with 30 percent of units allocated for development projects. This category includes projects that are age-restricted to residents either 55 or 62 years old and over; as well as projects that include some units for families, but where the majority of residents are older. At a state level, many Midwestern states have made this tenancy type a priority. Reflecting their aging populations, in Missouri, Illinois, Indiana, and North Dakota, 45 percent or more of units developed with 2014 credits will be in multifamily projects for seniors.

Lastly, approximately 5 percent of units in projects with allocations were dedicated to supportive housing for veterans and residents with special needs. This includes housing with single room occupancy, which helps residents transition out of homelessness.

Arts Projects Also Allocated Credits

Recognizing that the arts can revitalize neighborhoods, several states allocated credits to projects that will include artists in residence. For instance, the Indiana Housing and Community Development Authority allocated 9 percent credits to two projects involving artists: the Hoffman Hotel Artist Apartments in South Bend and the Upton Artist Lofts in Michigan City. Both projects are adaptive reuse projects, rehabilitating existing older properties.

The developer for the Hoffman Hotel Artist Apartments will convert the old Hoffman Hotel into 48 low income artist lofts. Plans for the Hoffman Hotel include a gallery on the first floor, a dark room for photography development, a soundproof music room, and an artists' studio on the 12th floor. The apartments will be available to chefs, painters, photographers, writers, and other artists.

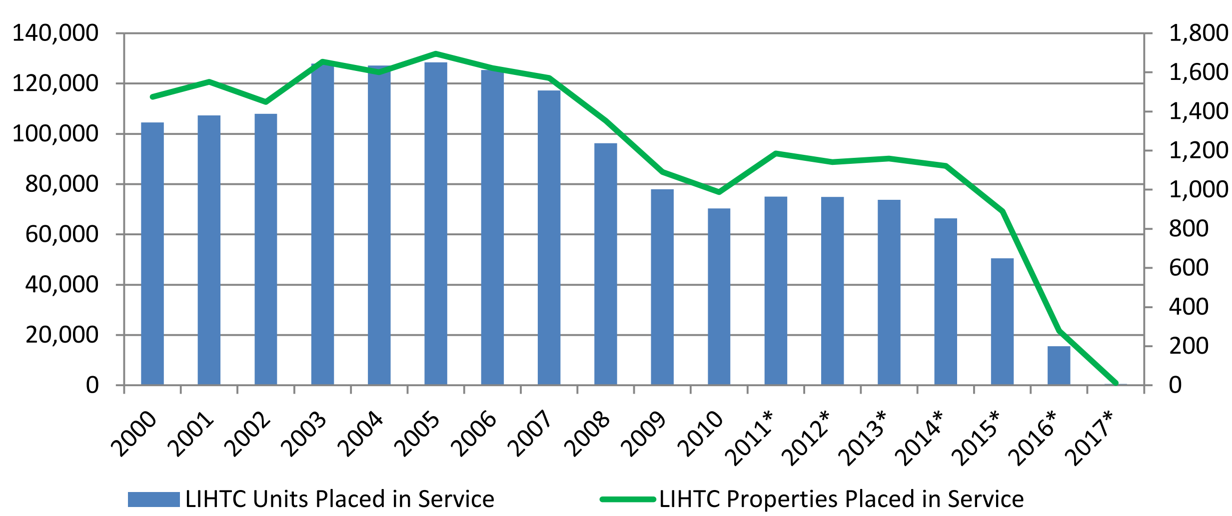
The Upton Artist Lofts will be located on the shore of Lake Michigan with views of the Chicago skyline and will adapt the Warren Building, a six-story office building dating from 1927. When complete the project will be renamed the Artspace Uptown Artist Lofts, a mixed-use development with 44 affordable live/work units for artists and their families and ground-floor studio and commercial space.

New Subsidized Affordable Supply Declining

As seen in the chart below, annual production of new subsidized units appears to have declined from the pre-recession average annual pace of approximately 100,000 units, according to data from Tax Credit Central.

To estimate timing on units placed in service in a given year, Tax Credit Central assumes 15 percent of the current year allocations, 60 percent of the prior year allocations, and 25 percent of allocations two years prior will be placed in service. For example, 2014 reflects 15 percent of the 2014 allocations, 60 percent of the 2013 allocations, and 25 percent of the 2012 allocations. If allocations in the next few years are similar to 2014 allocations, it appears the number of subsidized affordable housing units placed in service over the next few years will only be about 80,000 units per year.

Low Income Housing Tax Credit Units (LIHTC) Projects Placed in Service Since 2000



Source: HUD Low Income Tax Credit Database as of October, 2014 for 2000-2010 data; Integratec estimates for 2011-2017 based on published HFA allocations.

Tax Credit Central estimate of new affordable supply is not an actual forecast of activity, it is based on a monitor of tax credit allocations reported to-date. As more projects are planned and tracked, figures in outer years may increase.

**Projected*

New Development Alone Cannot Solve the Problem of Affordable Housing

The dearth of affordable multifamily units cannot be solved solely by developing new subsidized and unsubsidized affordable units. According to the National Low Income Housing Preservation Database, there are an estimated 6.2 million units of subsidized affordable housing. Preservation of this existing stock of rent-restricted units is important to keep the affordable housing supply imbalance from worsening. In addition, the affordable segment of conventional multifamily stock, usually identified as class B and C properties, has declined by 8 percent over the last 15 years to just 57 percent of the nation's total rental multifamily housing stock as of the end of 2014, according to data from Reis, Inc. As a result, it is also important to provide financing that supports modest renovations in existing class B and C properties, keeping them as safe and desirable places to live. This can extend the life of this important source of conventional affordable housing and help keep the multifamily market from losing more affordable supply due to obsolescence or acquisition/rehab by developers.

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