



Multifamily Market Commentary – June 2019

State and Local Programs Help Increase Affordable Supply

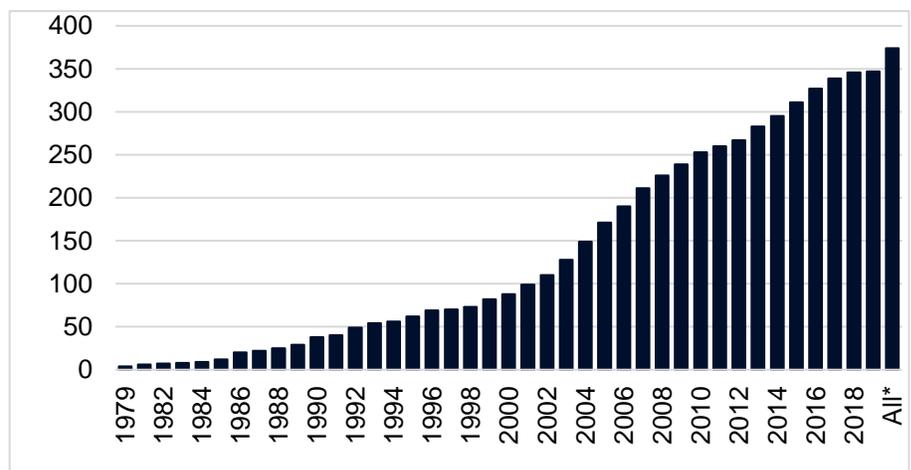
As the affordable housing crisis has deepened, many state and local governments have started to address the need for affordable housing through the creation of programs focused around public assets such as government-owned land or funds, or through local regulation of development. These programs often exchange these public assets for long-term rent restrictions. While they take many forms, they all help to incrementally increase the supply of affordable rentals.

Number of Inclusionary Housing Programs Growing

Inclusionary housing refers to programs or policies that require or incentivize the creation of affordable housing when new development occurs, including impact or linkage fees that generate revenue for affordable housing.

Recent survey data from the non-profit Grounded Solutions Network shows that the number of programs has been growing. While there have been programs as far back as 1979, over 75 percent of the programs which provided data have been developed since 2000. In fact, many jurisdictions have more than one program - San Diego has four different inclusionary housing programs.

Cumulative Number of Inclusionary Housing Programs Adopted by Year



Source: Grounded Solutions Network

* Includes programs with an unknown year of adoption

Long-Term Affordability

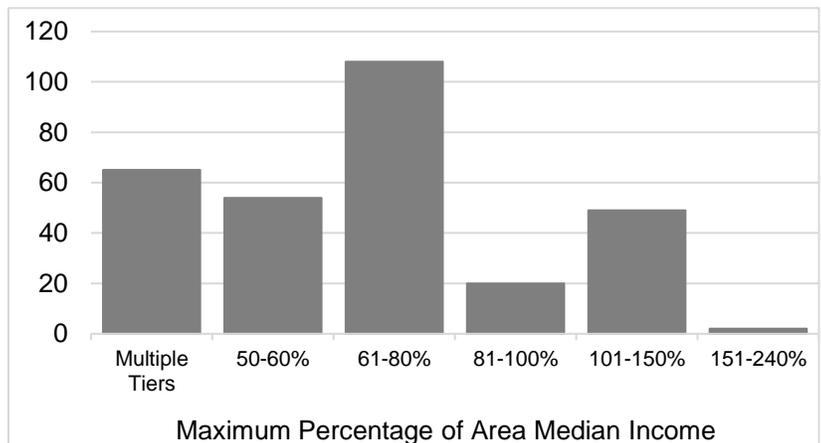
According to the paper *Inclusionary Housing in the United States: Prevalence, Impact, and Practices* released in September 2017 by the Lincoln Institute of Land Policy, state and local governments require that the new supply developed with these programs remain affordable long-term. Approximately 90 percent of all programs participating reported affordability terms of at least 30 years.

Most Programs Serve Low Income Renters

Many state and local programs served renters at multiple income levels within a single jurisdiction. However, the majority of programs with a single level of affordability limited the rent-restricted units to low income renters, or those renters earning up to 80 percent of area median income (AMI) for their city.

Based on 298 state and local programs serving renters, just under 165 programs served renters earning up to 80 percent of AMI for their city. Another 51 served renters who earn over 100 percent of the median income for their city.

Maximum Income Level by Rental Program



Source: Grounded Solutions Network



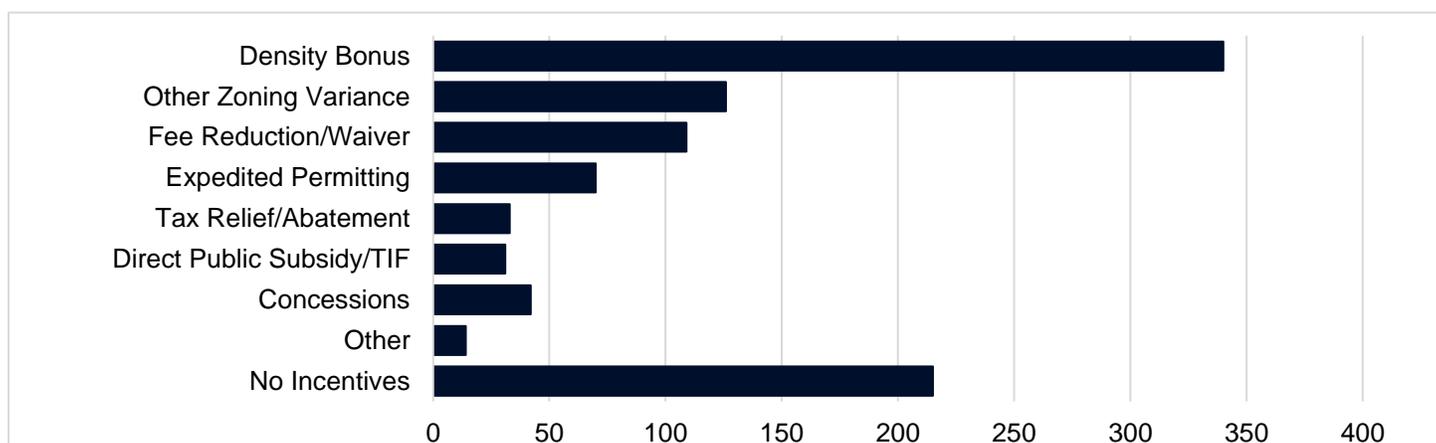
Land Use Regulation Can Affect Supply

Most local jurisdictions have regulations governing development of new residential housing. These regulations can mandate the minimum number of square feet for an apartment, limit the height of an apartment building, or limit the number of apartments which can be included in a new property in a given neighborhood. Other land use regulations can dictate building design, such as the amount of open space in a property, or even the type of material permissible for a building façade. These land use regulations can increase development cost making it more expensive to build new apartments.

Development Incentives Increase Affordable Supply

Recognizing this, many local government agencies are starting to provide incentives to developers to include affordable units in new, primarily market rate, properties. Incentives can include density bonuses or other zoning variances, an expedited permitting process, and fee reductions. Other incentives include relaxed development standards such as reducing or eliminating parking requirements, or reducing open space requirements around buildings, such as balcony or terrace space.

Number of Awards for Developers in Inclusionary Housing Programs by Type



Source: Grounded Solutions Network

Relaxed Land Use Rules Offset Costs

As shown in the chart above, the two awards used most often to incentivize development of new affordable supply in market rate developments involve land use regulation. About 350 jurisdictions provide a density bonus. This is, by far, the incentive used most frequently to create new affordable supply by state and local governments. Density bonuses permit developers to build more units on the same amount of land. In turn, this allows developers to offset the cost of providing a share of new apartments with a restriction on rent to keep them affordable. Other zoning variances are also fairly popular and are awarded by about 125 jurisdictions, which also helps reduce the cost of construction.

Tax Abatement Offsets Cost

Another financial incentive state and local governments use to encourage developers to include affordable rentals in new market rate developments is tax abatement. Seattle’s Multifamily Tax Exemption (MFTE) program provides a 100 percent tax exemption lasting 10 to 12 years for buildings that set aside 20 percent of homes as income-restricted for a range of low- and moderate-income households. According to the city of Seattle, between 1998 and May 2018, the MFTE program created approximately 4,000 rent-restricted homes in more than 190 apartment buildings.



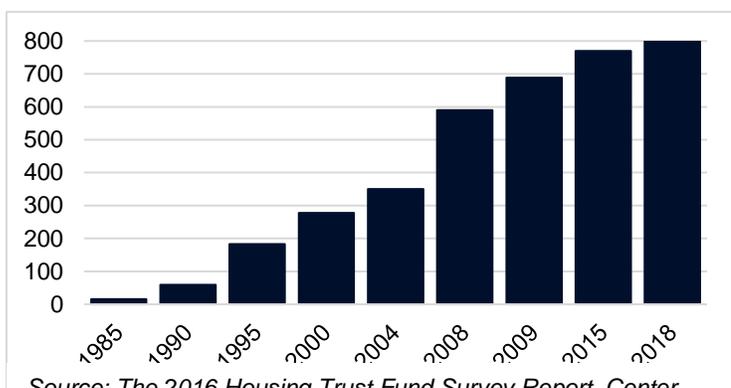
Public Financing Also Increases Affordable Supply

State and local governments also have organizations which finance affordable housing for working renters. Community Development Funding Institutions (CDFIs), land banks, community development corporations, and community land trusts are some of the local institutions that provide financing for all types of affordable housing.

Dedicated Housing Trust Funds

State and City Housing Trust Funds (HTFs) have also begun to emerge as an important source of funding for affordable housing for working renters. According to the Community Change Housing Trust Fund Project, HTFs are distinct funds established by city, county, or state governments that receive ongoing dedicated sources of public revenue to support the preservation and production of affordable housing. In many cases, the funds do not have to go through an appropriation or budgeting process, making them a more reliable source of funding.

Cumulative Number of Housing Trust Funds 1985 - 2018



Source: The 2016 Housing Trust Fund Survey Report, Center for Community Change

Regional Housing Trust Funds Growing

The number of HTFs has been growing. According to the Housing Trust Fund Project, there are about 800 city, county, and state HTFs operating in 48 states. These HTFs provide over \$2.5 billion in funds annually to support affordable housing supply, including rentals.

Generally, the financing is provided in exchange for maintaining the property's affordability. For instance, virtually all city HTFs have long-term affordability requirements. According to the Community Change HTF project, virtually all the city HTFs surveyed attached affordability requirements to funding rental properties ranging anywhere from 15 years to in perpetuity.

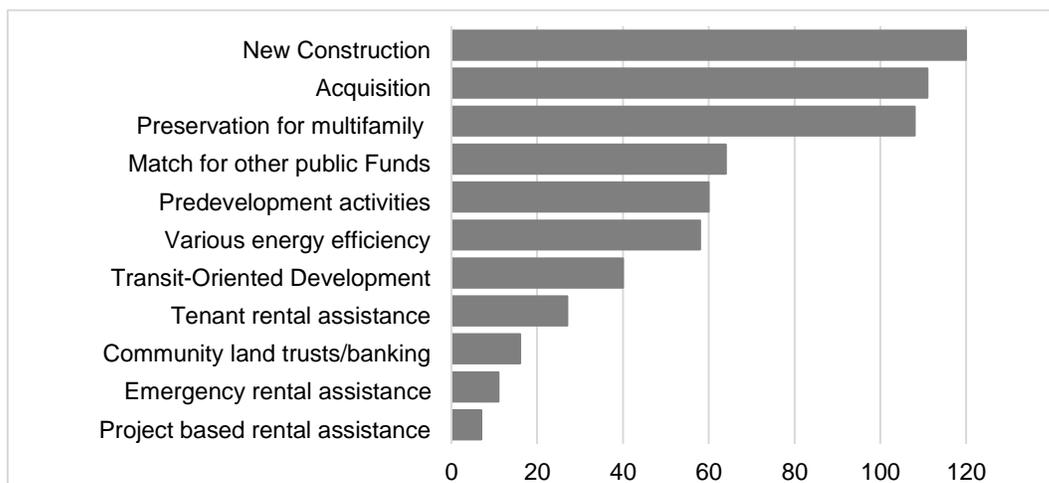
Trust Funds Help Working Renters

These funds can be particularly helpful in developing and preserving housing for workers who need affordable rentals but earn too much to live in housing subsidized by Low Income Housing Tax Credits (LIHTC) and properties subsidized with Project-based Section 8. For example, the city of Albuquerque has an entire trust fund dedicated to workforce housing aptly-named the "Workforce Housing Trust Fund."

Housing Trust Funds Support New Apartments

As shown in the adjacent chart, HTFs support a variety of activities related to the construction of new affordable apartments, including funds for predevelopment activities. Approximately 120 HTFs are funding new construction and more than 60 support pre-development activities.

Number of Housing Trust Funds by Multifamily Activity



Source: The 2016 Housing Trust Fund Survey Report, Center for Community Change; excludes non-multifamily programs



Trust Funds Also Help Lowest Income Working Renters

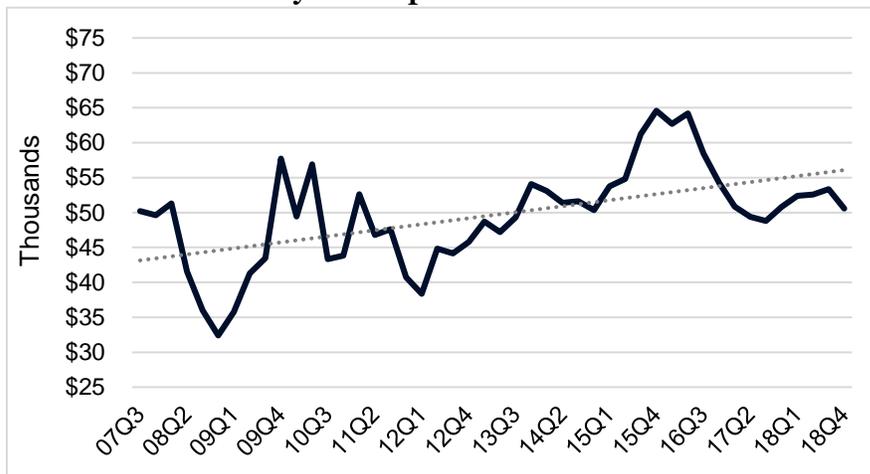
HTF have flexibility and serve a wide variety of working renters. In 2001, the Charlotte, North Carolina City Council established an HTF to provide financing for affordable housing. Since that time, the Housing Trust Fund has financed 5,509 new and rehabilitated affordable housing units. According to the city, of that total, 2,874 were for people earning less than 30 percent of AMI, making Charlotte more affordable for pre-school teachers, health-care aides, and workers in hospitality, retail and emergency services.

Public Land Can Decrease Supply Costs

While the cost of land can be volatile, as seen in the chart to the right, the cost of buying land has risen on average since the end of the Great Recession. At the end of Q4 2018, the cost of a parcel of land had risen by just under 25 percent. This adds to the cost of building new apartments, making new apartments less affordable.

However, many state and local governments have publicly owned land in their possession that they can provide to developers to offset the cost of developing new affordable apartments. These publicly owned parcels can be sites owned by all sorts of government agencies, including the department of housing and public works, transit agencies, and even schools.

Multifamily Development Site Land Prices



Note: Prices are per buildable unit, based on a trailing 12-month average
Source: Real Capital Analytics

Cities Provide Public Land

According to the report *Public Benefit from Publicly Owned Parcels* released by Enterprise Community Partners in 2017, many state and local governments are adopting this approach. The report notes that Los Angeles launched a program to identify and make available surplus public land for affordable housing development. The city selected developers for 32 city-owned sites that are expected to result in an estimated 1,700 affordable units, including 800 units for chronically homeless individuals.

Fannie Mae Finances Rent Restricted Properties

Fannie Mae finances properties with rent restrictions apart from those produced by the LIHTC and Project-based Section 8 programs. In 2018, Fannie Mae financed an estimated \$1.4 billion for properties with rent restrictions between 60 percent and 80 percent of AMI. As shown in the adjacent chart, this was in line with the \$1.4 billion that was financed in 2017.

Fannie Mae Multifamily Acquisitions with Rent-Restrictions (60% - 80% of AMI)



Source: Fannie Mae

Fannie Mae Increases New Supply

Fannie Mae's Special Public Purpose lending product finances properties with third-party deed restrictions that fall outside of the LIHTC and project-based Section 8 programs. These include properties which add new affordable supply. For example, last year Fannie Mae provided \$37 million of permanent financing on 188 new apartment units in the East Main Apartments property located in Norton, MA, under the state's 40B program. Construction was



completed in 2017, with 47 new apartments dedicated to low-income renters.

Other State and Local Programs

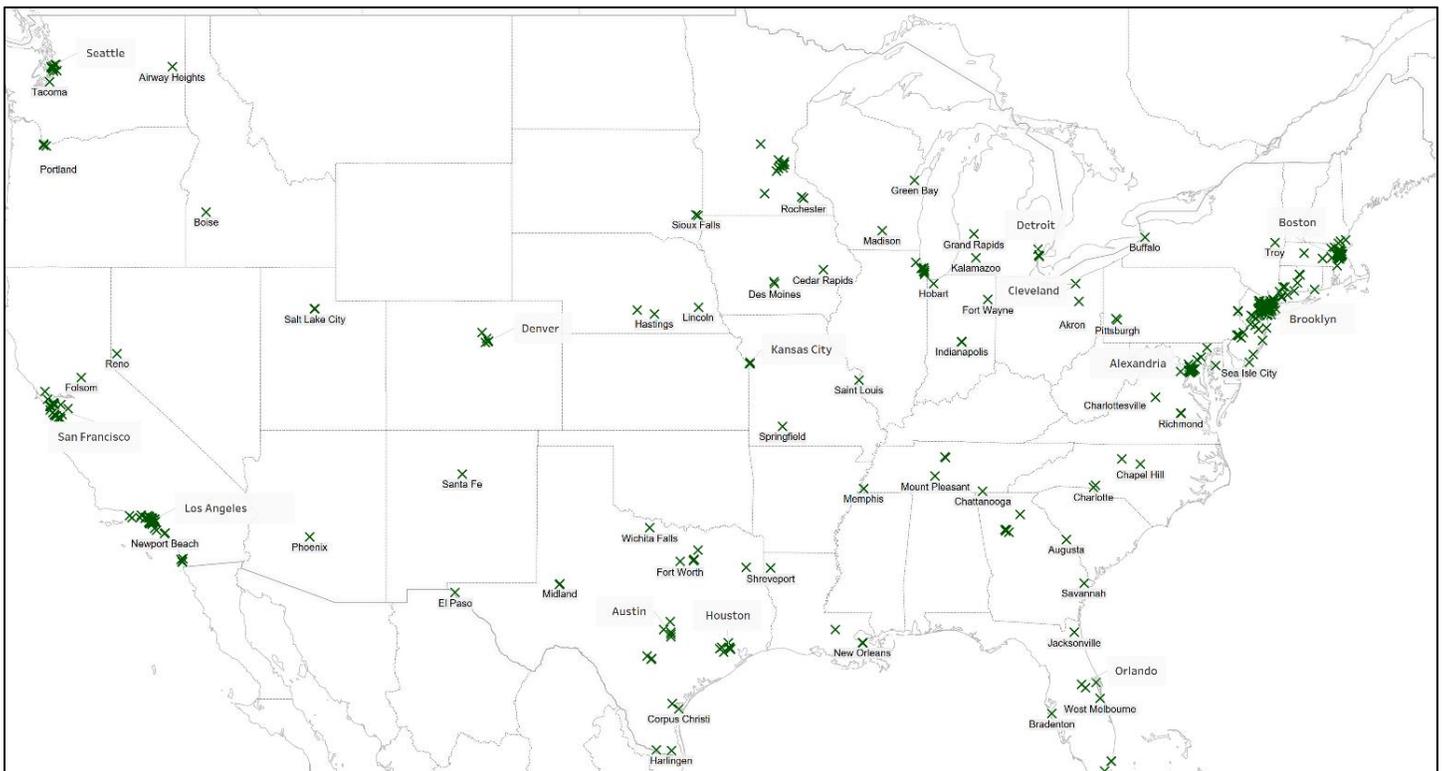
Fannie Mae has financed properties under many other state and local programs. In addition to loans issued under the Massachusetts 40B program, other loans have included New York City's 421a Exemption program, which provides a tax abatement, and the Miami-Dade County Workforce Housing Development program, which provides density bonuses and other incentives for the development of workforce housing.

Market Rate Properties Nationwide Adding Affordable Supply

According to data from CoStar, there are just over 500 new properties under construction that consist of primarily market rate units, but they all have a share of units set aside to be affordable. This represents just under 10 percent of all multifamily properties under construction. These properties are located across the country, as shown in the map below.

Some metros have a high number of these projects. New York City and Los Angeles each have over 30 such projects under construction. Boston and San Francisco each have between 20 and 30 such projects.

Market-Rate Properties Under Construction with Some Percentage of Affordable Units



Source: CoStar.

Excludes student, senior, and military housing properties. Excludes properties under construction in Alaska and Hawaii



State and Local Programs: A Clear Benefit for Affordable Housing

There is some concern that the growth in state and local programs may have a detrimental effect on rents for market rate apartments. The concern is that while units set aside in market rate developments to be rent-restricted will be affordable to low income renters, rents for market rate units will rise as developers seek to recoup costs on affordable units.

This could be the case in some metros with mandatory inclusionary housing and no offsetting incentives. However, many state and local governments offer incentives such as tax abatements, low-cost debt financing, free or reduced land, and density bonuses. In these cases, state and local government programs can be an effective tool for increasing the supply of affordable housing without too much disruption to local market dynamics.

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