New Freddie Mac Analysis Finds Widening Shortfall of Affordable Rental Units

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MCLEAN, VA--(Marketwired - Oct 23, 2017) - A new report pdf issued by Freddie Mac (OTCQB: FMCC) has found that over the past six years, the already-acute shortfall of affordable rental units has widened considerably.

The research, released by Freddie Mac Multifamily, finds that a combination of increasing rents and stagnant household incomes is causing the growing problem, which could become worse if actions are not taken to increase the supply of affordable units commensurate with the increasing demand from lower-income renters. Previous Freddie Mac research has found that growing demand and rising costs of land and construction have led to a widening supply gap -- with the country experiencing an annual shortfall of approximately 400,000 housing units, even when taking single-family starts into account.

The report takes a new approach to analyzing affordability, looking at loans that Freddie Mac Multifamily financed multiple times between 2010 and 2016. The results found that at the first financing, 11.2 percent of the total number of underlying rental units across the United States were categorized as affordable to very low-income (VLI) households with incomes no greater than 50 percent of area median income (AMI). At the second financing, rents had increased so significantly that just 4.3 percent of the same units were categorized as affordable to VLI households. This amounts to more than a 60 percent reduction in the number of units deemed affordable to VLI households.

"Our analysis looked at the affordability of the same rental units at two close but different points in time. In a matter of just a few years, we found that a large number of units previously affordable to very-low income families could no longer be considered affordable," said Steve Guggenmos, vice president of Freddie Mac Multifamily Research and Modeling. "This is a trend that is worsening, and Freddie Mac is working to better understand and develop offerings that meet the needs of this market. This report, and innovative offerings like our Targeted Affordable Housing and Small Balance Loan programs, are part of that effort."

The analysis also looked at nine states where Freddie Mac Multifamily financed the most rental units twice during this six-year period. While the overall change in affordable VLI units varies greatly by state, the report finds that in seven of the states, a significantly smaller percentage of rental units qualified as VLI during the second financing. These include Texas, Georgia, Colorado, North Carolina, Arizona, Nevada and Washington State. In Colorado, for example, the number fell from 32.4 percent to just 7.5 percent of units. In North Carolina, it plunged from 9.8 percent to just 0.3 percent.

While Florida and California did see increases in the number of units considered VLI, it was minimal (0.1 percent and 0.2 percent, respectively), and the percentage of units in the two states stayed below 3 percent during both financings. In California, the number of rental units affordable to even median-income renters, earning between 80 percent and 100 percent of AMI, fell from 73.4 percent in the first financing to 39.4 percent by the second financing.

Freddie Mac also looked at broader market data to ensure these results were consistent with overall market trends.

The report concludes, "Significant research on market trends suggests worsening affordability in the rental market. Our property-specific analysis further illustrates the issue. The affordability gap will continue to widen if no action is taken. Even as Freddie Mac Multifamily funds units that are affordable to lower-income renters, those units will not stay affordable for long if rents grow at market-level rates. To make a real, lasting difference, those of us participating in the multifamily rental housing market must make sure that we understand market needs. There are factors that make things difficult and are not easily controlled, such as land and construction costs. But as we source capital to the rental market, we need to look for opportunities to carefully target capital to build and maintain units that are affordable to lower-income households, especially those that have incentives to stay that way."

The report also points out that despite these dramatic changes in affordability, Freddie Mac Multifamily has consistently met its mandated affordable housing goals. It has done so by developing offerings that allowed for the growth into markets that support affordability. Those offerings include enhancements to its Targeted Affordable Housing business and its Small Balance Loan program, which in 2016 funded 36 percent and 30 percent of its VLI units, respectively.

Click here pdf to view the report.

Freddie Mac Multifamily is the nation's multifamily housing finance leader. Nearly 90 percent of the rental homes we fund are affordable to families with low to moderate incomes.

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