New Analysis Highlights Benefits of Rent-Restricted Properties

March 20, 2018

Paper Charts Growth Trajectory of LIHTC Rents vs. Market Rate

MCLEAN, VA -- (Marketwired) -- 03/20/18 -- A new analysis by Freddie Mac (OTCQB: FMCC) has concluded that over the last five years, individuals living in apartments with rents restricted through the Low-Income Housing Tax Credit (LIHTC) program have saved thousands of dollars annually compared to similar, market-rate properties.

Authored by Freddie Mac Multifamily's Research and Modeling team, the new research looks at nine representative counties across the United States and concludes that in those areas, the average LIHTC restricted rent was 38 percent lower than the average market rate rent in 2017. The paper goes on to point out that, averaged across the surveyed markets, a renter in a market-rate, two-bedroom unit spent $7,500 more per year than a renter in a similar LIHTC property. In higher cost areas, this difference totaled more than $22,000.

"Our analysis shows that in a given year, renters living in LIHTC and other rent-restricted properties can save thousands -- even tens of thousands -- of dollars in rent," said Steve Guggenmos, vice president of Research and Modeling for Freddie Mac Multifamily. "Our research shows that while rent growth in restricted properties has been measured and predictable, market-rate rents have grown quickly and unevenly, because rental housing demand exceeds supply. It also illustrates the hardship faced by families who qualify for rent-restricted properties but cannot find a unit due to lack of supply -- a reality that can cost an already-struggling family substantial sums of money."

The paper compares average market-rate rents against restricted rents for two-bedroom units in nine counties across the country (see below), looking at four in-depth. It concludes that between 2012 and 2017, market rent increases ranged from 1.6 percent to 7.9 percent annually. This averaged 5 percent annually. Annual rent spikes of more than 7 percent took place in seven of the markets.

During the same period, restricted rents saw stable and measured growth. Changes ranged from -0.7 percent to 3.2 percent annually, and averaged 0.9 percent per year. The greatest annual rent spike was less than 5.5 percent. This means that in 2017, a tenant in a market-rate unit spent anywhere from $7,500 to $22,000 more per year than a tenant in a similar, LIHTC-restricted rent unit. While restricted rentals will continue to be much more affordable, the paper does predict that formulas determining restricted rents suggest increases in the coming two years.

According to the paper: "Renters in units with restricted rents enjoy significant benefits over their counterparts in market-rate housing, many of whom qualify for restricted rents but due to the lack of available supply are unable to benefit...For those households that qualified for, but were unable to move into rent-restricted housing, the substantial market-rate rent increases since 2012 are causing serious financial hardship."

Annualized County Rent Growth Rate Comparison, 2012-2017

County	***Metro Area***	***Rent Calculation***	***Restricted Rents***	***Market-Rate Rents***
Bernalillo County, NM	Albuquerque, NM	60% AMI	0.0%	2.2%
Davidson County, TN	Nashville, TN	60% AMI	0.5%	7.9%
Hennepin County, MN	Minneapolis, MN	60% AMI	1.5%	5.9%
Hudson County, NJ	New York, NY	40% FMR	3.2%	1.6%
Los Angeles County, CA	Los Angeles, CA	40% FMR	1.3%	5.7%
Orange County, FL	Orlando, FL	60% AMI	0.1%	5.5%
Riverside County, CA	Los Angeles, CA	40% FMR	-0.7%	4.9%
Salt Lake County, UT	Salt Lake City, UT	60% AMI	1.1%	5.6%
Travis County, TX	Austin, TX	60% AMI	1.4%	6.2%
9 County Average:			***0.9%***	***5.0%***

Sources: Freddie Mac, Yardi Matrix, Axiometrics, and Novogradac & Co.

The paper can be viewed here.

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