

Multifamily Housing Outlook

An Exploration of National and Regional Economic Trends Impacting Multifamily Affordable Housing

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Fannie Mae Multifamily Mortgage Business

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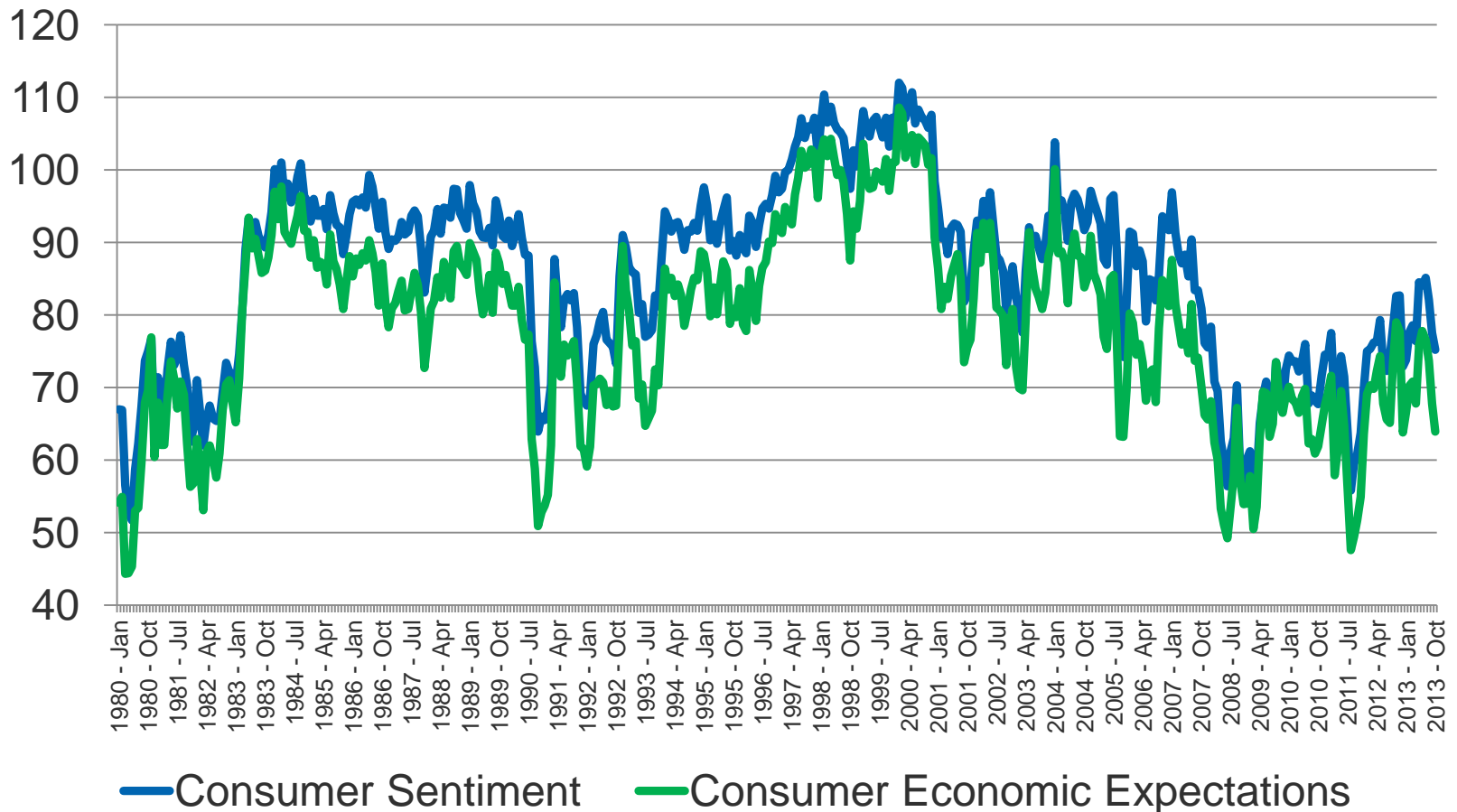


“Halloween can’t compete with the Debt Ceiling”

Source: Orlando Sentinel

Macroeconomic Trends: Consumer Confidence

Unsurprisingly, consumer confidence declined in October...

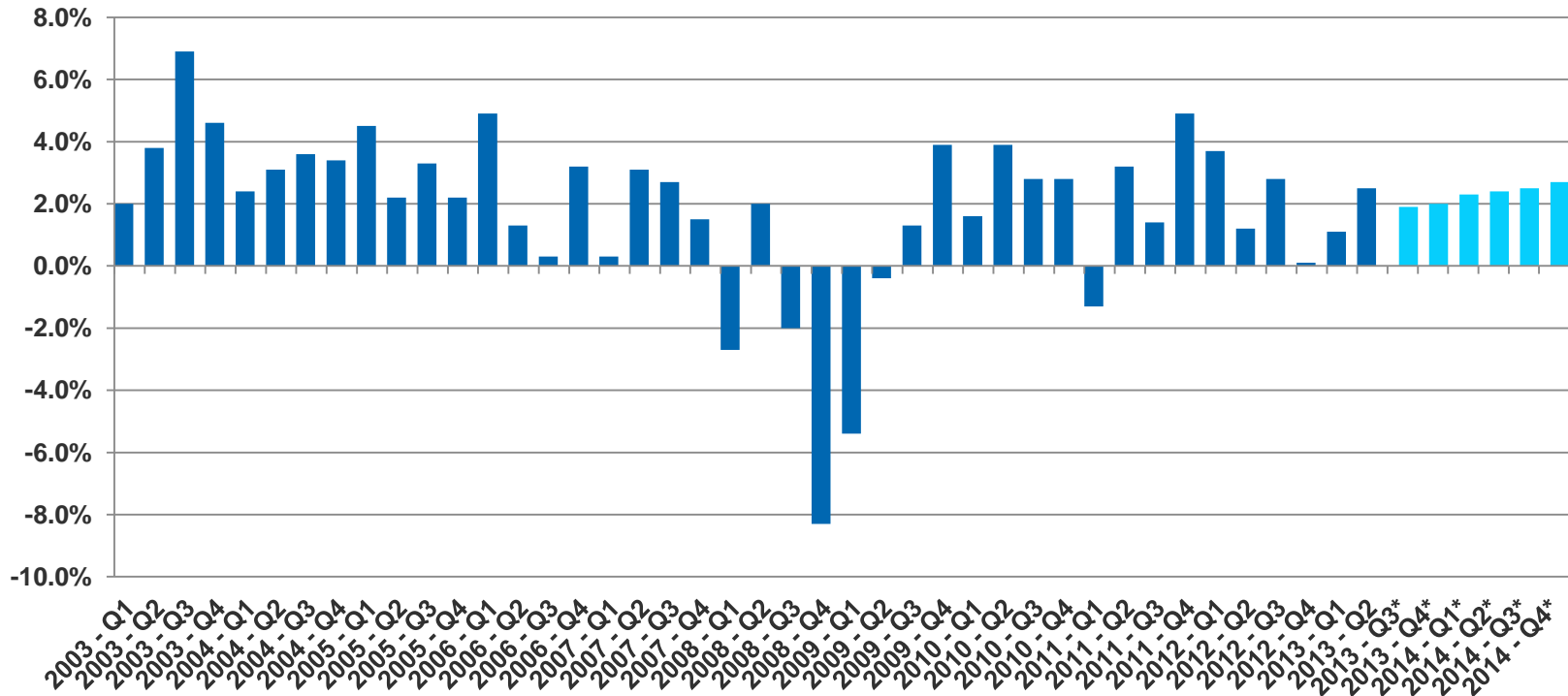


Source: Reuters/University of Michigan Surveys per Haver Analytics DLX

Macroeconomic Trends: Gross Domestic Product

...and while GDP grew 2.5% in Q2, it is expected to slow for the rest of 2013.

Average Quarterly Change in GDP (SAAR)



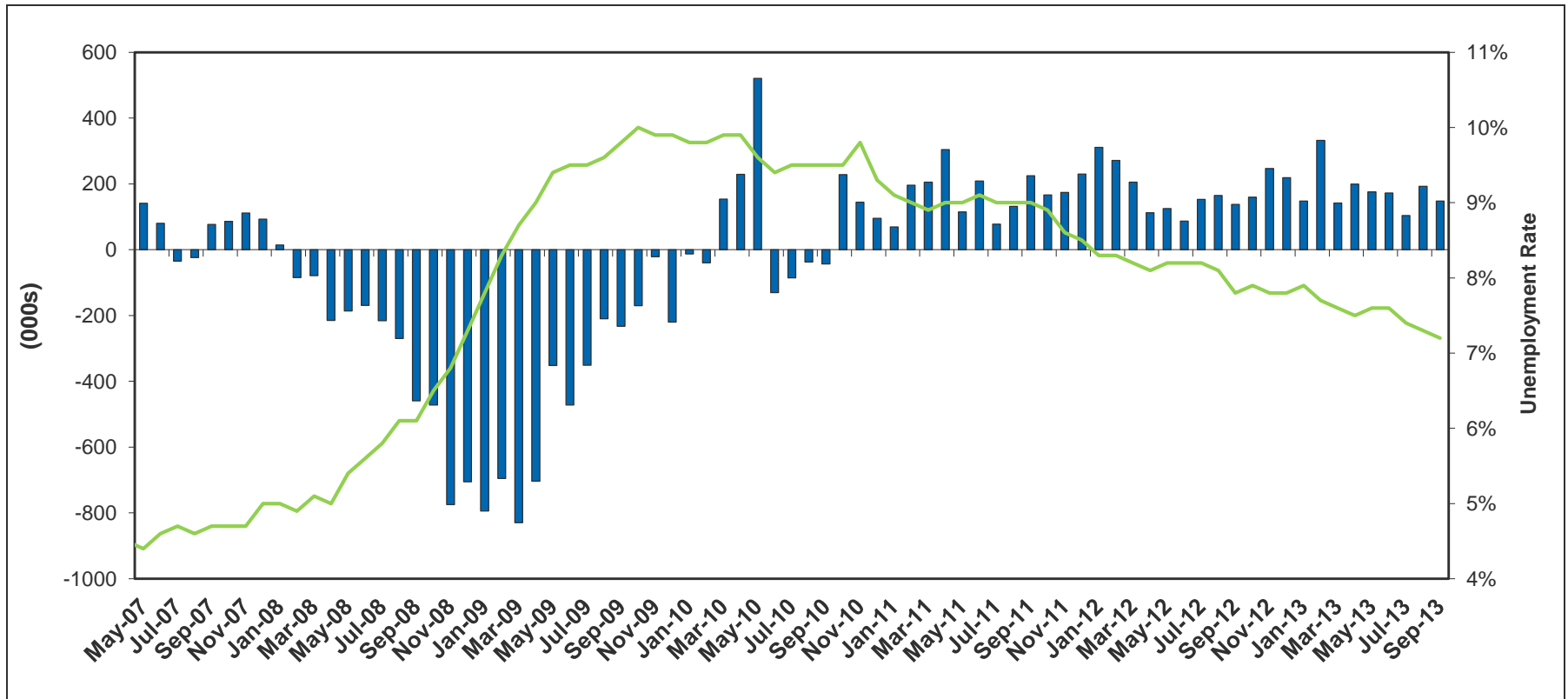
Source: Department of Commerce, Bureau of Economic Analysis, per Haver Analytics DLX

* Fannie Mae estimates

Macroeconomic Trends: Employment Growth

There has been slow but steady job growth, however...

Monthly Change in Nonfarm Employment and the Unemployment Rate

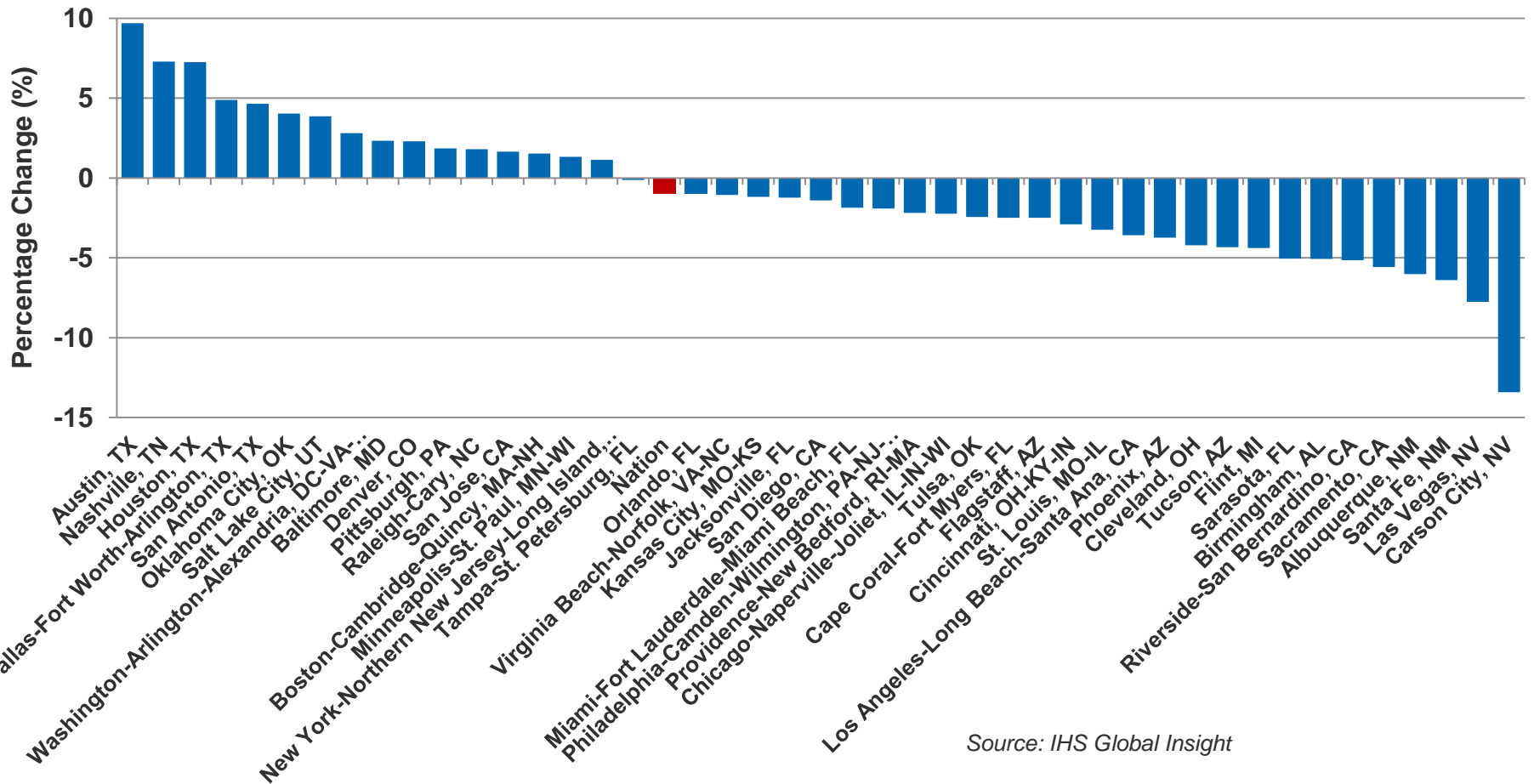


Source: U.S. Department of Labor, Bureau of Labor Statistics

Macroeconomic Trends: Employment Growth

...many metros still haven't recovered all the jobs lost from the recession.

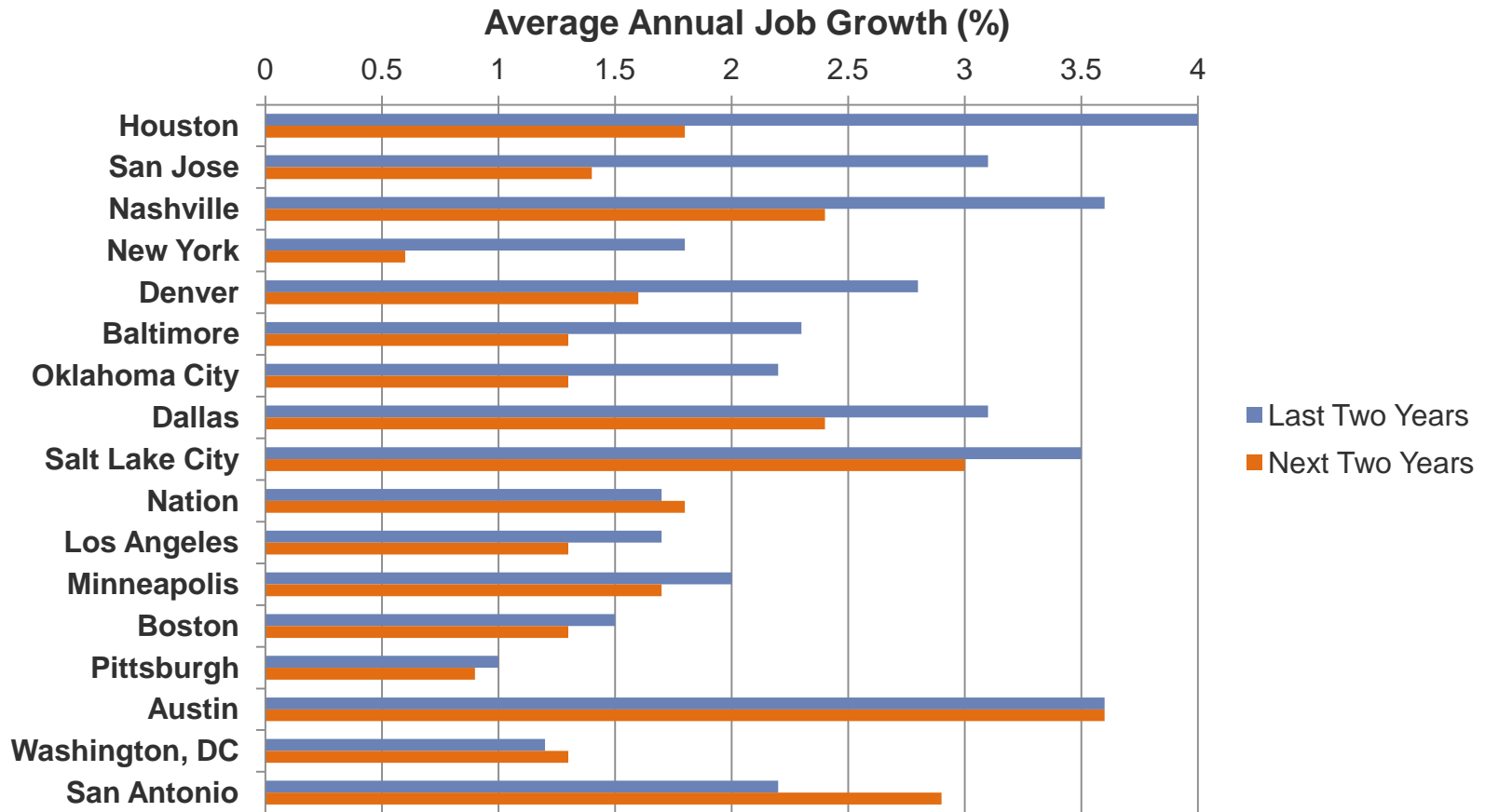
Percent Change in Total New Jobs – Start of Recession to September 2013 – Select Metros



Source: IHS Global Insight

Macroeconomic Trends: Employment Growth

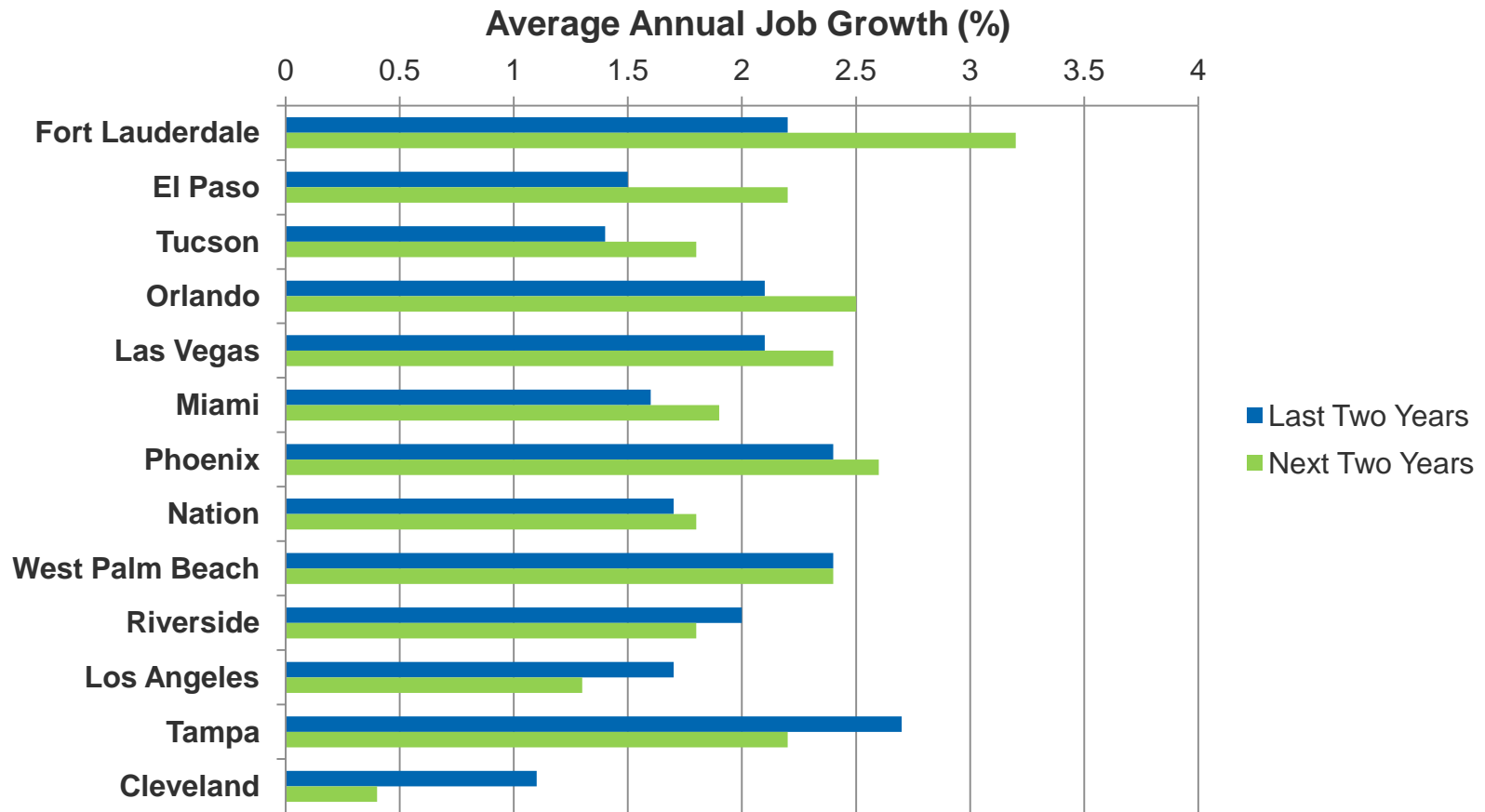
Many of those that had strong job growth over the last two years are slowing somewhat...



Source: CBRE Econometric Advisors, Q2 2013

Macroeconomic Trends: Employment Growth

...although there is some tangible growth in the harder hit markets.



Source: CBRE Econometric Advisors, Q2 2013

Real Estate Fundamentals: Ongoing Demand

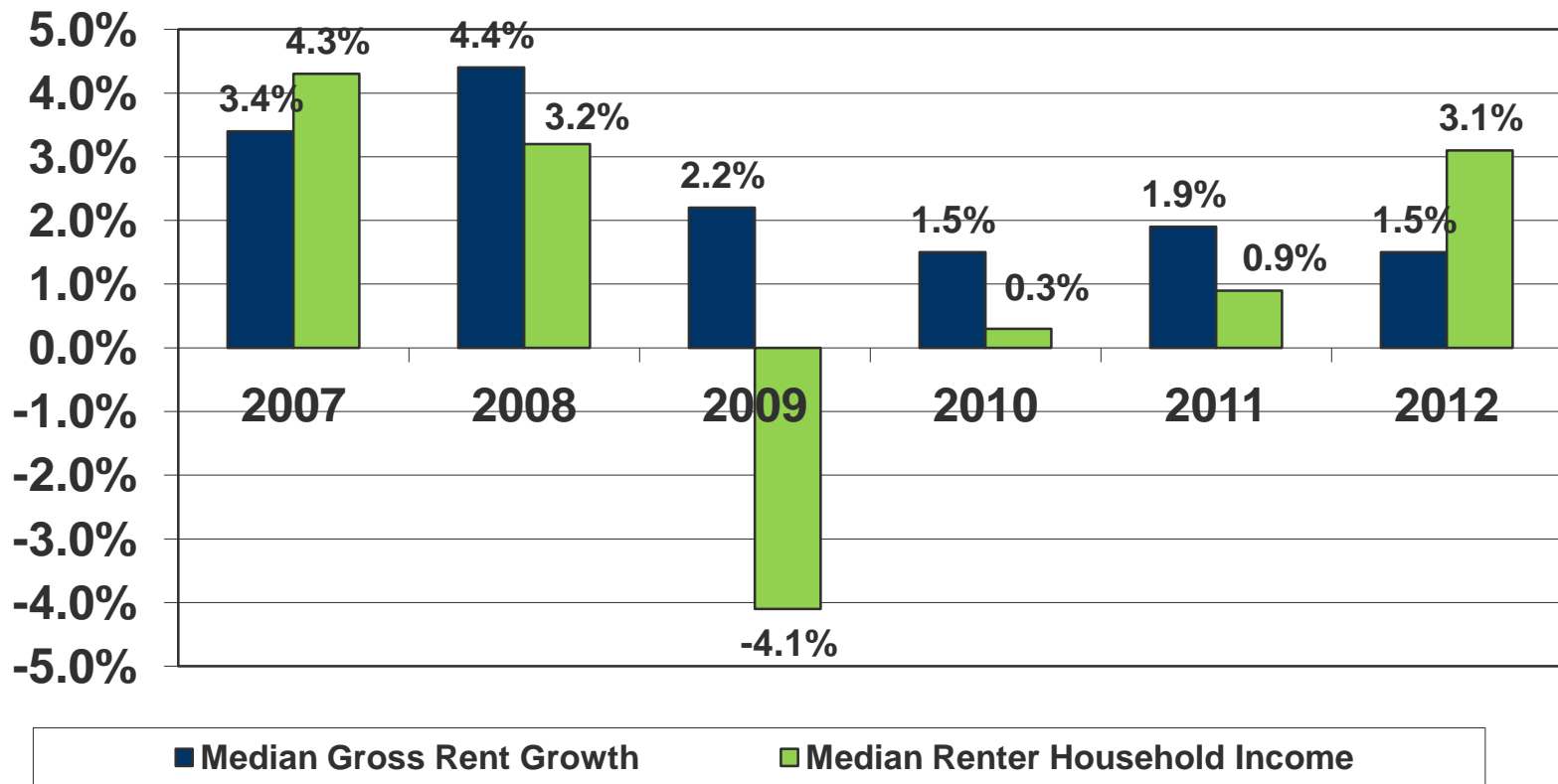


“This is how I can afford to pay the rent and still look fabulous.”

Source: Cartoon Stock

Real Estate Fundamentals: Ongoing Demand

Ongoing rental demand allowed rent growth to far outpace renter income growth between 2008-2011.

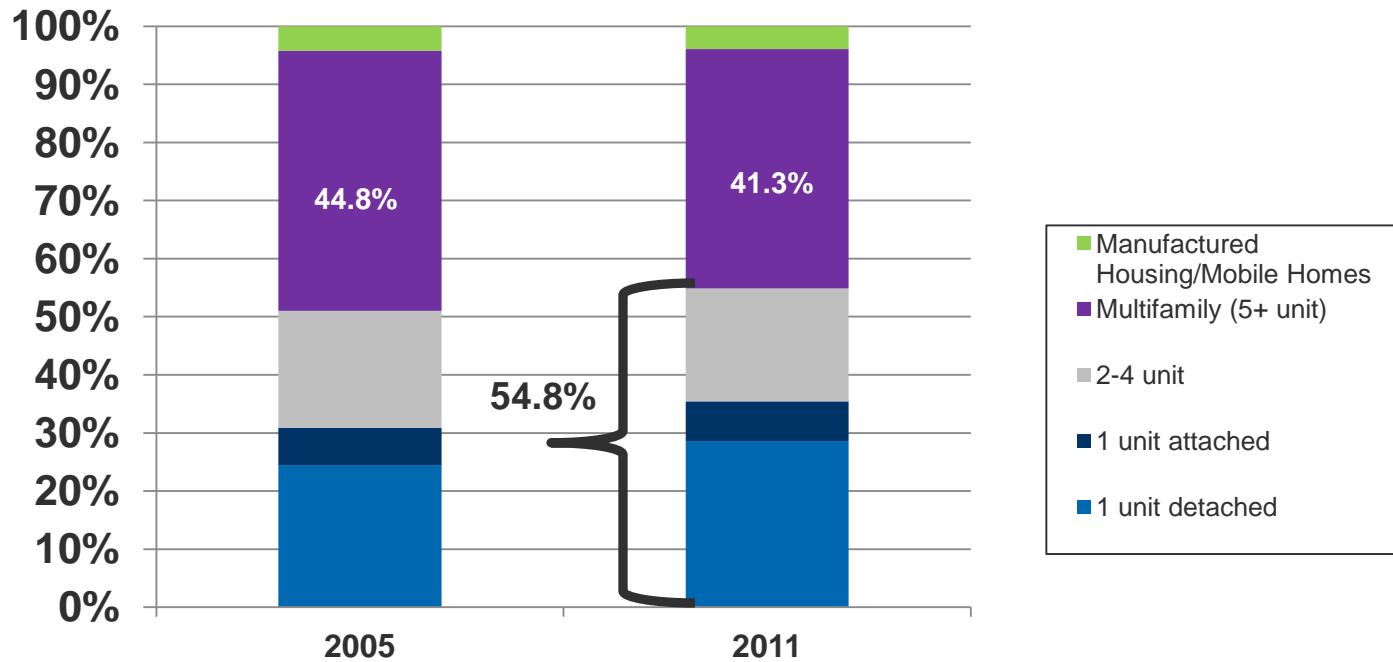


Source: U.S. Census Bureau, American Community Survey

Note: Both renter income and rent increase figures are based on all rentals

Real Estate Fundamentals: Ongoing Demand

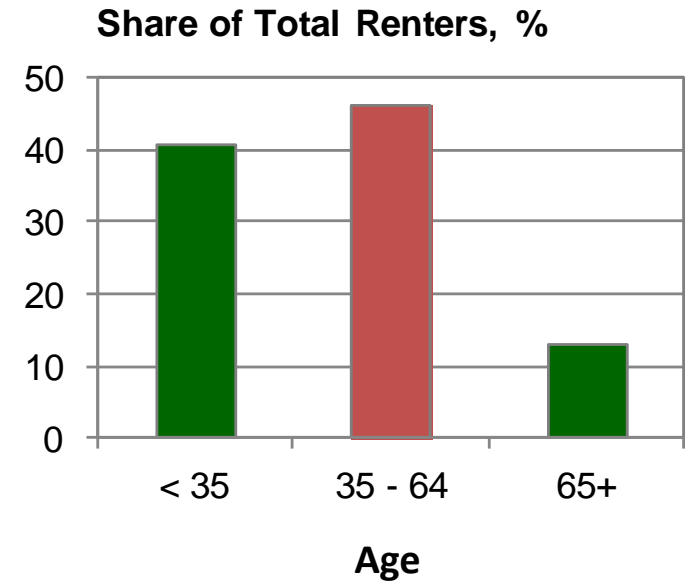
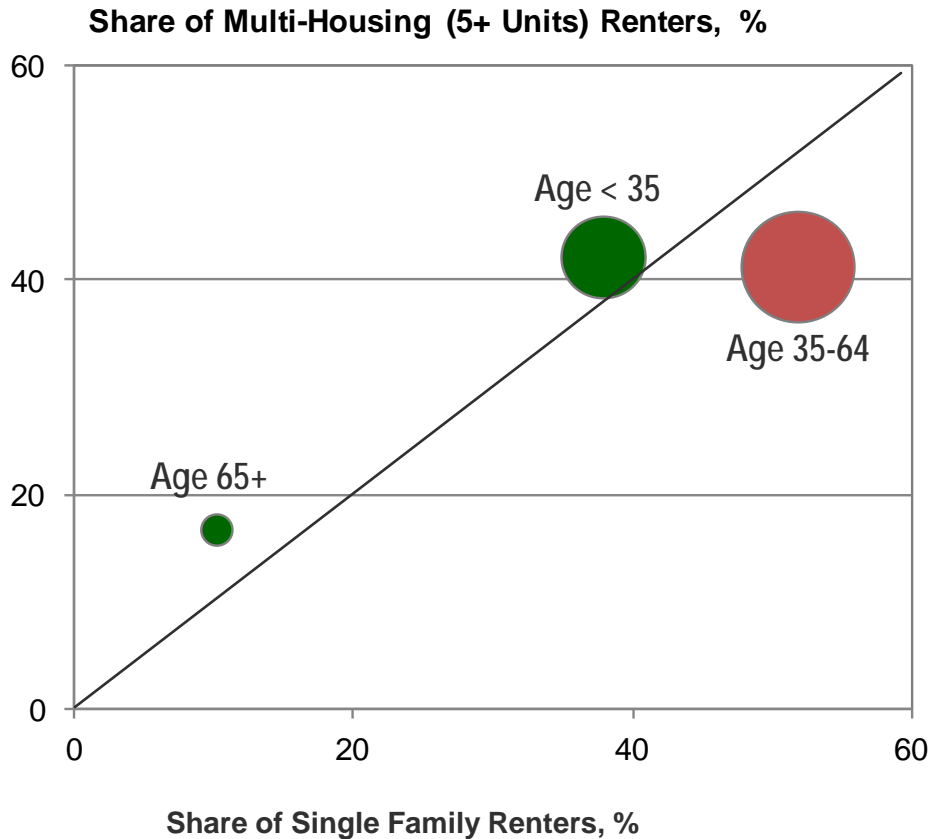
The share of 1-4 family rental units has increased rapidly...



Source: American Housing Survey

Real Estate Fundamentals: Ongoing Demand

...with older renters preferring single-family rentals and younger renters favoring multifamily units.



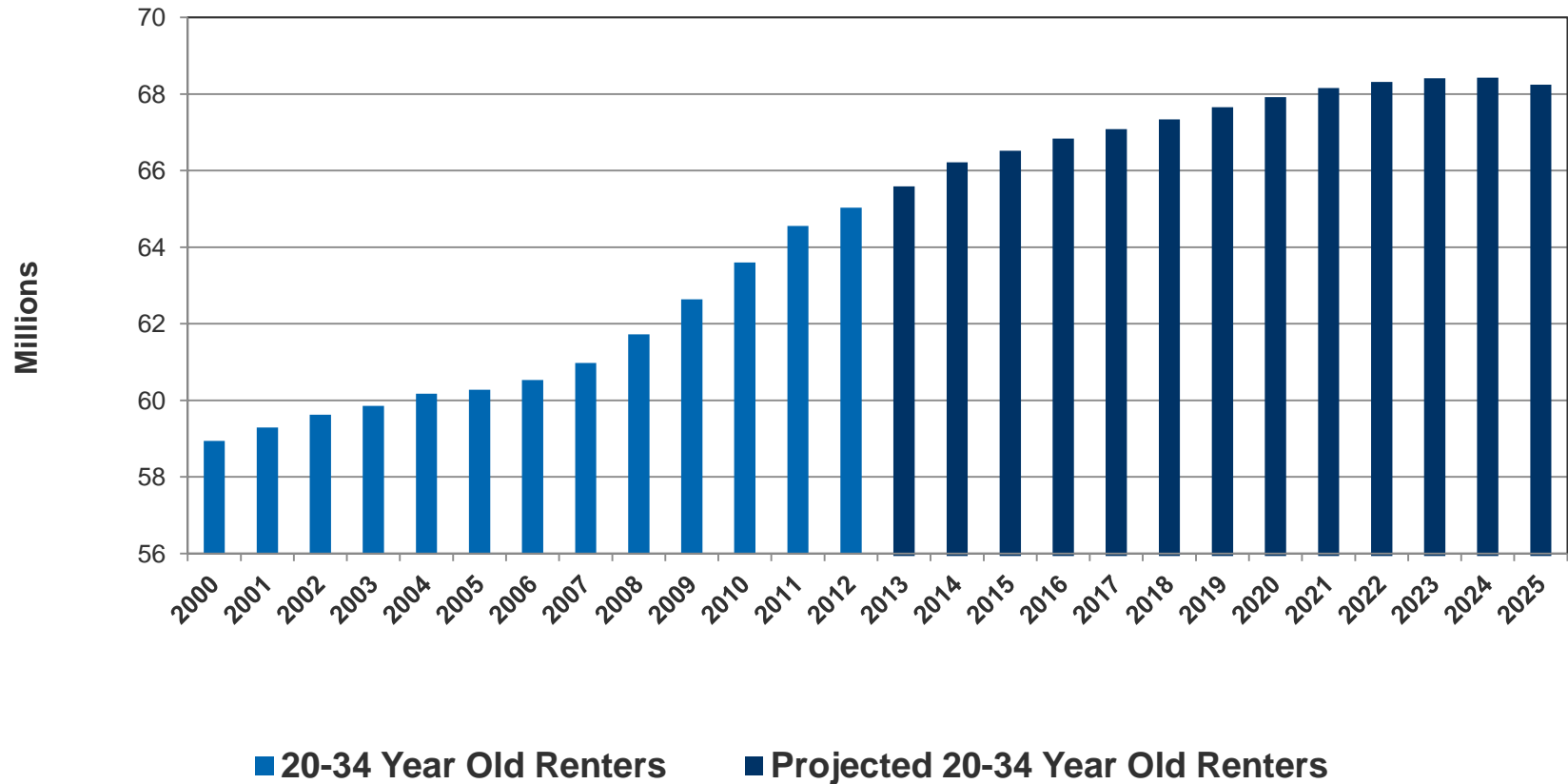
*Dot width is proportionate to number of renters represented by each age group

Sources: 2010 American Community Survey, CBRE EA.

Real Estate Fundamentals: Ongoing Demand

The good news for the multifamily sector is that the young adult population is projected to continue growing...

Growth in U.S. Renter Population Age 20-34 through 2025

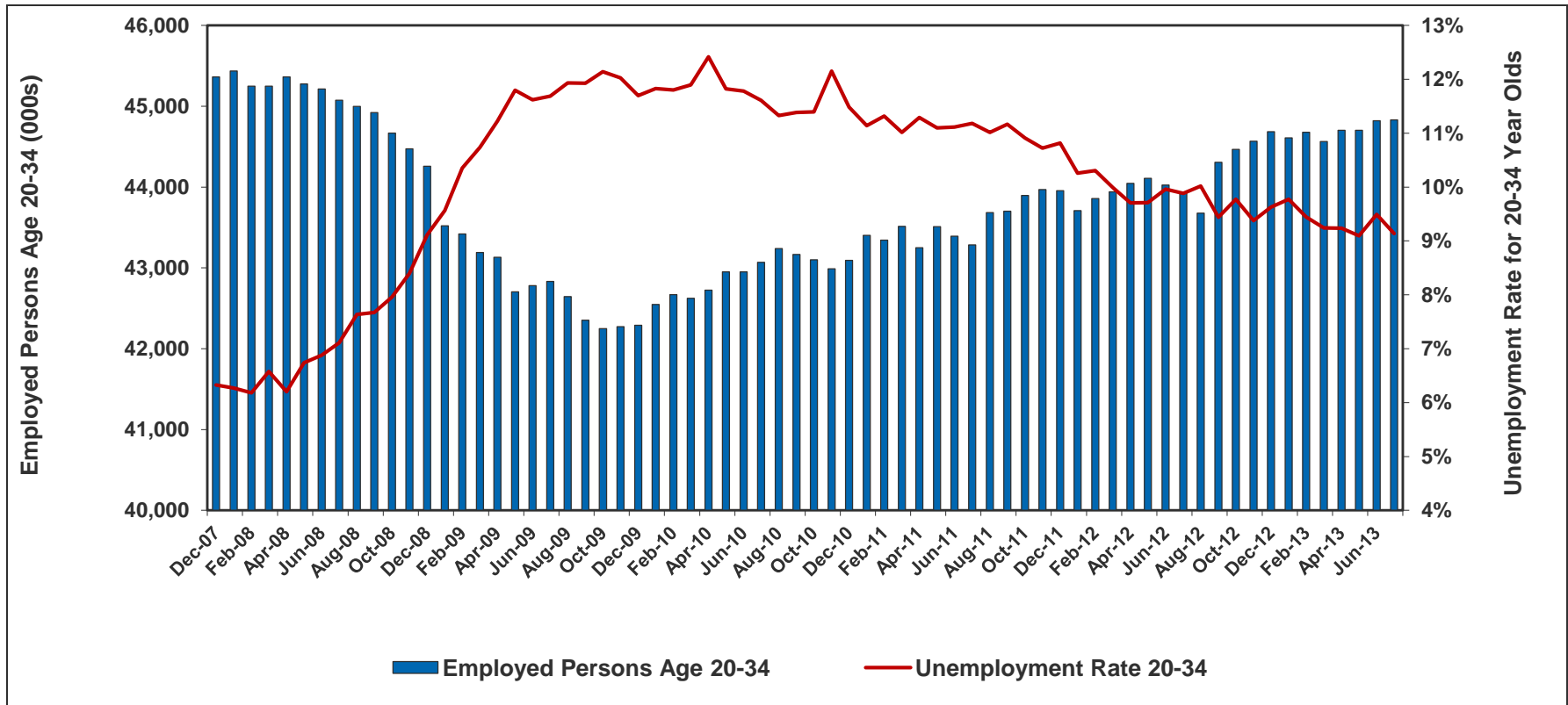


Source: U.S. Census Bureau, Population Estimates and Projections

Real Estate Fundamentals: Ongoing Demand

...along with a steadily improving job market.

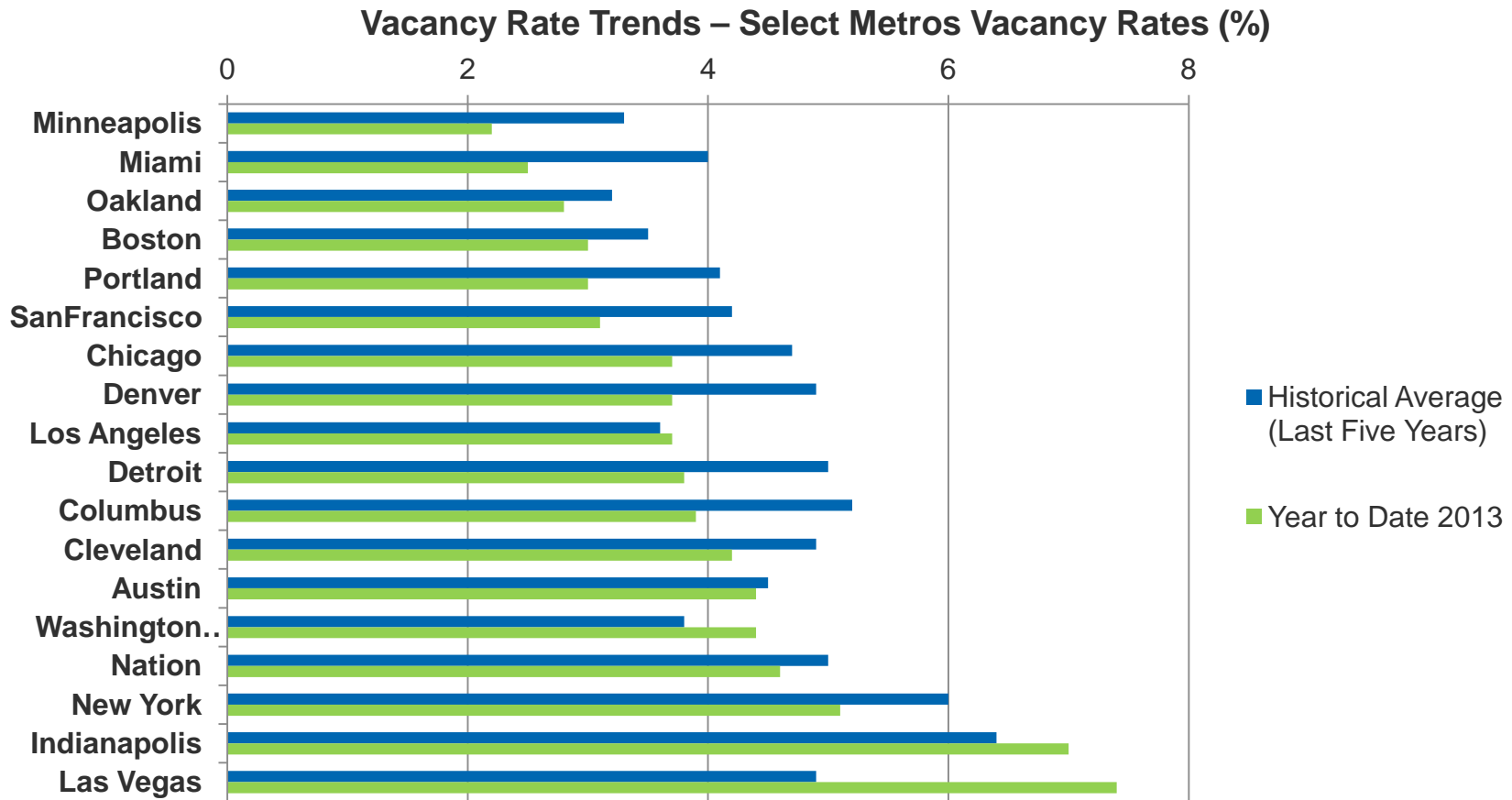
Labor Market Improves for Young Adults



Source: U.S. Bureau of Labor Statistics (BLS): Current Population Survey, per Moody's Analytics

Real Estate Fundamentals: Ongoing Demand

Multifamily vacancy levels in most metros are below historic averages...

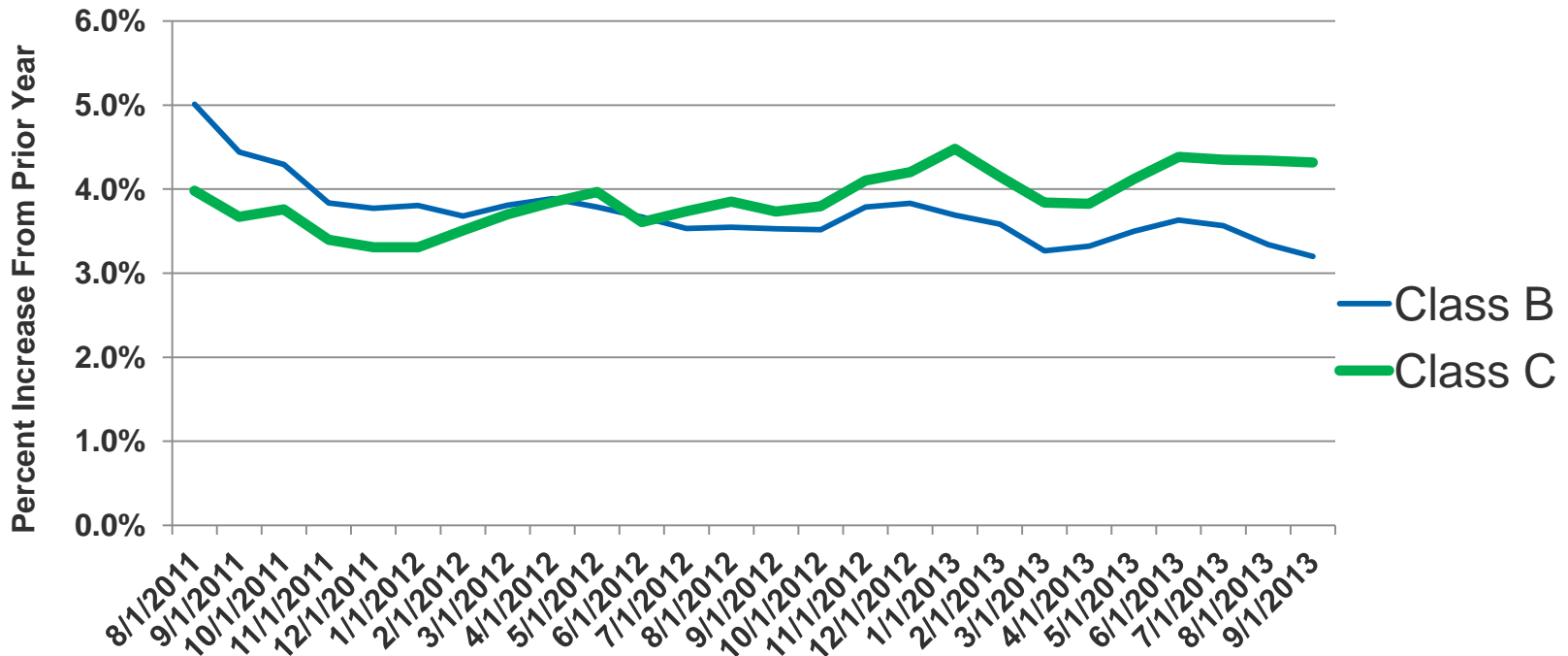


Source: CBRE Econometric Advisors, Q2 2013

Real Estate Fundamentals: Ongoing Demand

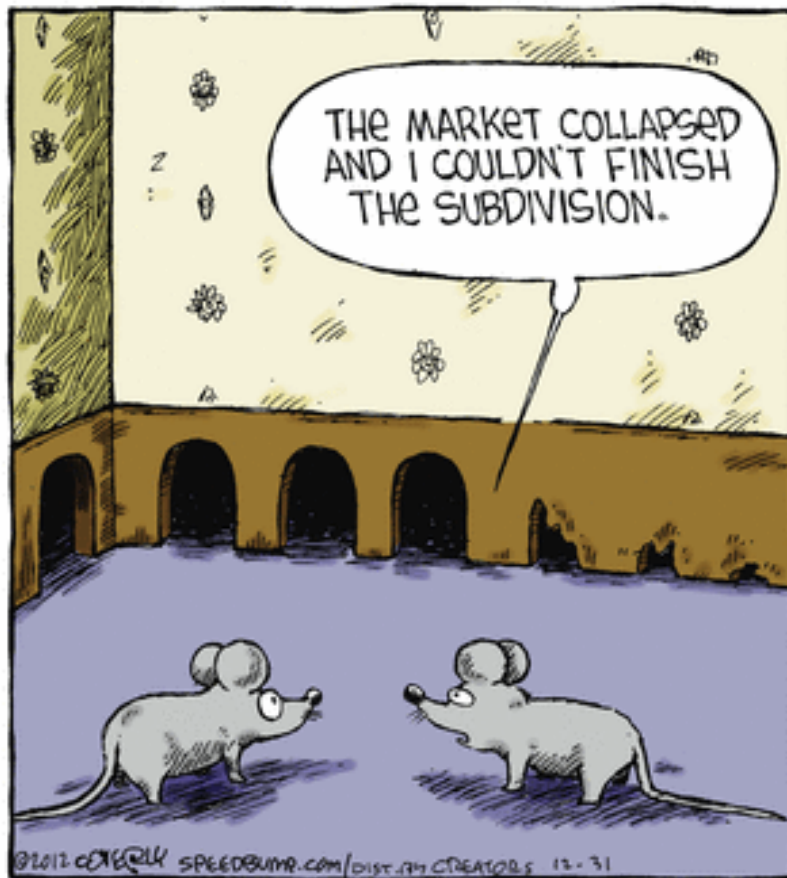
...so even Class B and C properties are seeing continued demand.

National Effective Rent Growth for Class B and C Multifamily



Source: Axiometrics

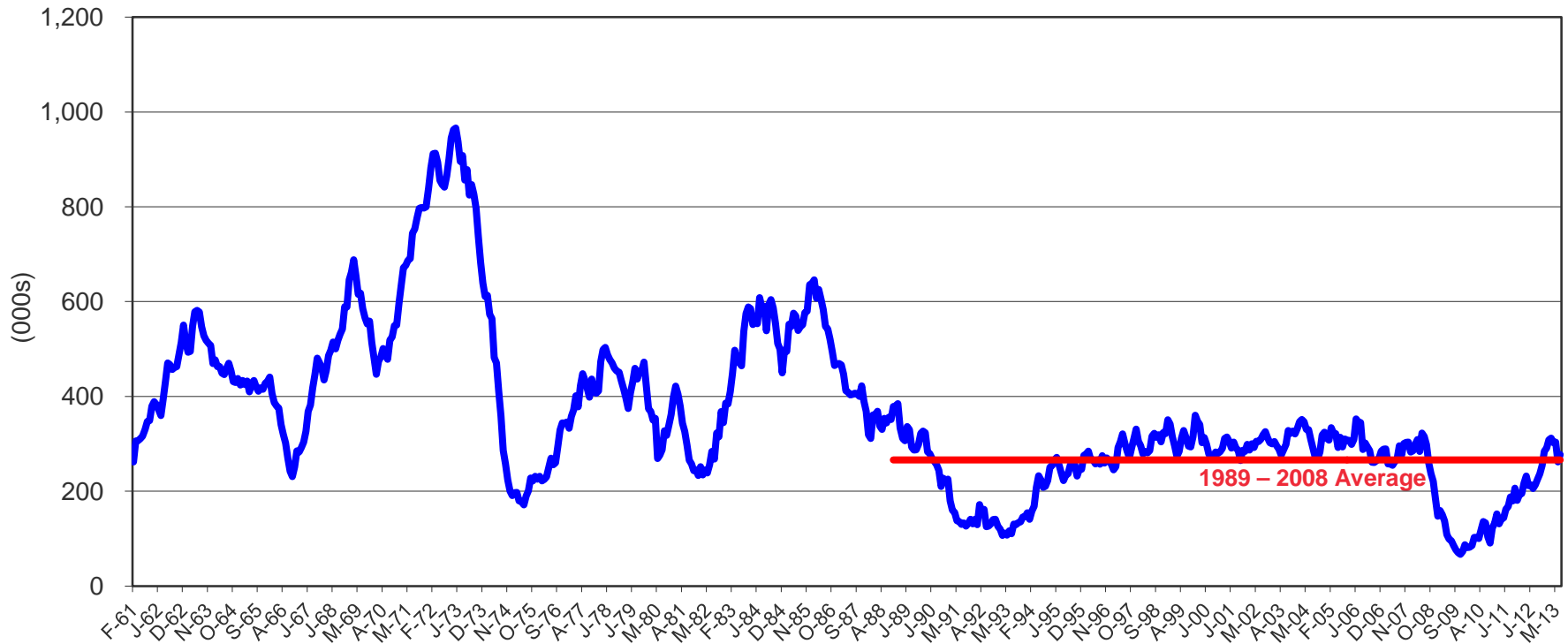
Real Estate Fundamentals: Rental Supply Increasing



Real Estate Fundamentals: Rental Supply Increasing

Multifamily starts remain close to their recent historical average...

Multifamily (5+ units) Starts
(3 month moving average)

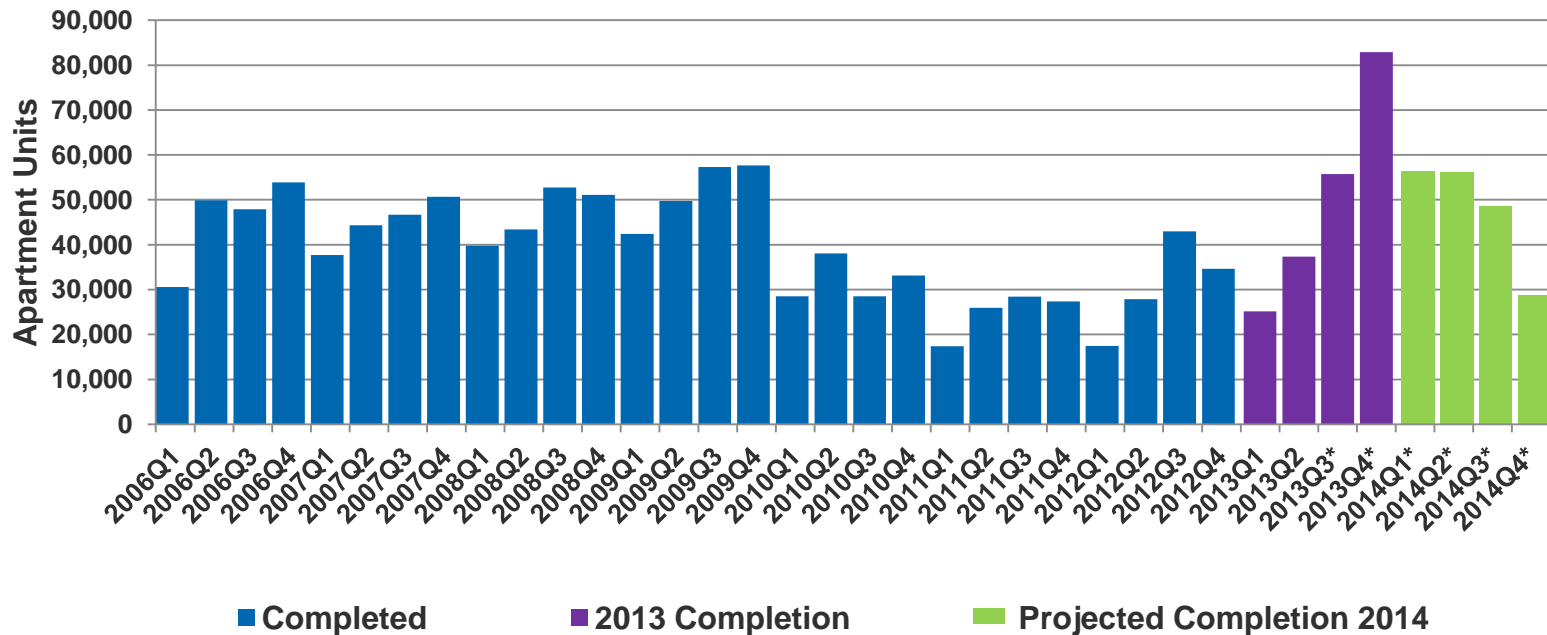


Source: U.S. Department of Commerce, Bureau of the Census, per Haver Analytics DLX

Real Estate Fundamentals: Rental Supply Increasing

...with the bulk of anticipated apartment completions coming online this year...

National Apartment Completions and Units Underway



Source: CBRE-EA/Dodge Pipeline, August 2013

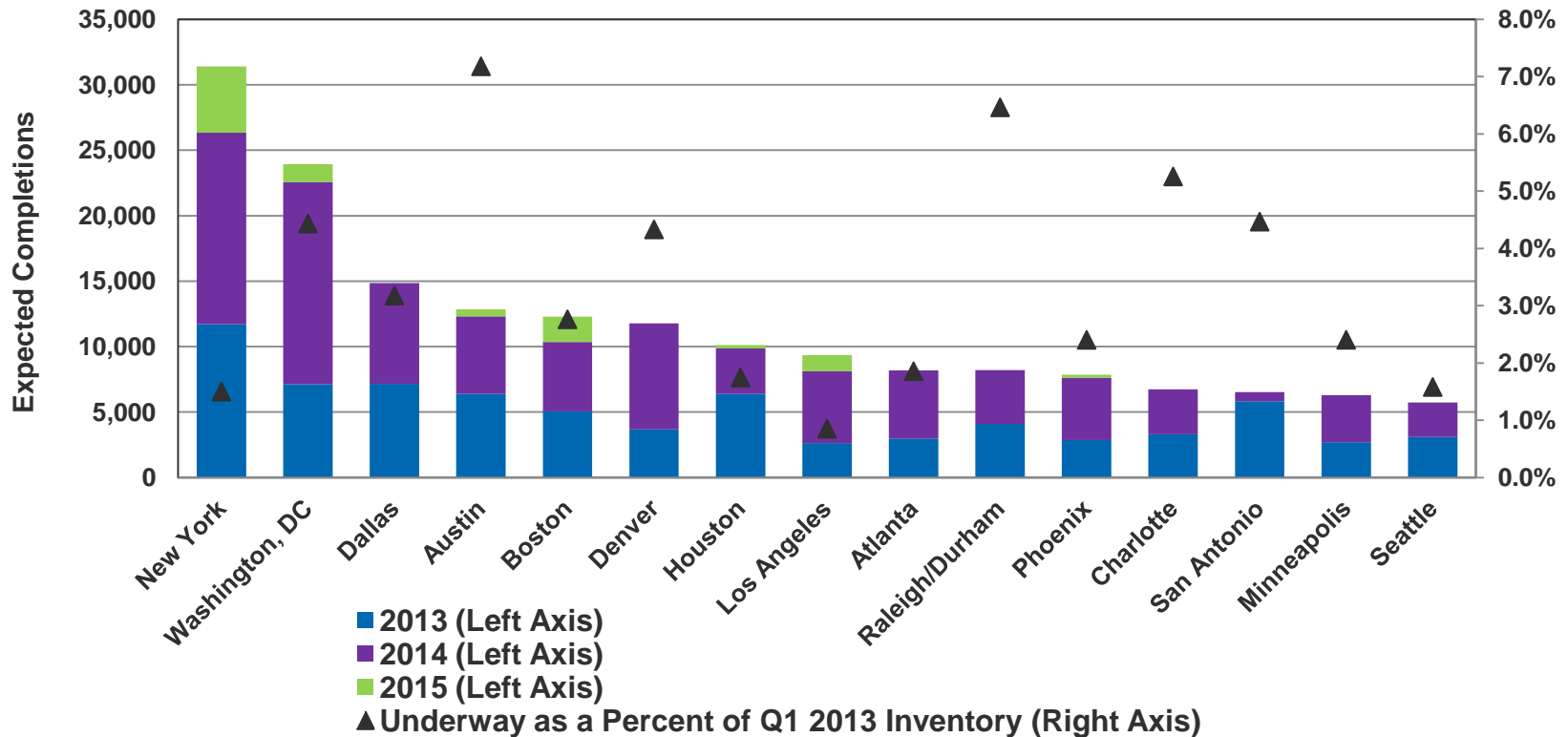
* Anticipated completion date

Please note: Dodge Pipeline data is not a forecast of construction activity; it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods may increase.

Real Estate Fundamentals: Rental Supply Increasing

...but many of the units under way are located in a few metros.

Multifamily Apartment Units Underway – Select Metros



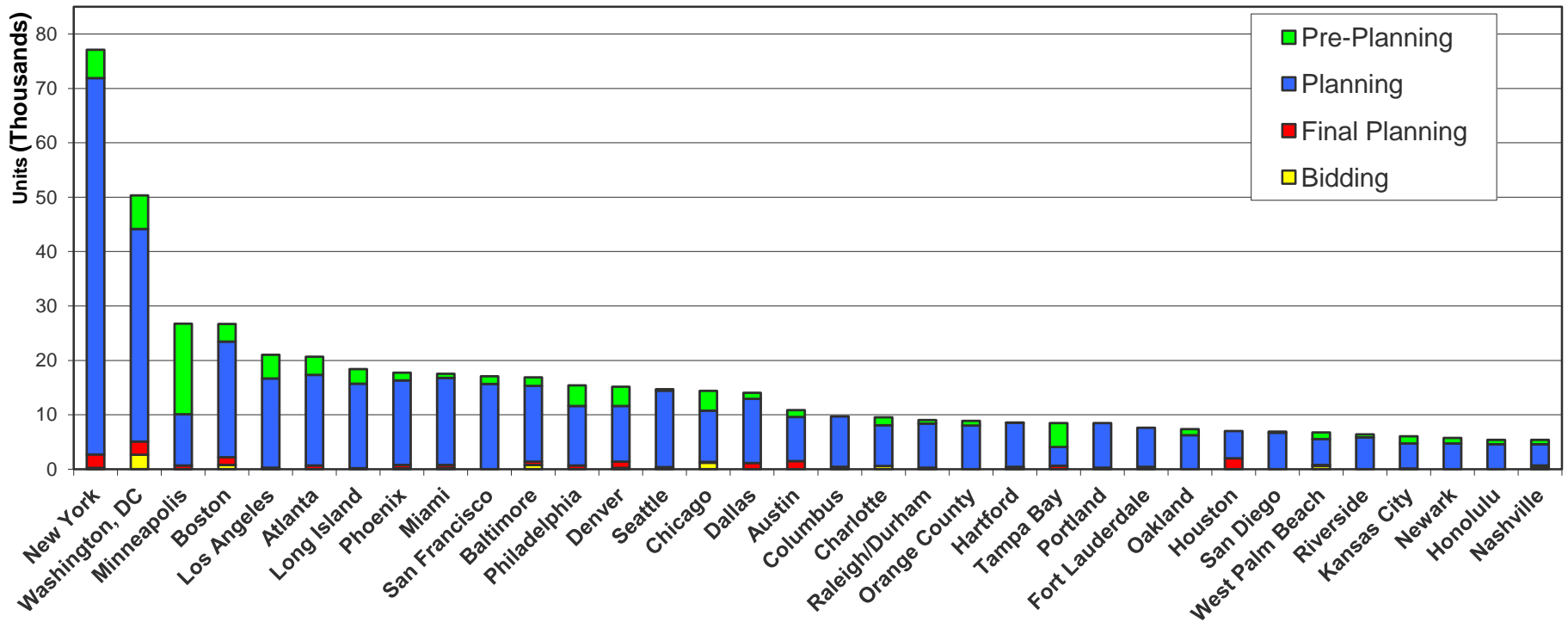
Source: CBRE-EA/Dodge Pipeline, July 2013 – Metros with 5,000 or more units underway

Please note: Dodge Pipeline data is not a forecast of construction activity; it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods may increase.

Real Estate Fundamentals: Rental Supply Increasing

Most new units in the planning stage also are concentrated in a few metros...

Multifamily Apartment Units by Planning Stage – Select Metros



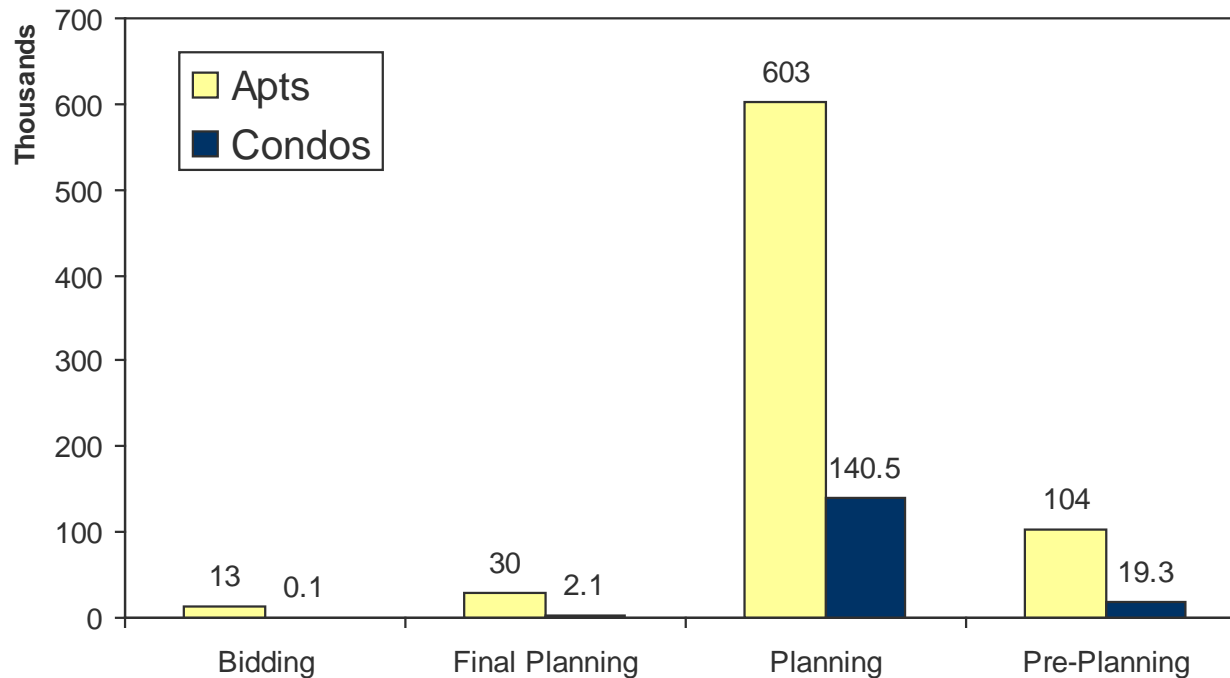
Source: CBRE-EA/Dodge Pipeline, July 2013 – Metros with 5,000 or more units in planning stages

Please note: Dodge Pipeline data is not a forecast of construction activity; it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods may increase.

Real Estate Fundamentals: Rental Supply Increasing

...but only about 58% of multifamily projects in the planning stage usually make it to groundbreaking.

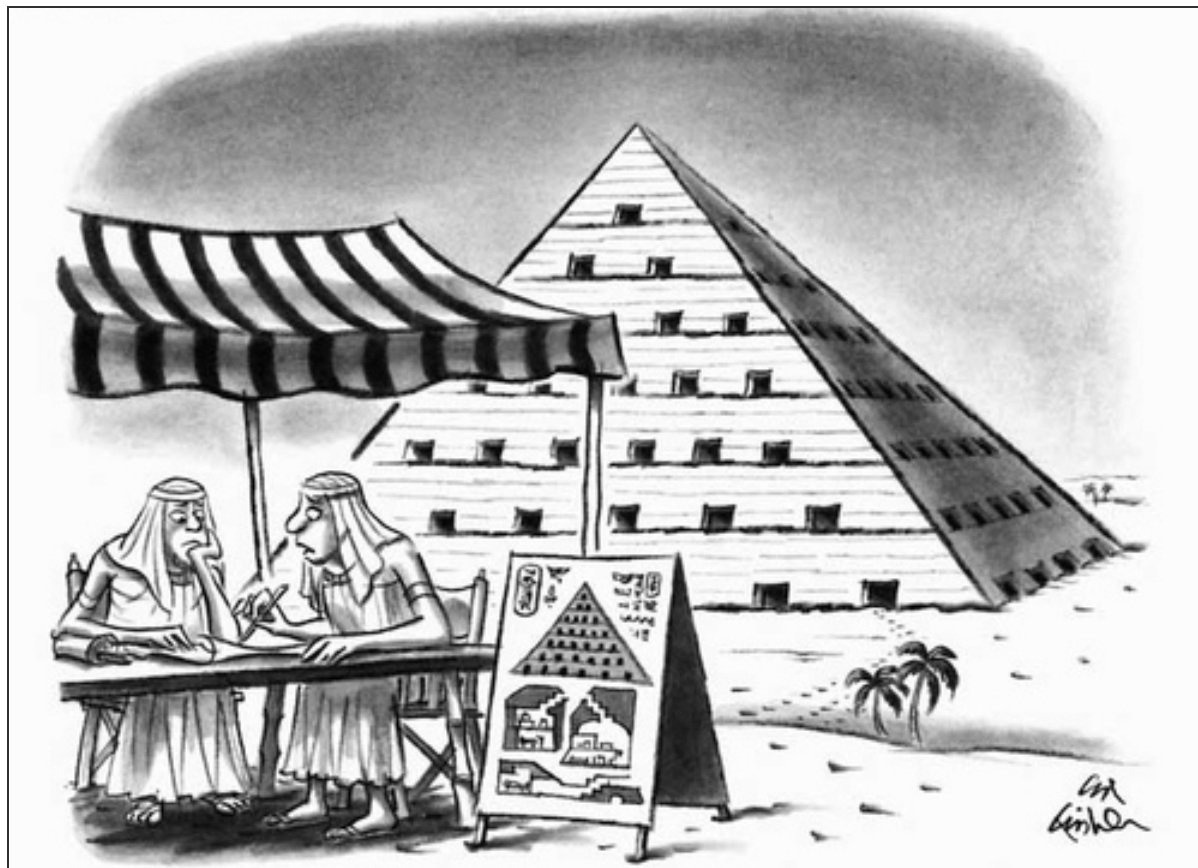
National Multifamily Housing Units by Planning Stage



Source: CBRE-EA/Dodge Pipeline, July 2013

Please note: Dodge Pipeline data is not a forecast of construction activity; it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods may increase.

Multifamily Affordable Housing: States Target Preservation



“I decided to convert it into ‘workforce’ housing.”

Source: *The New Yorker*

Multifamily Affordable Housing: States Target Preservation

The LIHTC program has become the largest provider of subsidized low income units followed by Project-Based Section 8.

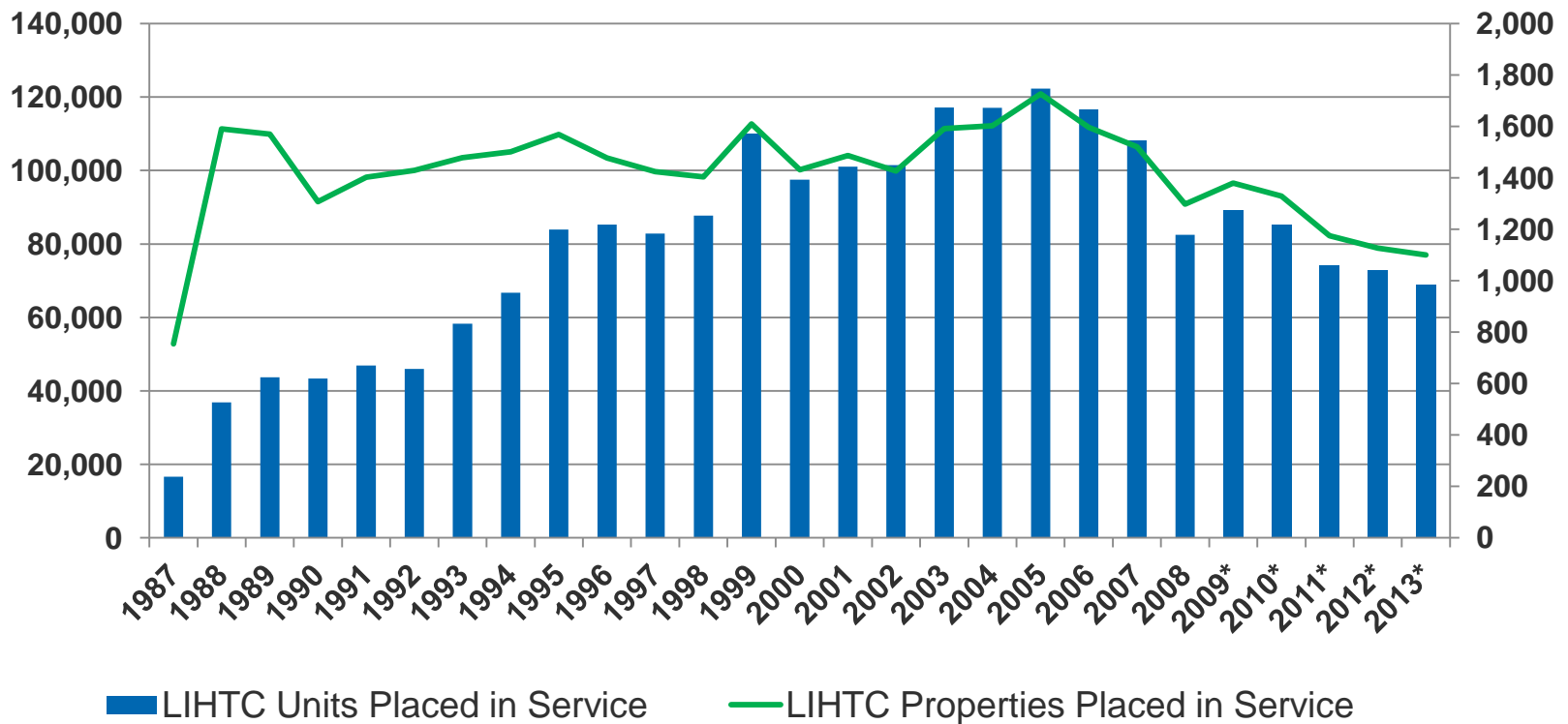
Subsidy Program Name	Number of Projects	Number of Units
LIHTC	35,000	2.0 Million
Project Based Section 8	22,500	1.6 Million
Public Housing	7,000	1.1 Million
Rural Housing Service 515	14,600	420,000
HOME	11,000	386,000
Section 236	1,300	138,000
Section 202	2,600	134,000
Section 221 Below Market Interest Rate	300	31,000
Rural Housing Service 538	400	20,000

Source: HUD Low Income Housing Tax Credit Database as of September, 2013, National Low Income Housing Coalition Preservation Database

Multifamily Affordable Housing: States Target Preservation

The number of LIHTC units placed in service has been declining steadily since 2005...

Low Income Housing Tax Credit Units (LIHTC) Projects placed in Service since 1987



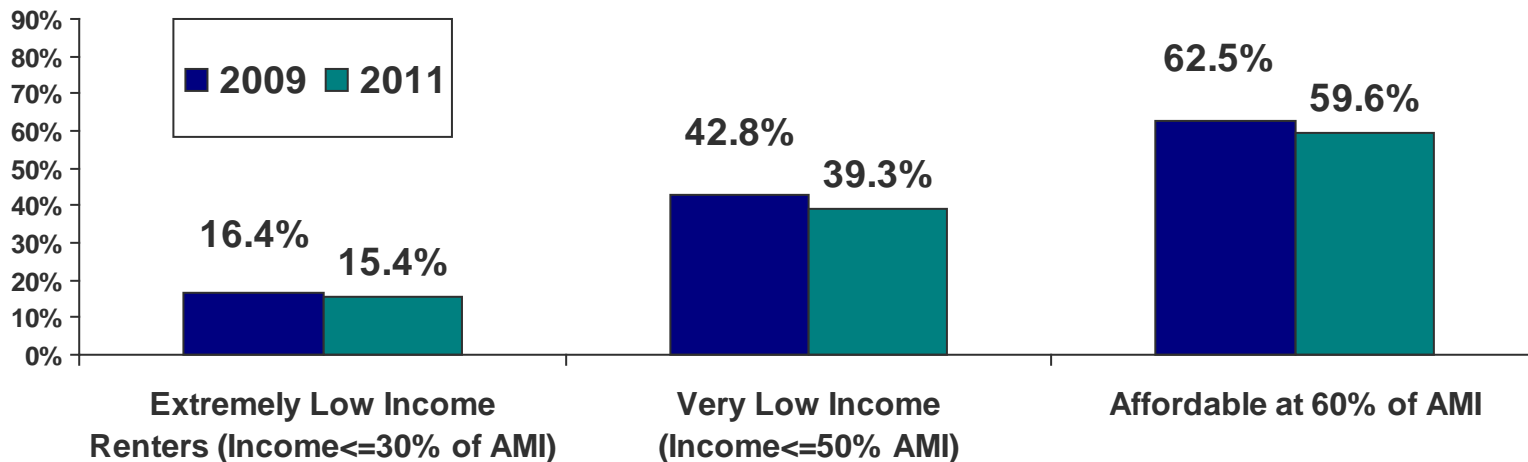
Source: HUD Low Income Tax Credit Database as of October 1987-2008; Integratec Estimates based on HFA allocations 2009-2013

* Integratec assumed 15% of the current year allocations, 60% of the prior year allocations and 25% of two years prior allocations would be placed in service. For example, 2010 reflects 15% of the 2010 allocations, 60% of the 2009 allocations, and 25% of the 2008 allocations.

Multifamily Affordable Housing: States Target Preservation

...and the number of units affordable to Very Low Income renters declined by 200,000 units to 6.3 million in 2011.

Relative Proportion of Affordable Multifamily Housing 2011 vs. 2009



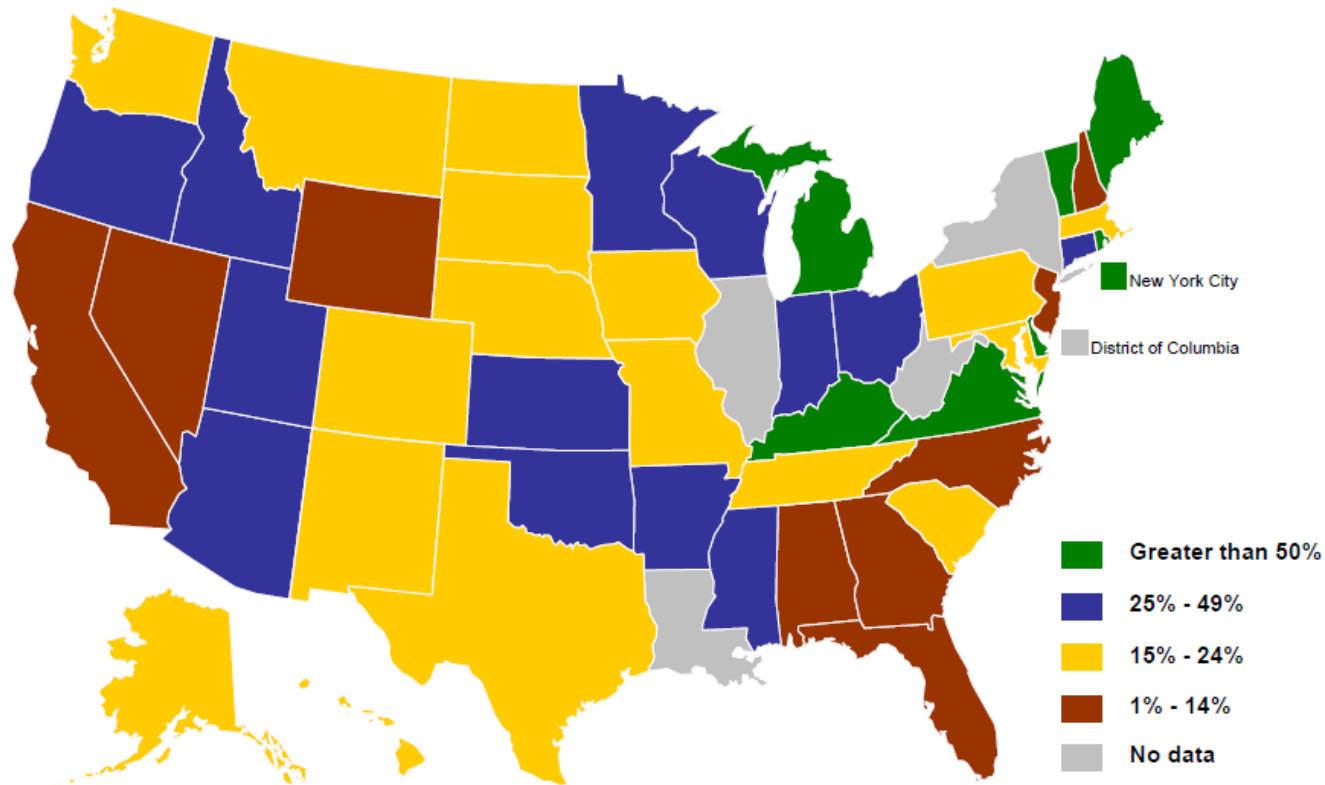
Source: Fannie Mae, 2011 American Housing Survey

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

Multifamily Affordable Housing: States Target Preservation

Since at least 2008, states have been targeting tax credits for Preservation...

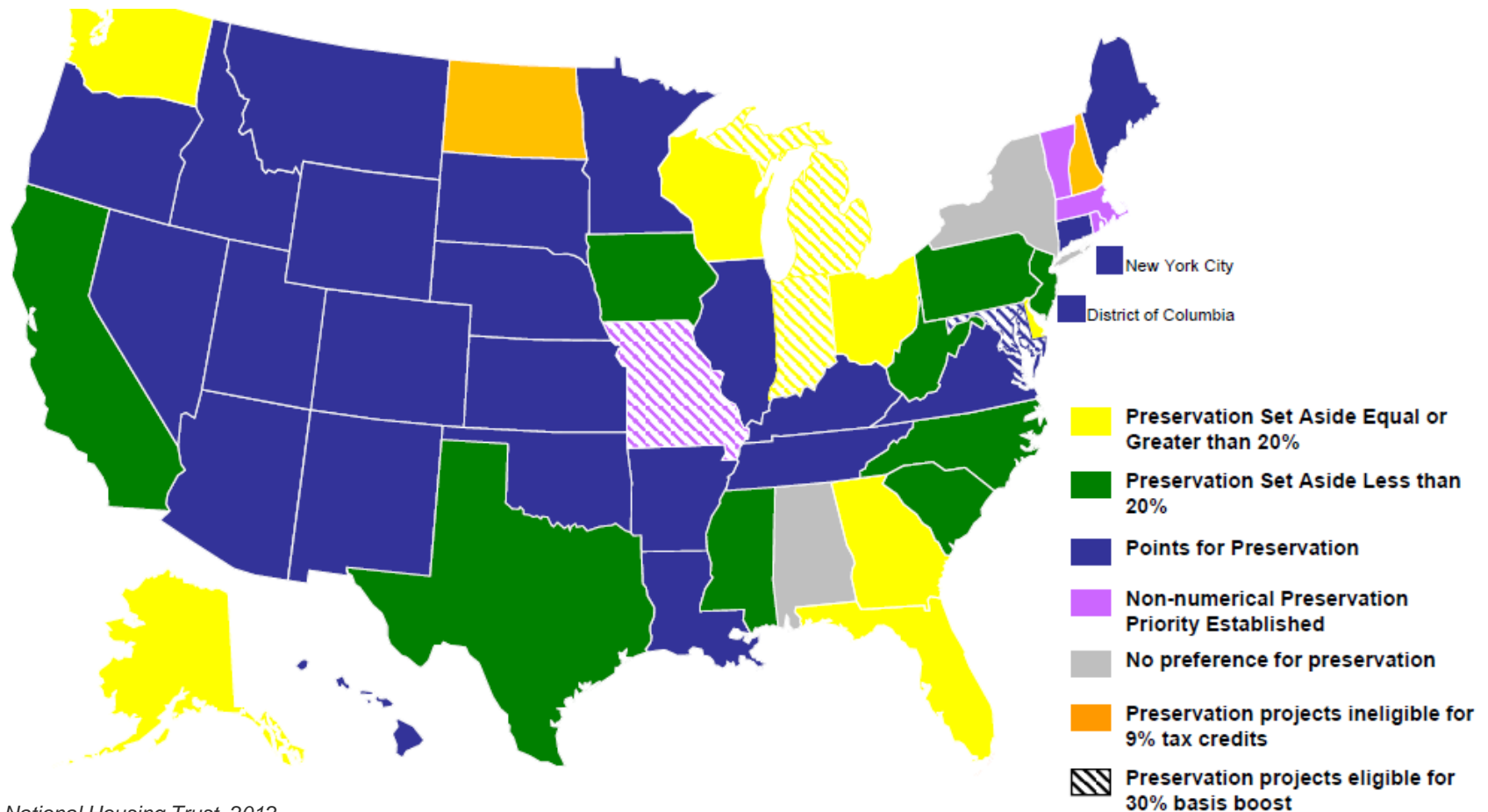
Percent of 9% LIHTC Allocated to Preservation 2008-2009



Source: National Housing Trust, November 2010

Multifamily Affordable Housing: States Target Preservation

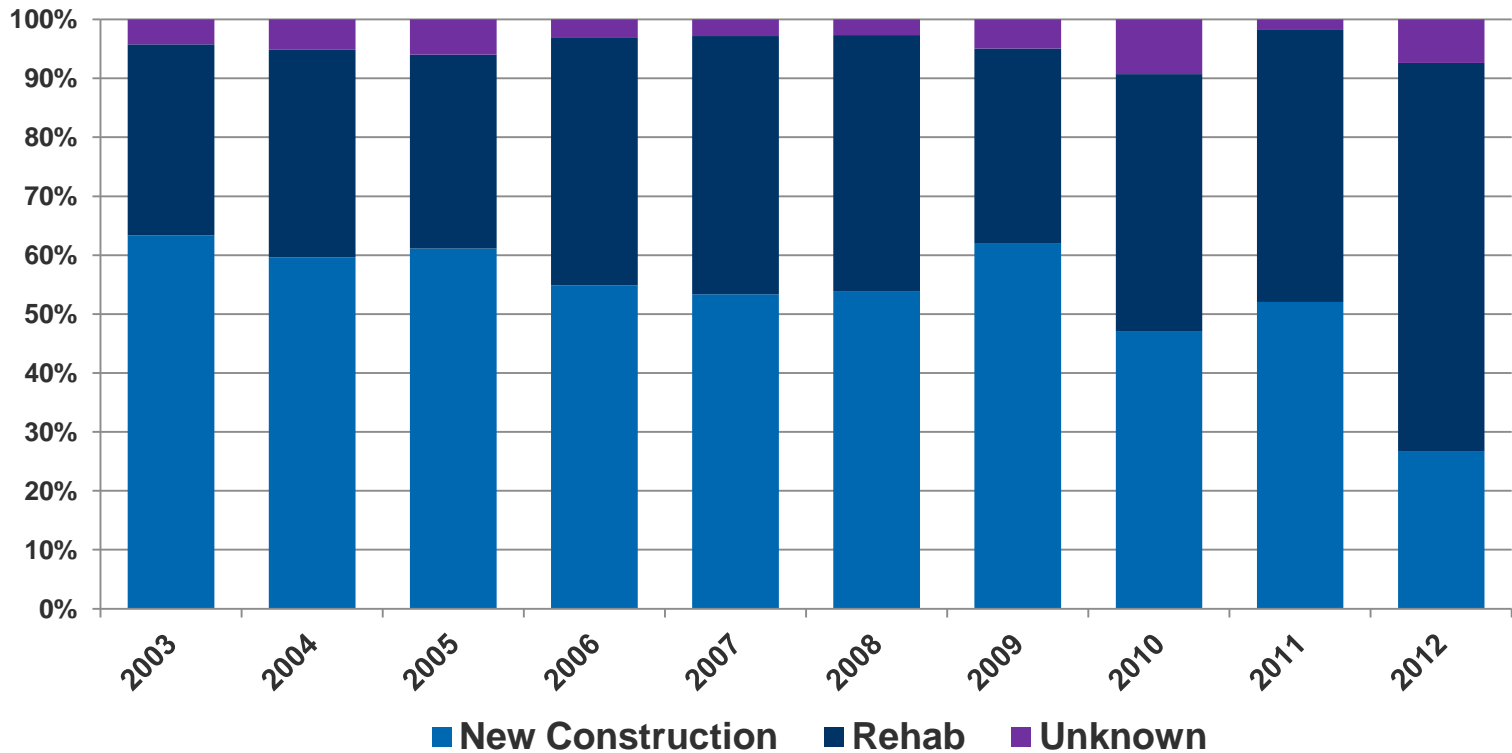
...and are continuing to do so in recent Qualified Allocation Plans...



Source: National Housing Trust, 2012

Multifamily Affordable Housing: States Target Preservation

...correspondingly, the number of units preserved with tax credits appears to have increased.

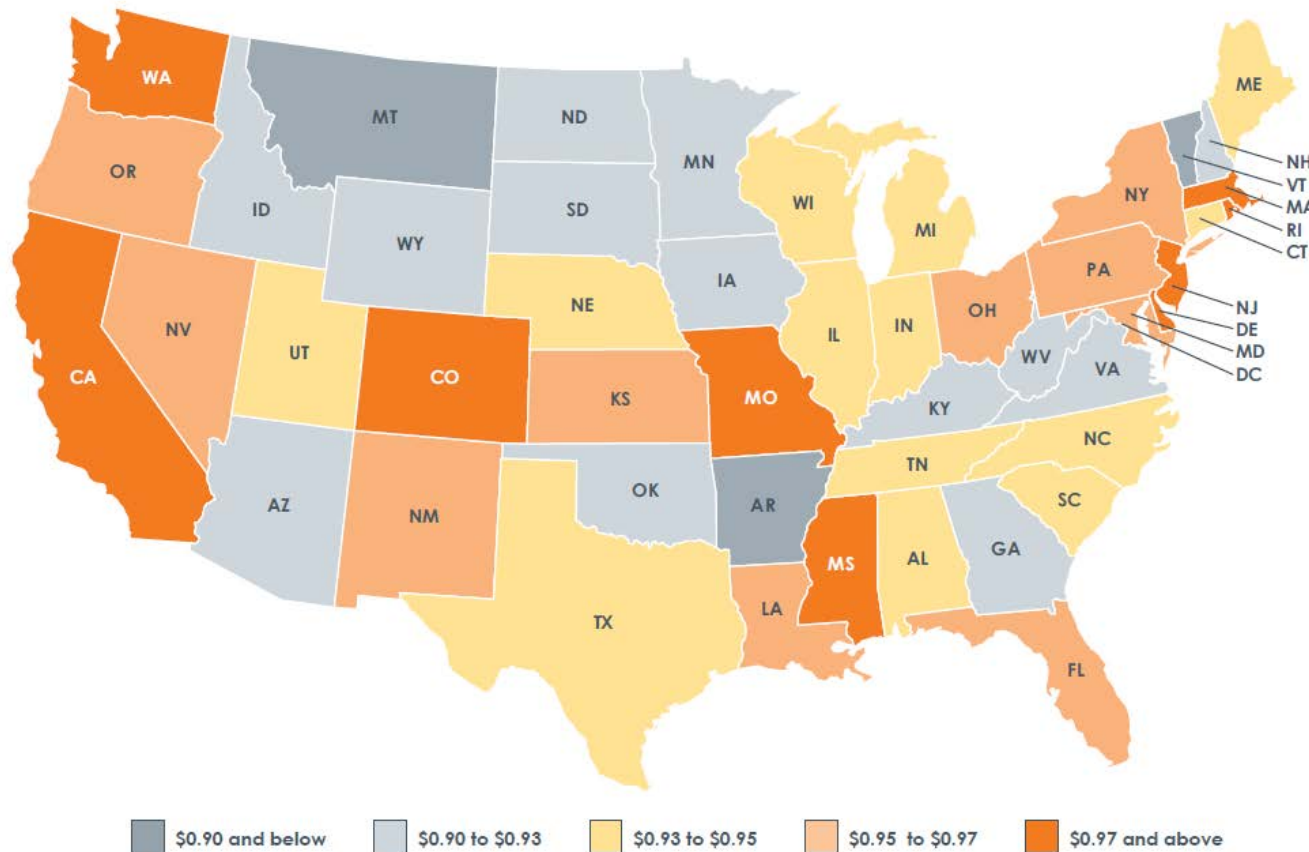


Source: HUD Low Income Housing Tax Credit Database as of September, 2013. Note that 2012 data is based on data reported for 22 projects only.

Multifamily Affordable Housing: “CRA Hot” Markets

With banks focused on projects with the highest CRA investment return, preservation efforts may become more difficult in some states.

2005-2007 Statewide Median Housing Tax Credit Pricing



Source: *The Community Reinvestment Act and Its Effect on Housing Tax Credit Pricing – CohnReznick 2013*

Fortunately:



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