Freddie Mac Research Shows What It Takes to Offer Affordable Housing in High-Cost, High Opportunity Markets

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Case Studies in California, Hawaii and Washington Demonstrate Affordable Multifamily Development in High Opportunity Areas

MCLEAN, Va., Dec. 03, 2019 (GLOBE NEWSWIRE) -- Freddie Mac (OTCQB: FMCC) released a Duty to Serve white paper detailing how unique financing structures allowed for affordable rents in the high-cost metro areas of Honolulu, Hawaii; San Jose, California; and Portland, Oregon. The three properties studied are in high opportunity areas, which offer unique social and economic benefits to residents but are often constrained by high land and construction costs, lack of buildable land and zoning restrictions.

"Improving access to affordable housing in high opportunity areas can be especially difficult," said Steve Guggenmos, vice president of Multifamily Research and Modeling at Freddie Mac. "The case studies we analyzed in our new report show that a diverse capital stack and an array of community stakeholders are often essential to success. We hope the lessons from these properties can be applied in other markets as well."

Kalani Gardens in the Honolulu Metro Area
The cost of housing across the state of Hawaii is driven up by several obstacles, but perhaps most notable is the scarcity of buildable land coupled with high demand for housing. These factors drive up construction costs in the state, making building and operating an affordable rental property economically challenging.

Freddie Mac's research highlights the success of Kalani Gardens in Mililani, Hawaii. Located 20 miles north of Honolulu, residents of this property have access to excellent schools and convenient access to major roads leading to Honolulu and the military bases in Oahu. In order to provide affordable housing in this high-income area, the property required multiple layers of subsidy, including Low-Income Housing Tax Credits (LIHTC), Section 8 and Section 236. The average rent on this property in 2019 ($1,187) is nearly half the average market rent ($2,208), per RealPage. Income limits and rental-increase restrictions ensure this property remains affordable regardless of market rate rent growth.

Studio 819 Apartments in Silicon Valley
Silicon Valley is often regarded as a center of economic prosperity and growth. Over the last five years the employment base in the county of Santa Clara, California grew by 10.1% compared with 7.4% nationally. Despite the area's high wages and attempts by local governments to rein in rent increases through regulation, rent growth continues to outpace wage increases, causing many residents to feel burdened by housing costs.

Freddie Mac's research highlights affordability at Studio 819 Apartments in Mountain View, California where rents are between $768 to $1,153 – substantially lower than the market rent in this submarket of $2,419. To maintain low rents, the property relies on an array of federal tax credits and subsidies, soft debt from the City of Mountain View, and a loan from a Community Development Financial Institution (CDFI).

Teal Pointe in the Portland, Oregon Metro Area
The percentage of multifamily rental units affordable to very low-income households in the Portland Metropolitan area has dropped by 46.8% from 2010 to 2017 – the largest drop among the nation's top 50 metro areas. As a result, construction and preservation of affordable housing has become increasingly important as has the diversification of sources of finance for these properties.

A success story in this market is Teal Point where average rents are $873 compared with the submarket average of $1,242, per RealPage. Teal Pointe is in Clark County, Washington where total employment growth has outpaced the national average by a substantial margin (15.7% compared with 7.5%) and a robust public transportation system allows residents to easily commute to Portland, Oregon. Teal Pointe was the first property to receive financing from Freddie Mac's mezzanine funding pilot program, which has since ended. As a result of that financing and a LIHTC investment, Teal Pointe did not need to rely on city funding, freeing up local funding for other affordable housing investments.

Details for each of the case studies are available in the white paper, titled "Affordable Housing in High Opportunity Areas". The research is part of Freddie Mac's three-year Duty to Serve plan to increase rental and homeownership opportunities in historically underserved markets throughout the nation.

Freddie Mac Multifamily is the nation's multifamily housing finance leader. Historically, more than 90% of the eligible rental units we fund are affordable to families with low-to-moderate incomes earning up to 120% of area median income.

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