



# CHAM 2016 Plenary Session: The Economics of the Affordable Housing Space in America

Affordable Housing Demand, Supply,  
Opportunities, Capital Costs and Value Trends

Daniel J. Hogan, Director of Research

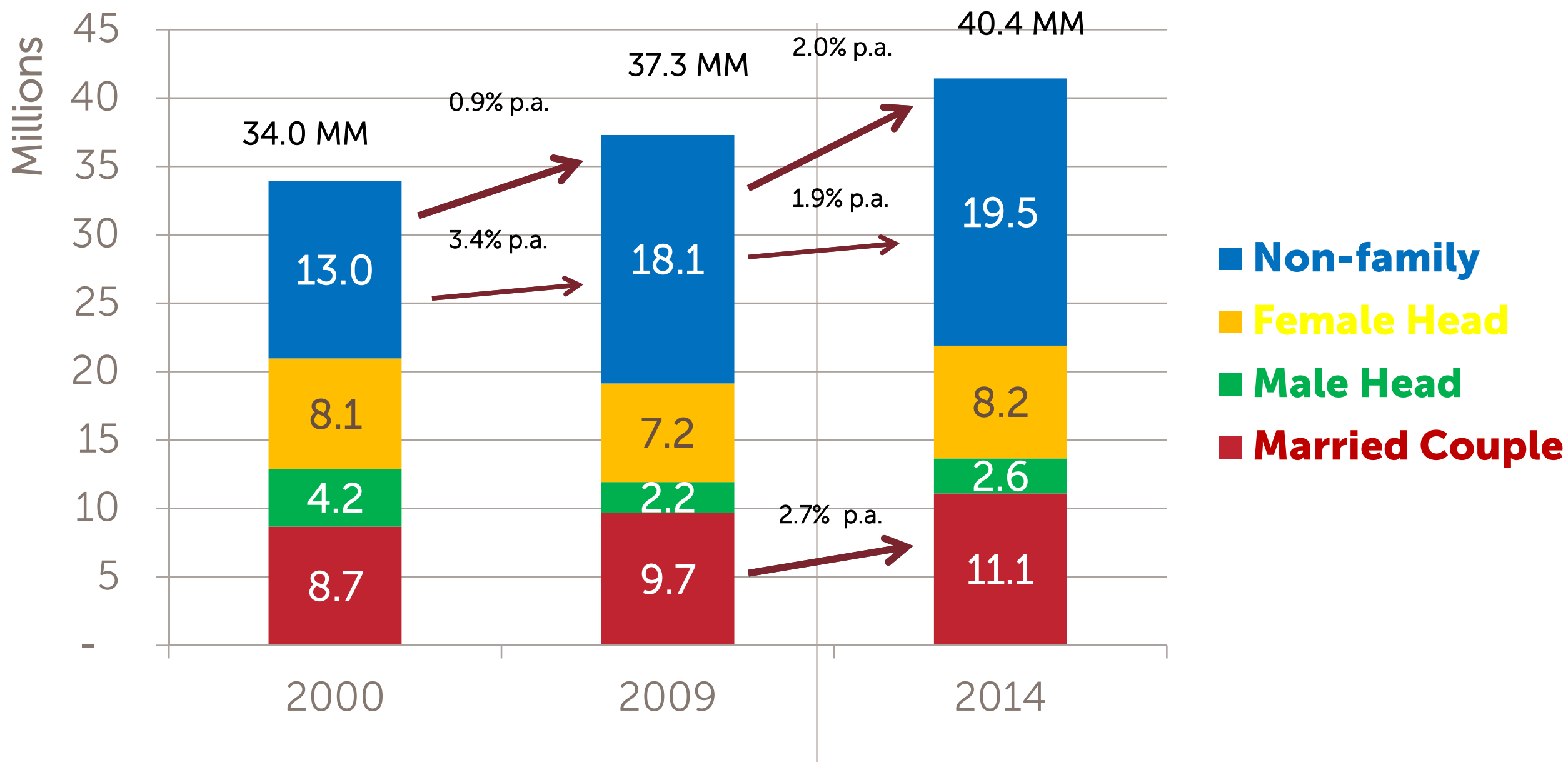
## Agenda

- The Scope of the Problem: Rent Burdens in America
- Household Income and Rent Trends: Critical Divergence
- The Supply Side: Affordable Housing Supply
- Using Market Rate Data to Identify Promising LIHTC Markets
- Affordable Housing Capital Cost Trends
- Property Value Trends in the Affordable Housing Space

# SECTION ONE: SCOPE AND TRENDS OF RENTAL HOUSING AFFORDABILITY IN AMERICA

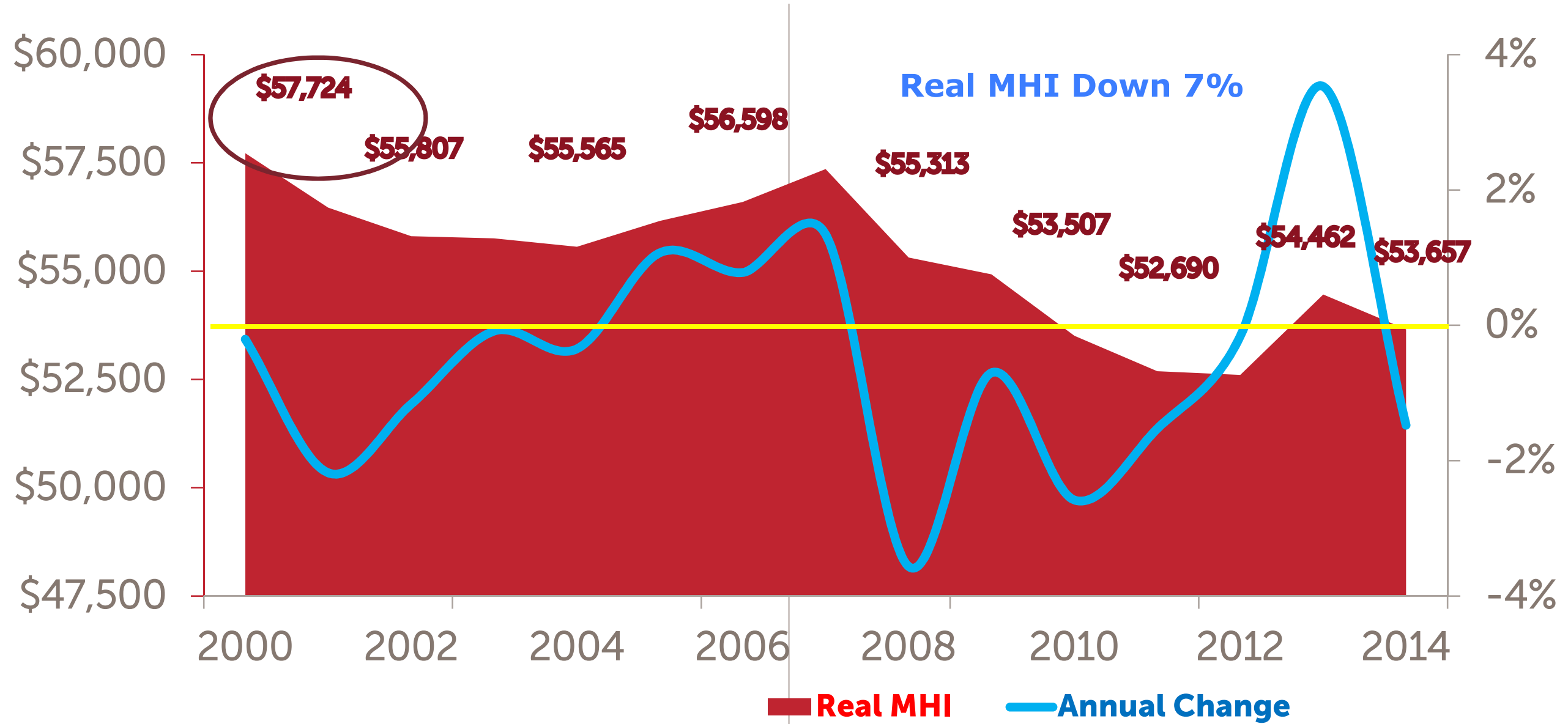
# Renter Household Growth in America

Source: Census Bureau, American Household Survey



# Real Household Income Growth (Constant 2014 Dollars)

Source: Census, Federal Reserve

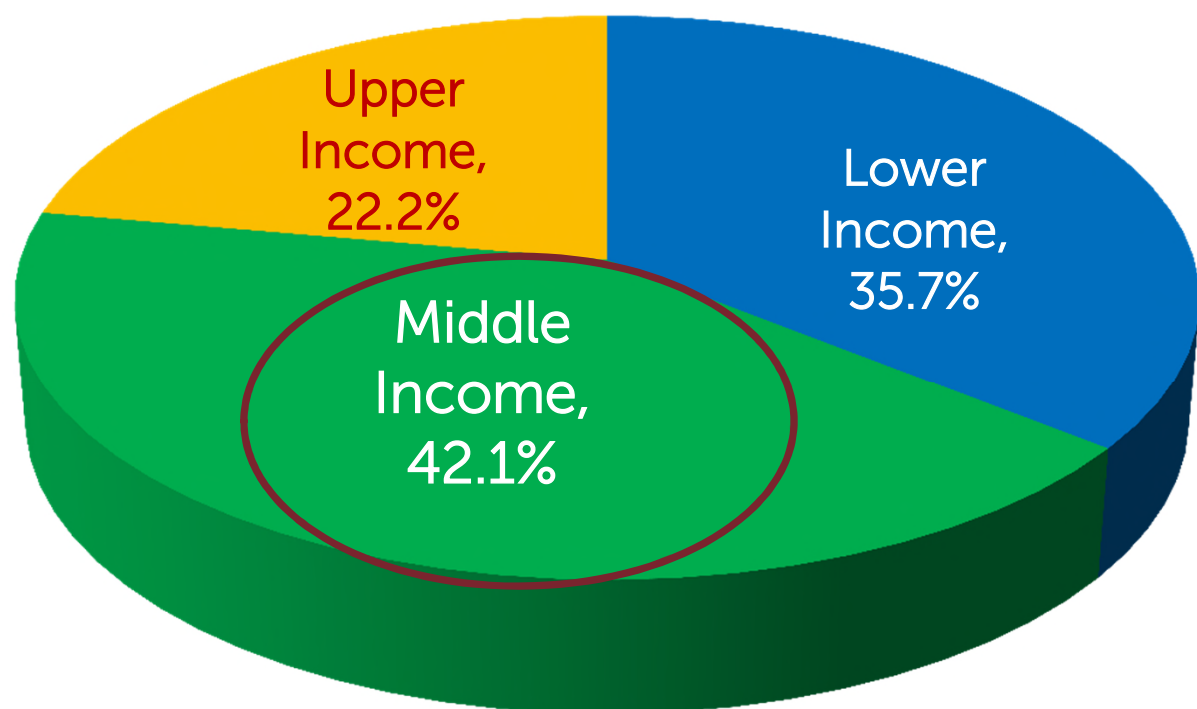


# Shrinking Middle Class

Sources: Tactician Corp, RED Capital Research Tabulations

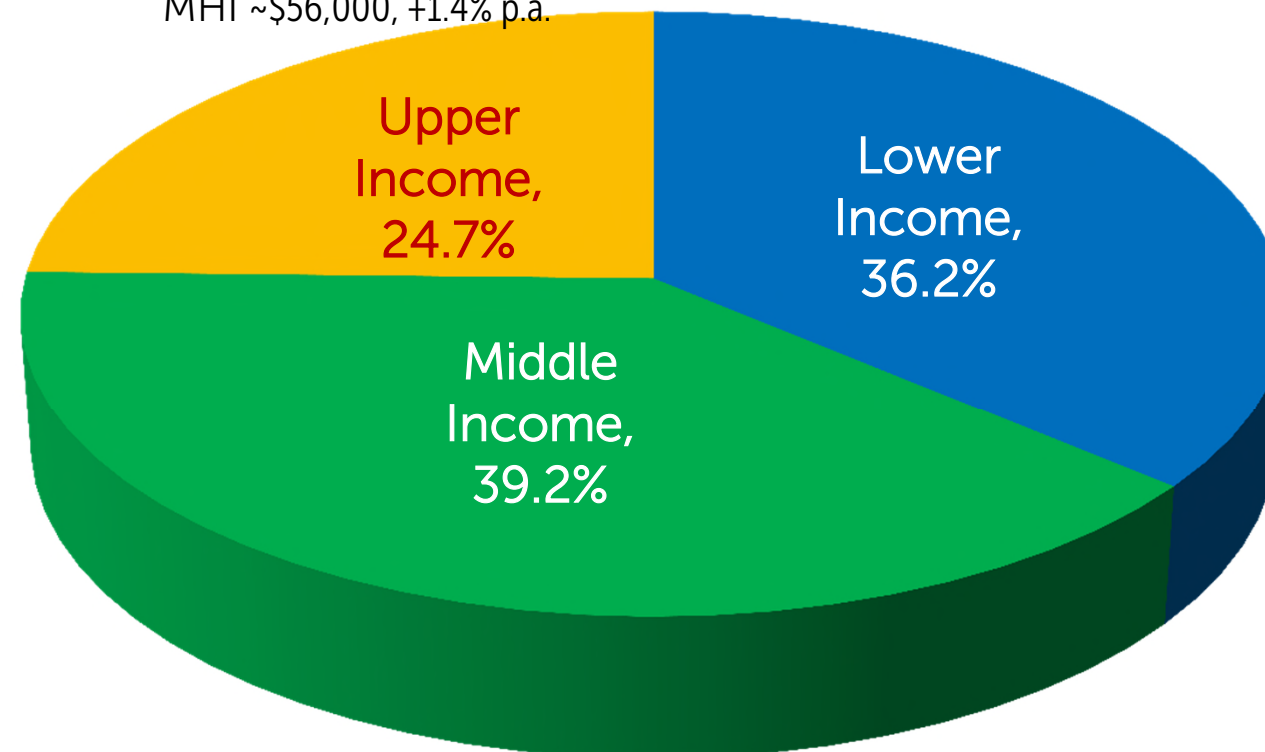
## MSA Income Distribution 2000

MHI ~\$45,200



## MSA Income Distribution 2015

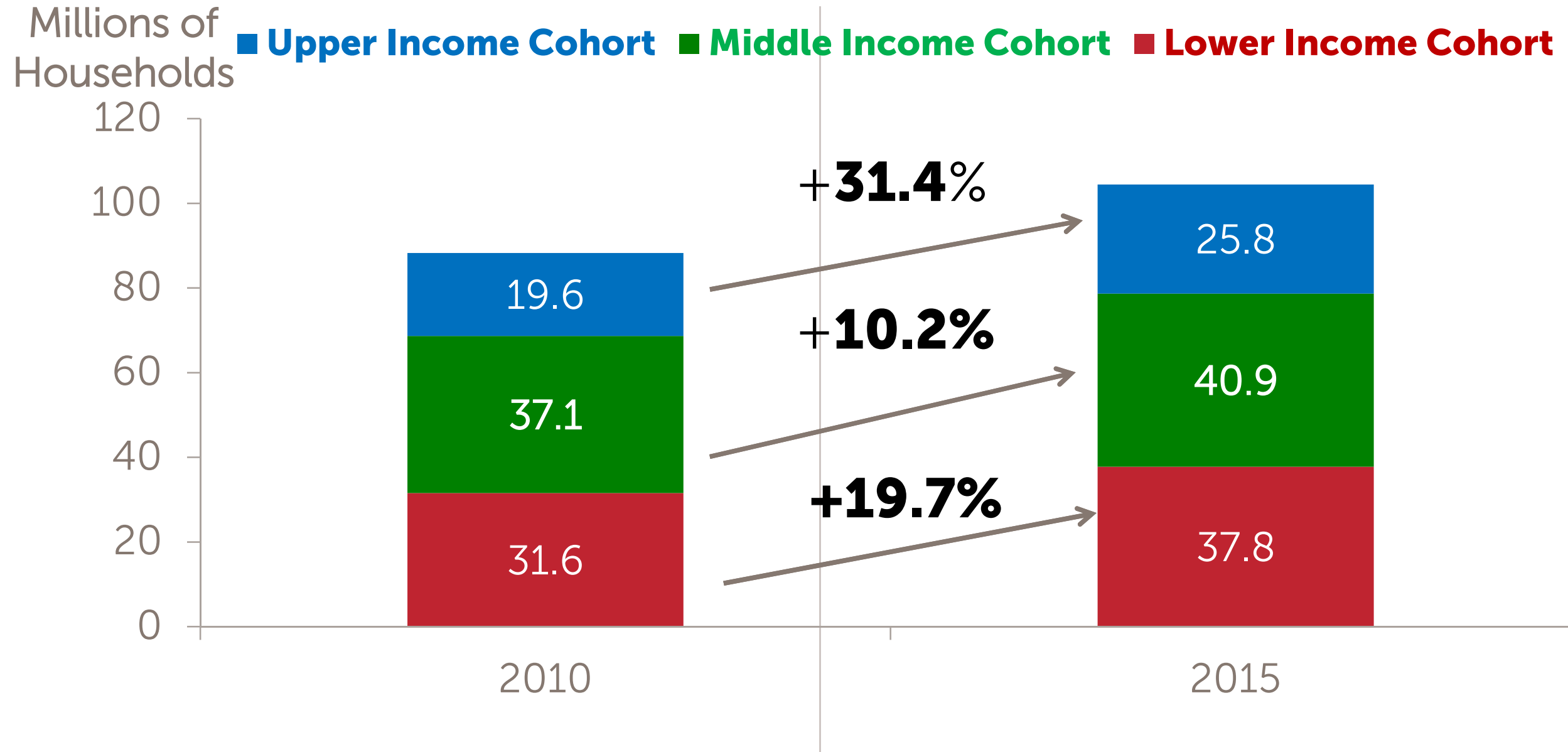
MHI ~\$56,000, +1.4% p.a.



**Lower Income:** Households Earning 67% of MHI or Less  
**Middle Income:** Households Earning >67% and <\$200% of MHI  
**Upper Income:** Households Earning >=200% of MHI

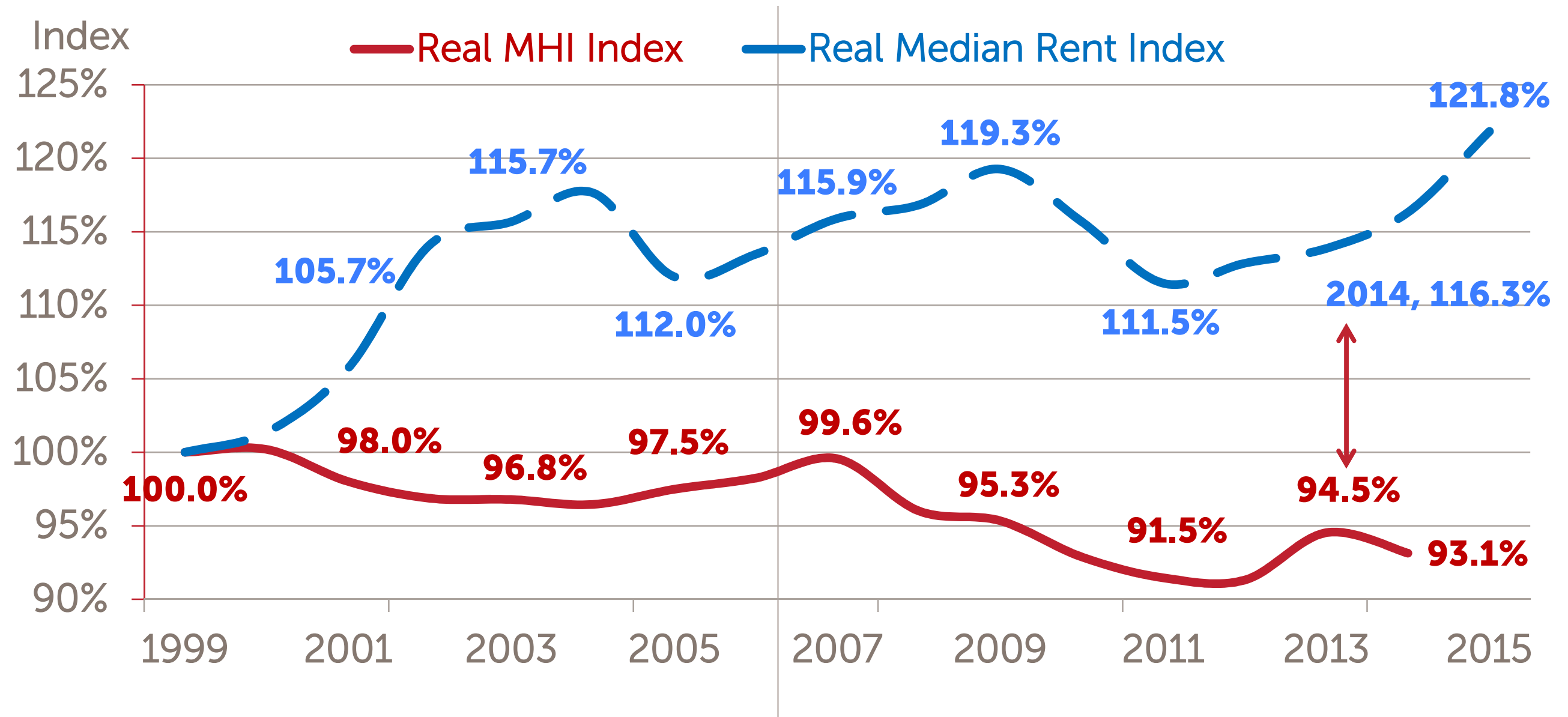
# Rapid Growth of Low Income Cohort Since 2010

Sources: Tactician Corp., RED Capital Research Tabulations



# Real Rents are Rising Sharply / Real MHI Stagnant

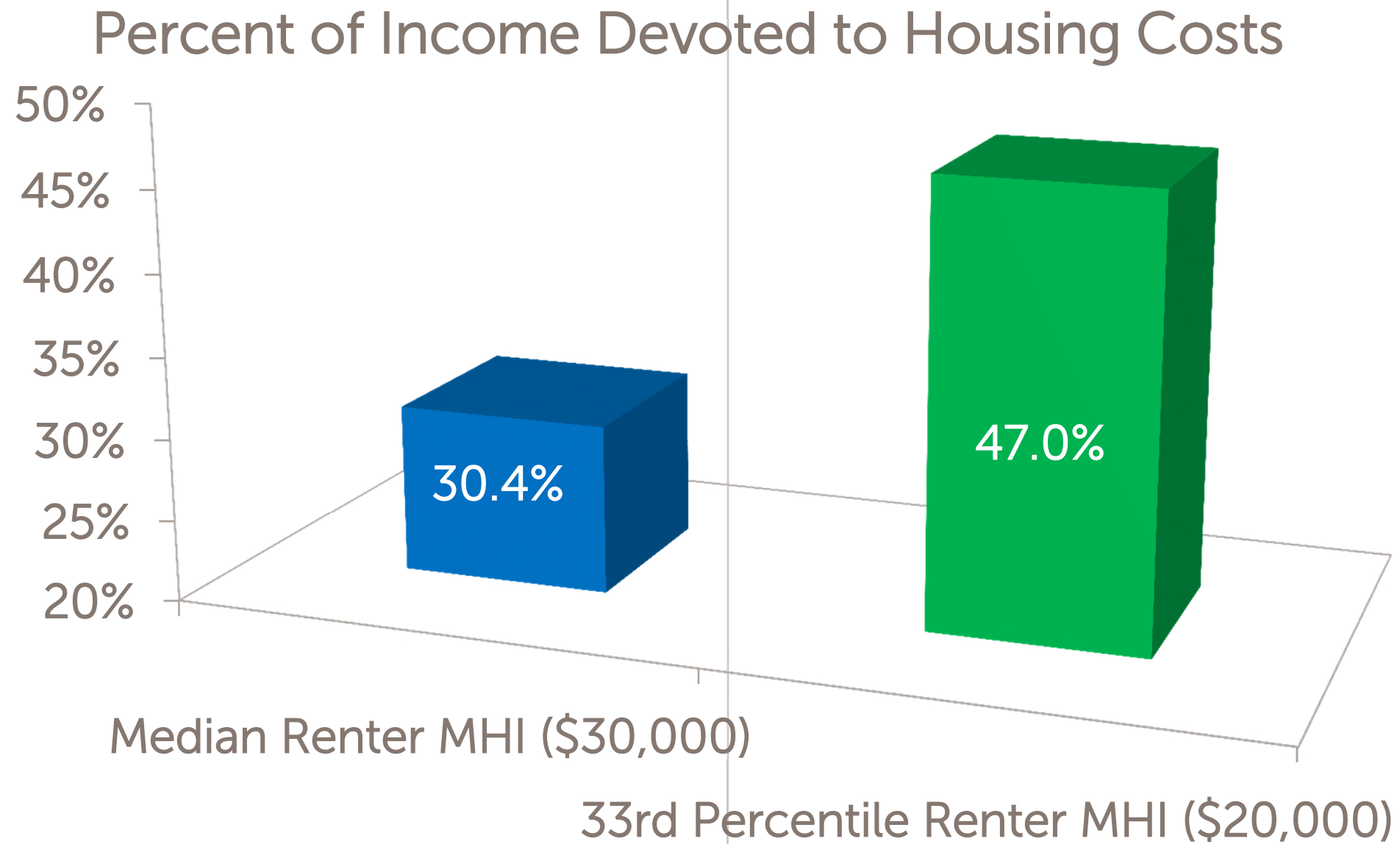
Sources: Census MHI and Median Rent Data





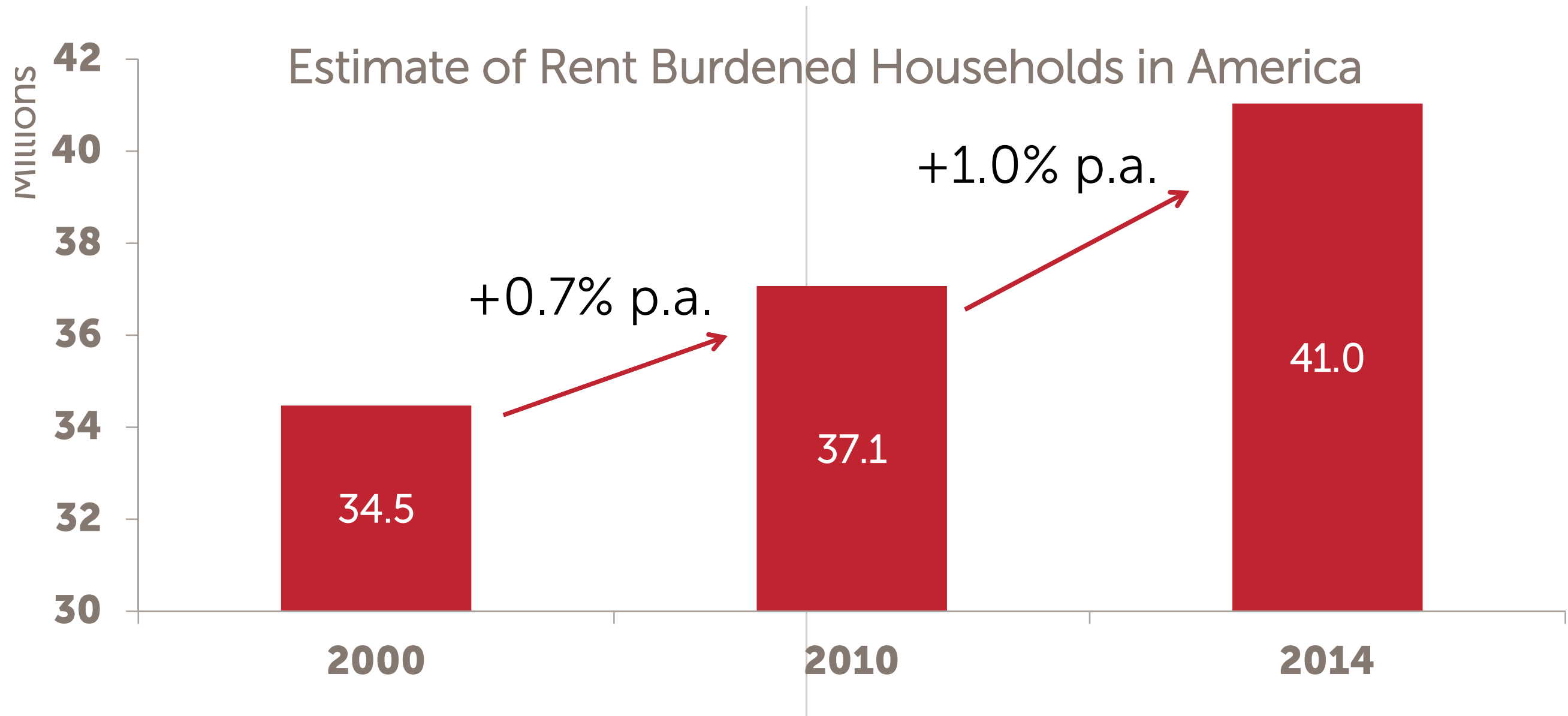
# Household Rent Burdens are Rising (2013)

Sources: American Community Survey



## Estimates of Rent Burdened Households in America

Sources: Joint Center for Housing Studies, RED Capital Calculations



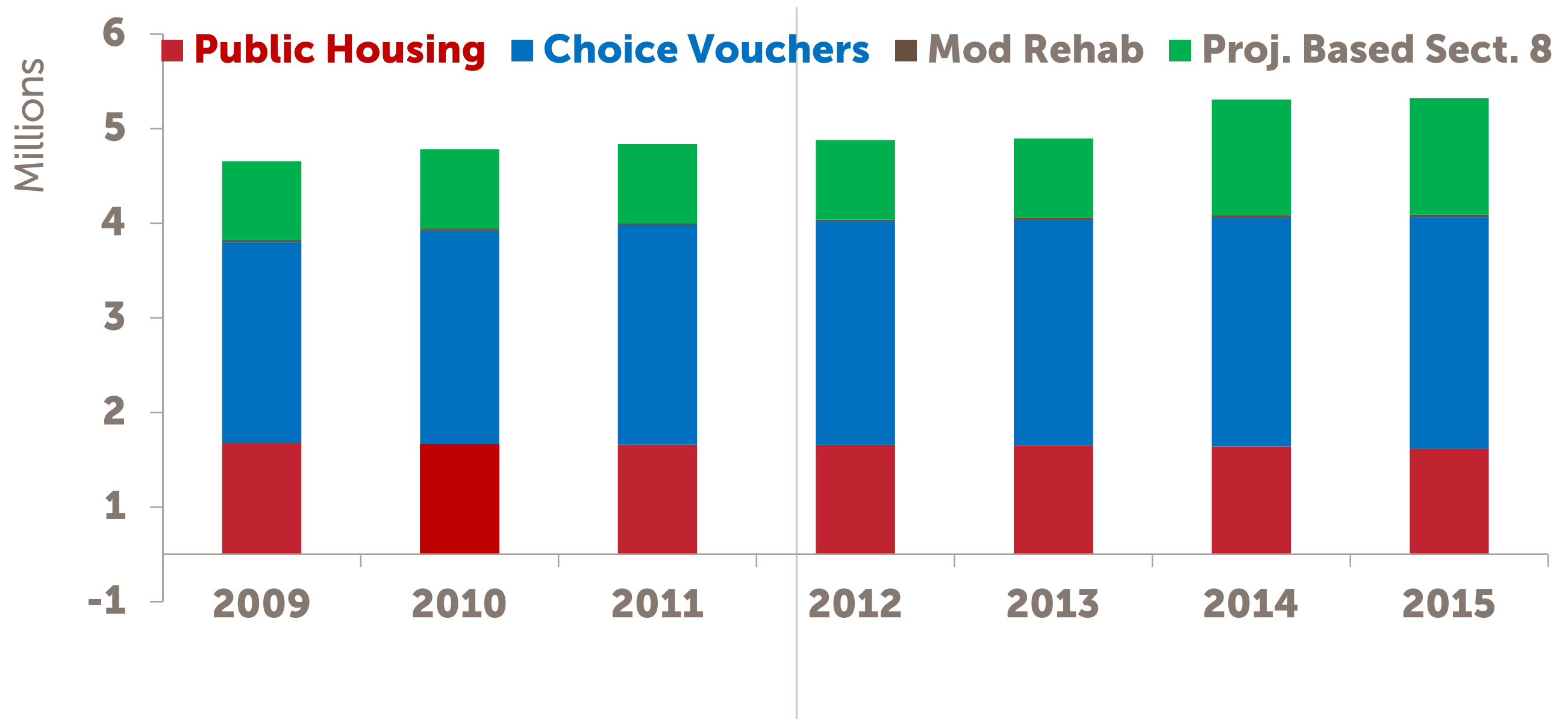
## SECTION TWO: AFFORDABLE HOUSING SUPPLY TRENDS

## Segments of the Affordable Housing Stock

1. Public housing authorities
2. Project-based HAP contracts
3. Housing Choice Vouchers
4. Moderate Rehab Housing Choice Vouchers
5. Low-income Housing Tax Credit Properties

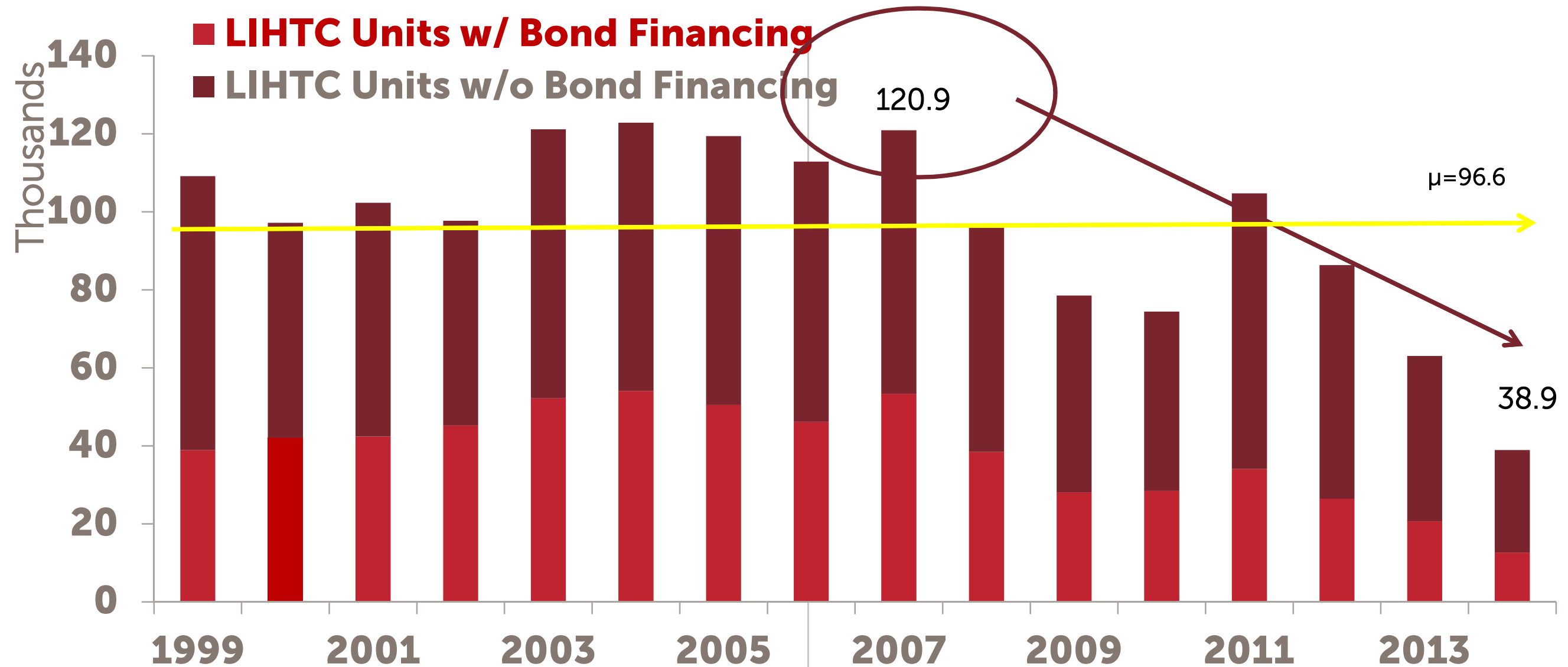
## Subsidized Affordable Housing Inventory Trends

Sources: Department of Housing and Urban Development, RED Capital Research Calculations



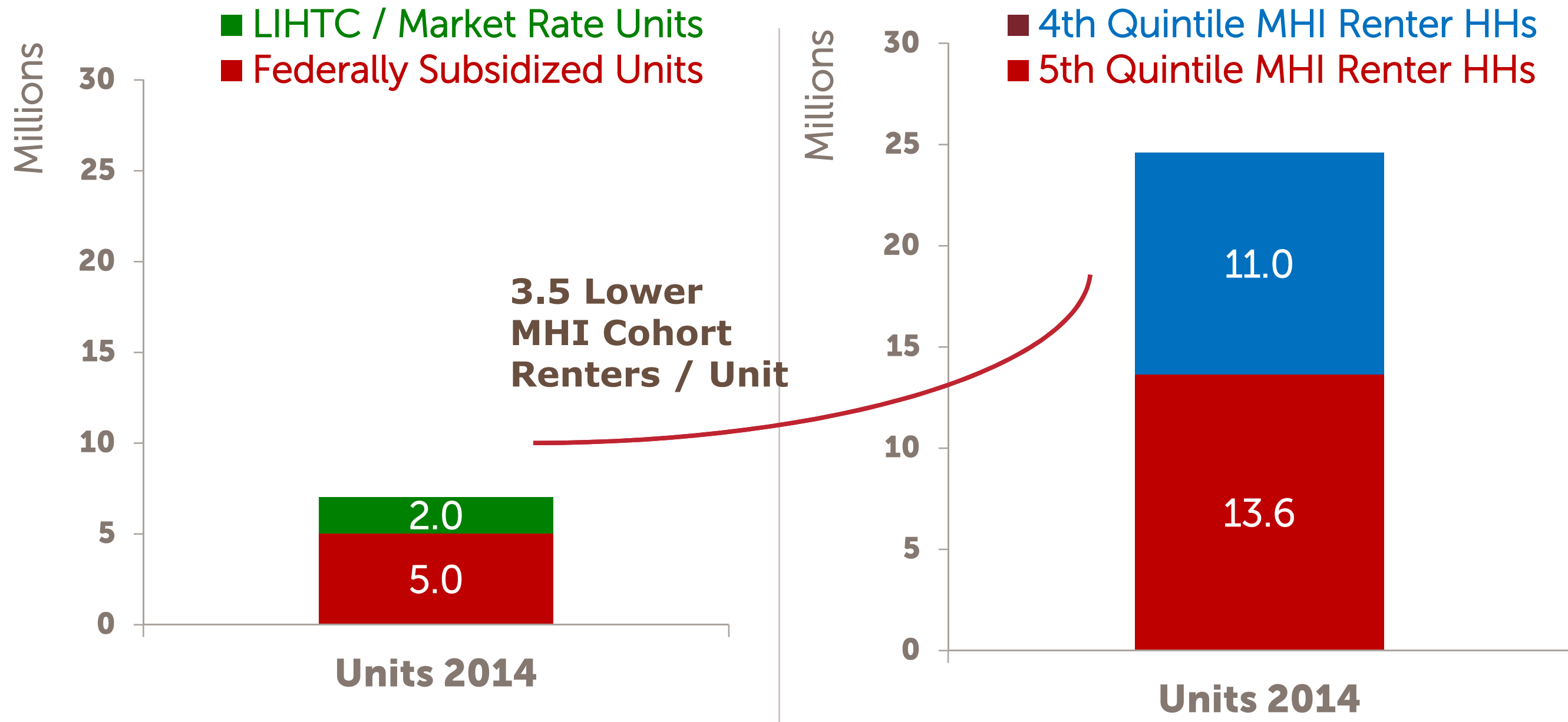
# Affordable Low-income Housing Tax Credit Housing Delivery Trends

Sources: Department of Housing and Urban Development, RED Capital Research Calculations



## Units Affordable to 40 Percentile MHI Renters vs Lower Quintile Renters

Sources: ACS, HUD and RED Capital Research Tabulations



## Key Takeaways of the Rental Supply and Demand Analysis

- The number of rental households experiencing excessive rent cost burdens is substantial and increasing.
- So long as inflation-adjusted rents continue to rise and/or real incomes continue to decline, the problem will grow
- Government-subsidized housing (HAP / Voucher) is unlikely to make a meaningful dent in the affordable housing shortfall
- The LIHTC program and tax exempt bond issuance authority are the primary available weapons with which developers and managers can take on this challenge
- Good news to report on these fronts!



**SECTION THREE: IDENTIFYING MARKETS LIKELY TO  
PROVIDE ECONOMICALLY VIABLE TAX CREDIT INVESTMENT  
OPPORTUNITIES USING MARKET DATA**

## Profit-motivated Investors and Approaches to Site Selection

- Much of the site analytical work is performed by brilliant analysts painstakingly sifting through demographic and competitive supply data to satisfy programmatic bond our loan requirements
- But the emergence of profit motivated credit investors adds a new, exciting wrinkle to the process
- As purely profit-oriented investors play a larger role in providing affordable housing equity, developers and syndicators will be well advised to appeal to the relative value and expected total return opportunities of projects to maximize credit prices and reduce equity costs

## Market Characteristics That Indicate that Max TC Rents are Achievable

- Current class-C and Class-B- rents are at or above maximum tax credit rents
- Recent rent growth in the class-C segment was as fast or faster than classes-A and –B
- Rent forecasts suggest further strong class-C rent growth
- Property is located in metro with strong payroll job creation and below average vacancy in the market rate segment
- Forecasted job growth in the metro area is constructive

## Examples: High Cost Markets

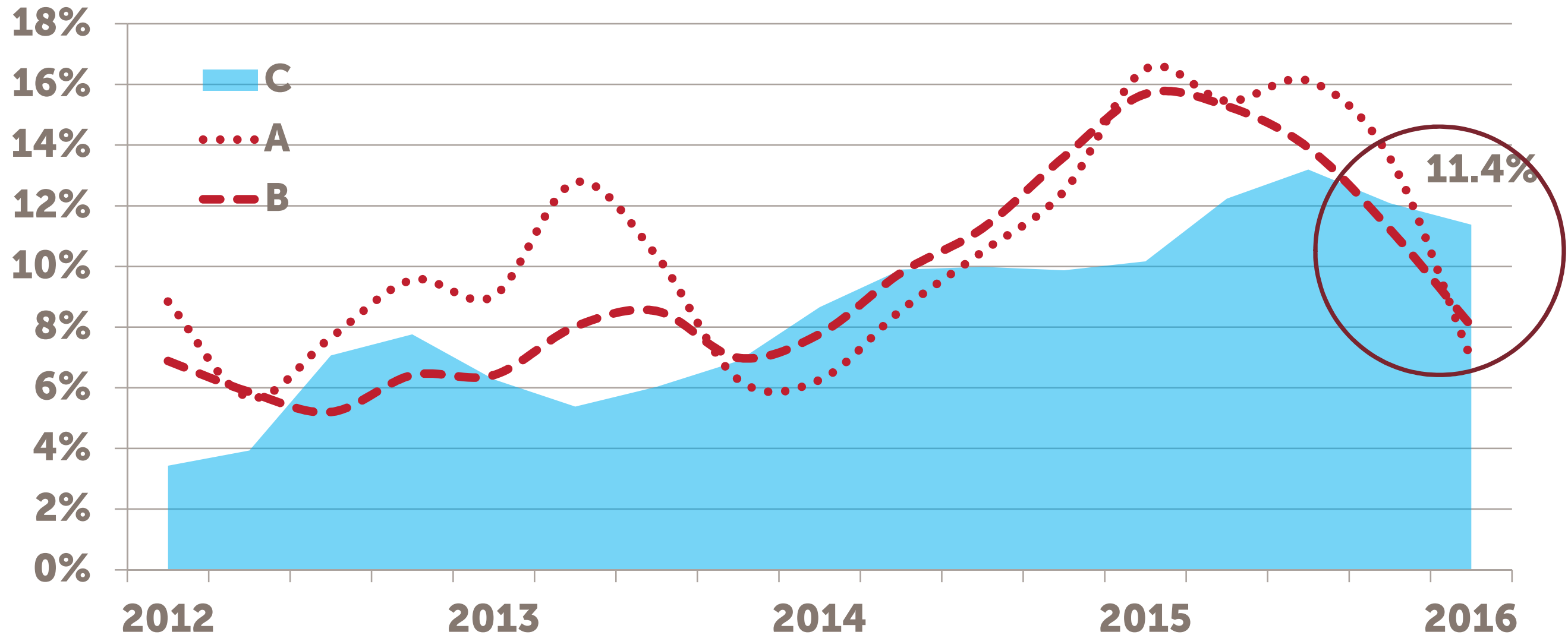
Sources: Novogradac, Axiometrics Data, RED Capital Research Forecasts

Metro	Max LIHTC Rent	Wtd. Avg. Class-C Eff. Rent	Class-C Eff. Rent Growth	Class-B Eff. Rent Growth	Class-C Avg. Occupancy	5-year Class-C Forecast
East Bay	\$1,207	\$1,625	11.4%	8.0%	95.9%	7.2%
Boston	\$1,214	\$1,541	5.7%	5.6%	95.9%	0.8%

Metro	3-person Income Limit
East Bay	\$58,300
Boston	\$52,900

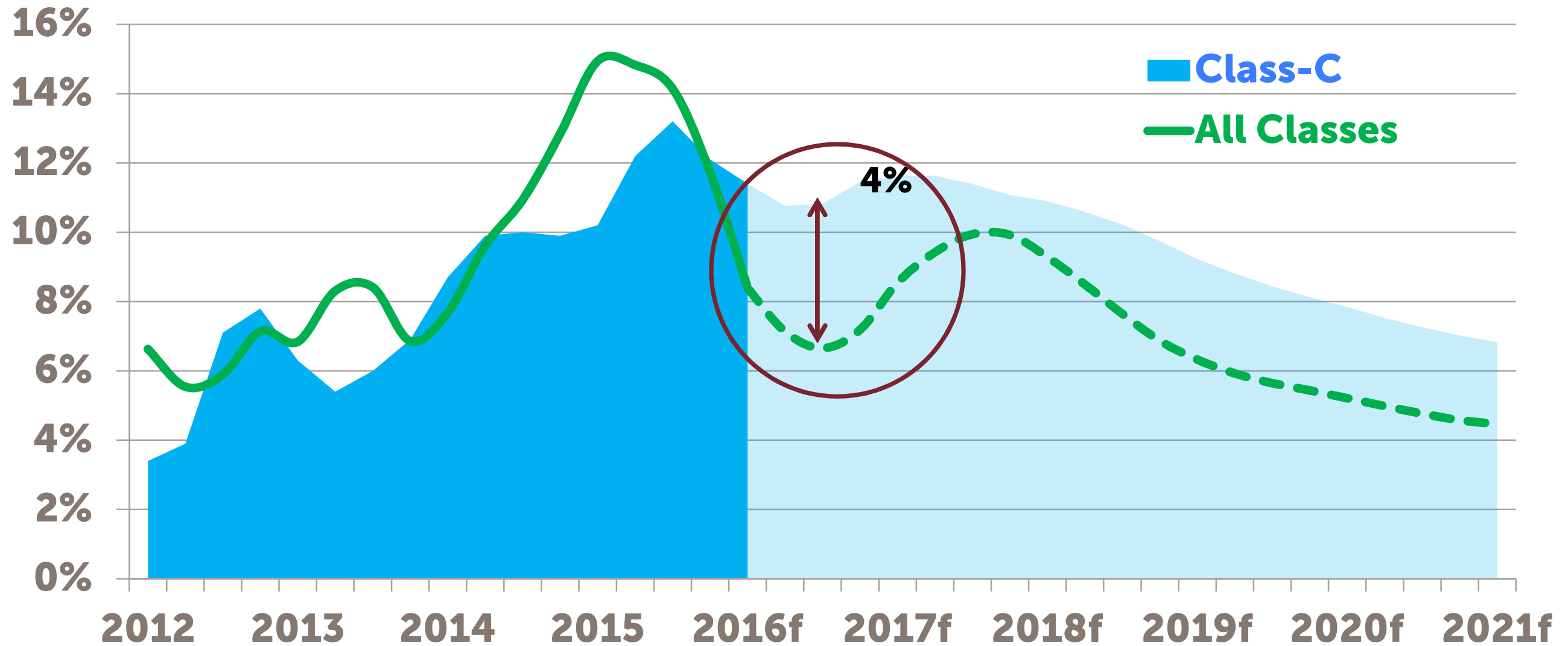
## East Bay Property Class Rent Trends: Close-up

Sources: Axiometrics Data, RED Research Tabulations



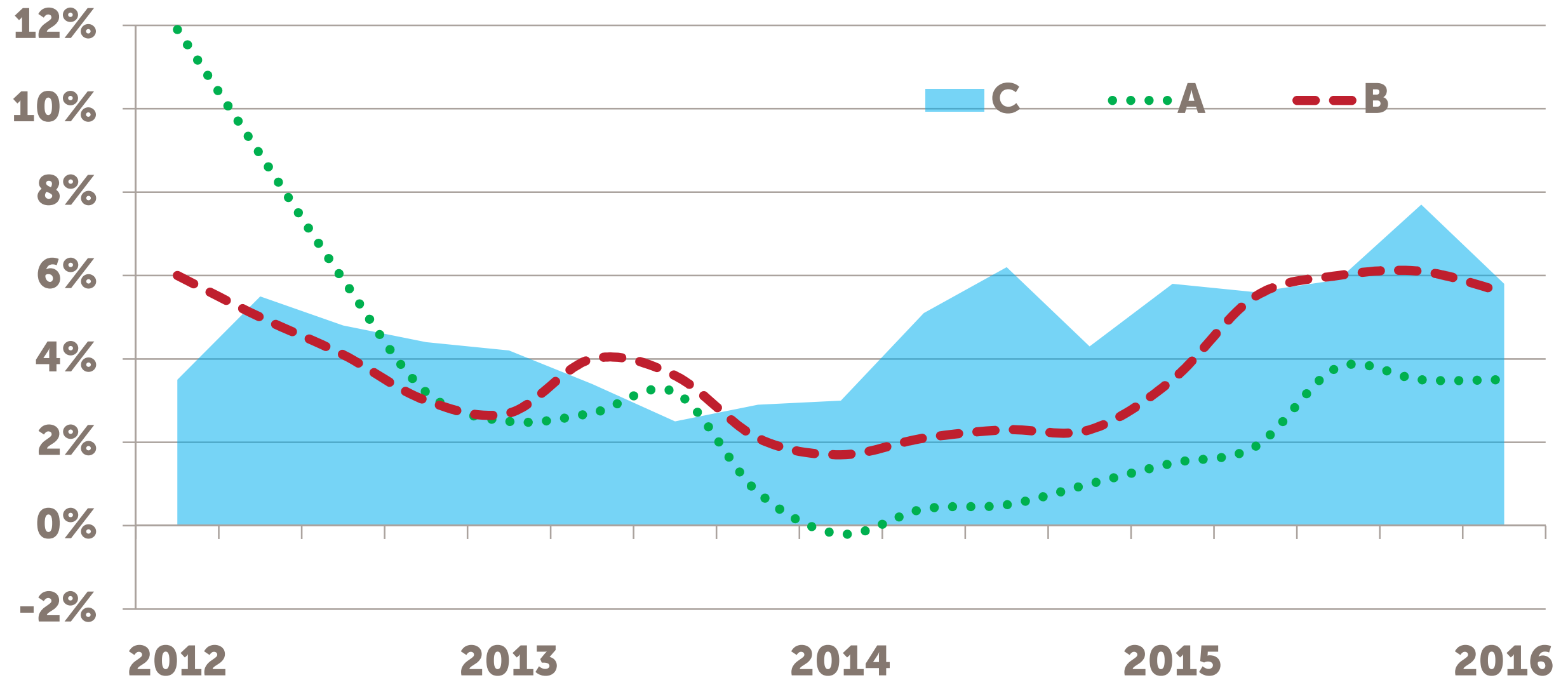
# East Bay Property Class Rent Trends: Class-C Forecast

Sources: Axiometrics Data, RED Capital Research Forecasts



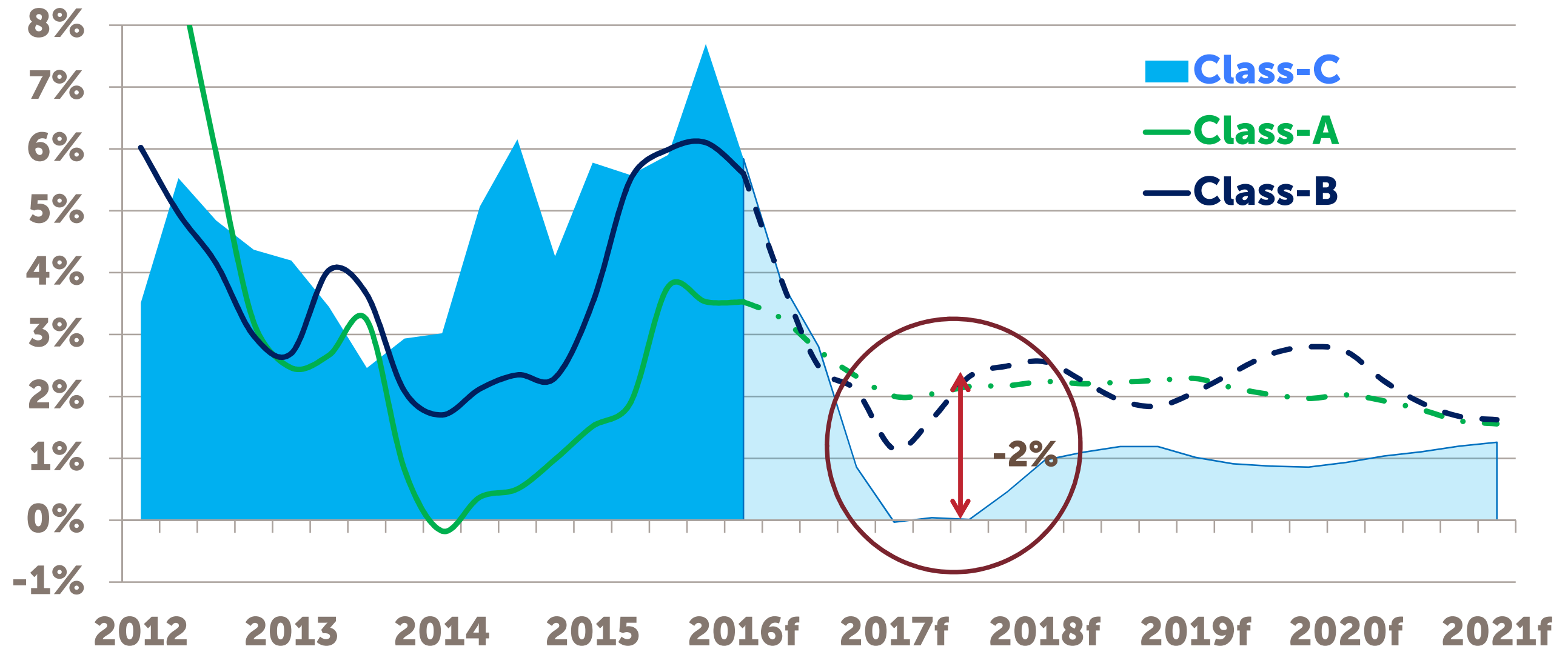
# Boston Property Class Rent Trends: Close-up

Sources: Axiometrics Data, RED Capital Research Tabulations



# Boston Classes –A, -B and -C Forecasts

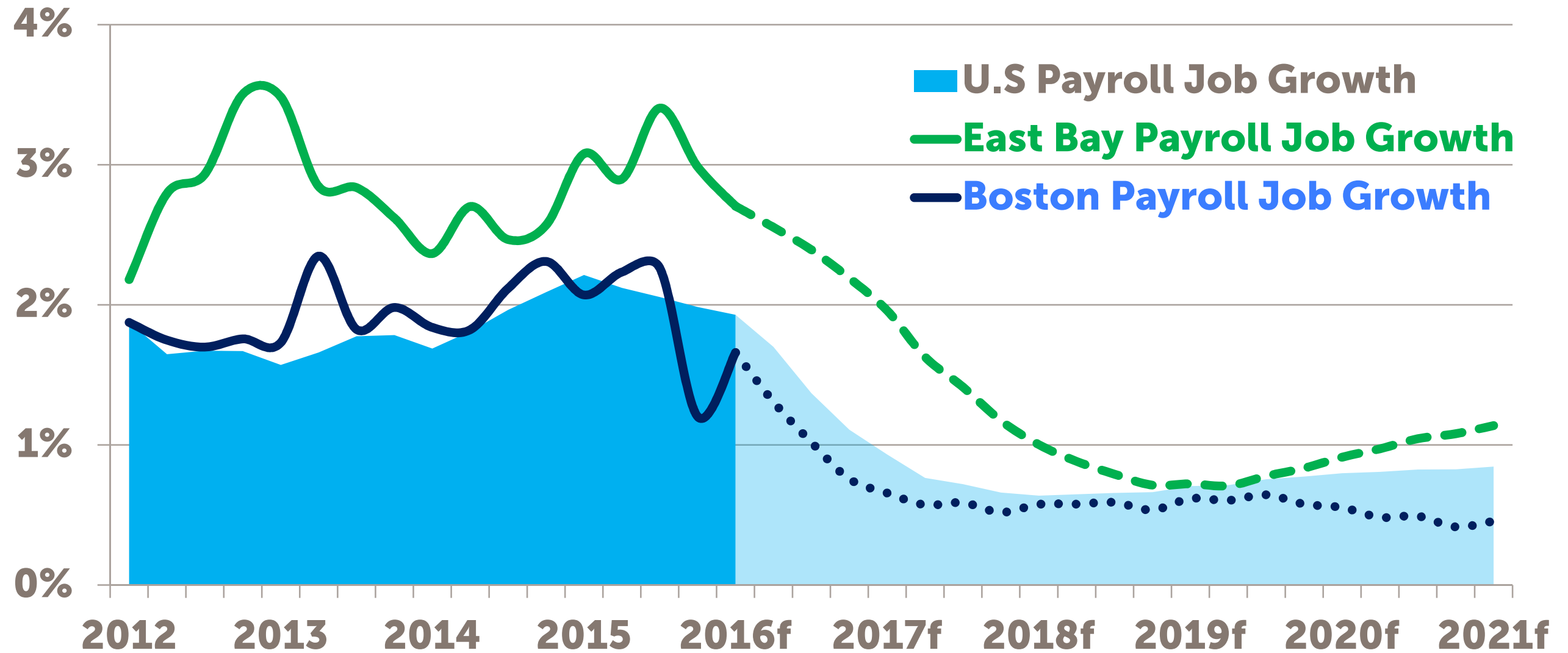
Sources: Axiometrics Data, RED Capital Research Forecasts





## East Bay vs. Boston Payroll Growth Forecasts

Sources: Bureau of Labor Statistics Data, RED Capital Research Forecasts



## Examples: Growth Markets

Sources: Novogradac, Axiometrics Data, RED Capital Research Forecasts

Metro	Max LIHTC Rent	Wtd. Avg. Class-C/B Eff. Rent	Class-C Eff. Rent Growth	Class-B Eff. Rent Growth	Class-C Avg. Occupancy	5-year Class-C Forecast
Atlanta	\$836	\$695/\$1,013	7.8%	8.7%	90.2%	1.7%
Dallas	\$888	\$735/\$1,059	7.1%	7.3%	95.2%	4.1%

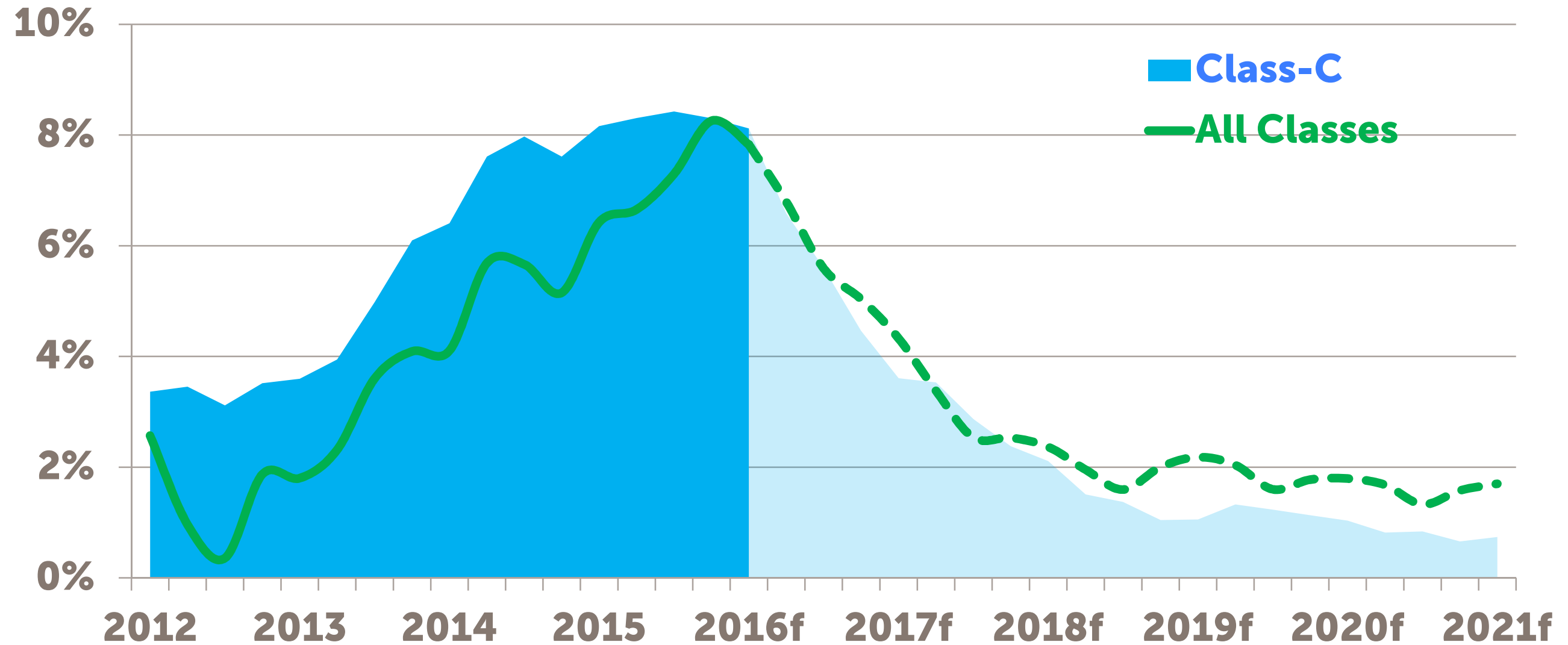
*Note: Red boxes highlight Max LIHTC Rent and Wtd. Avg. Class-C/B Eff. Rent for Atlanta and Dallas. Red circles highlight Class-C Eff. Rent Growth and 5-year Class-C Forecast for Atlanta and Dallas. A red arrow points from the Atlanta Max LIHTC Rent box to the Dallas Max LIHTC Rent box.*

Metro	3-person Income Limit
Atlanta	\$36,480
Dallas	\$38,760

*Note: A red circle highlights the 3-person Income Limit for Atlanta.*

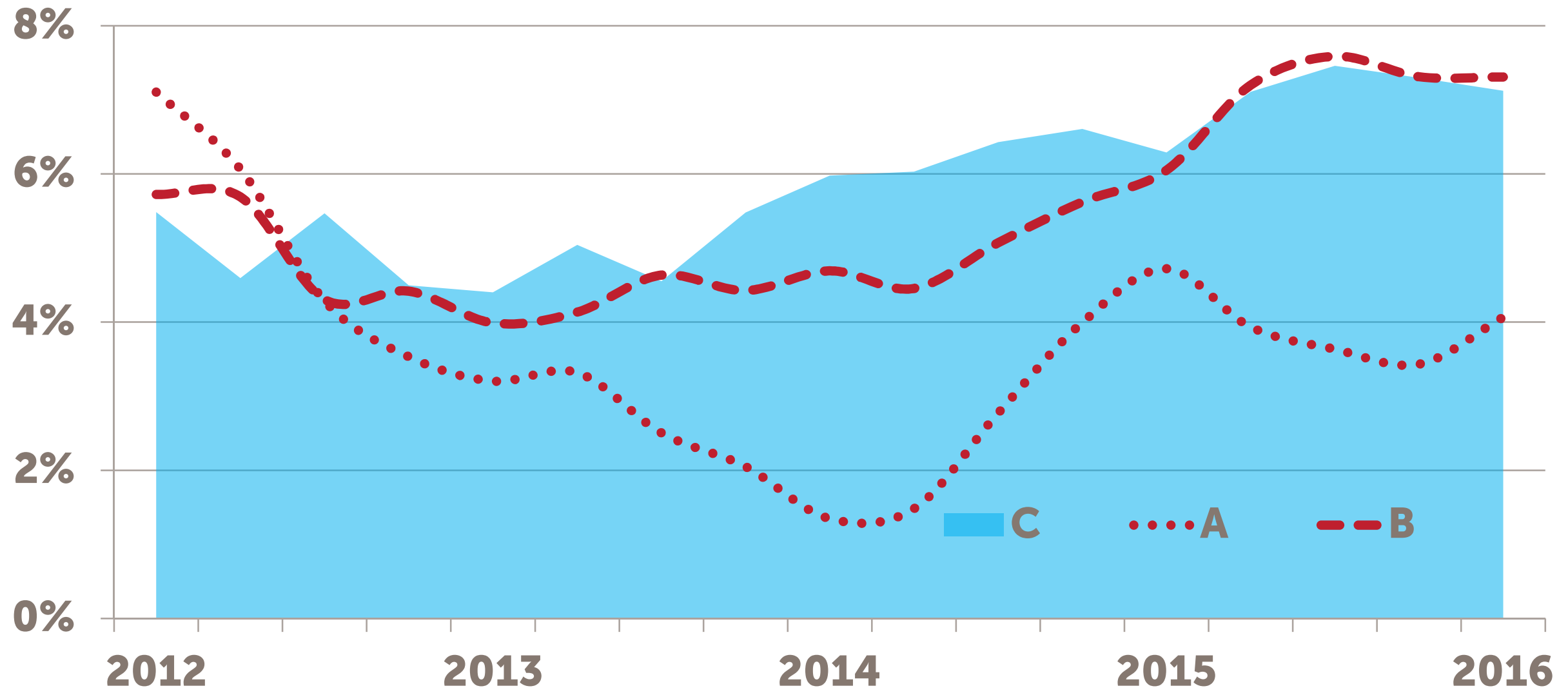
# Atlanta All Segment and Class-C Forecasts

Sources: Axiometrics Data, RED Capital Research Forecasts



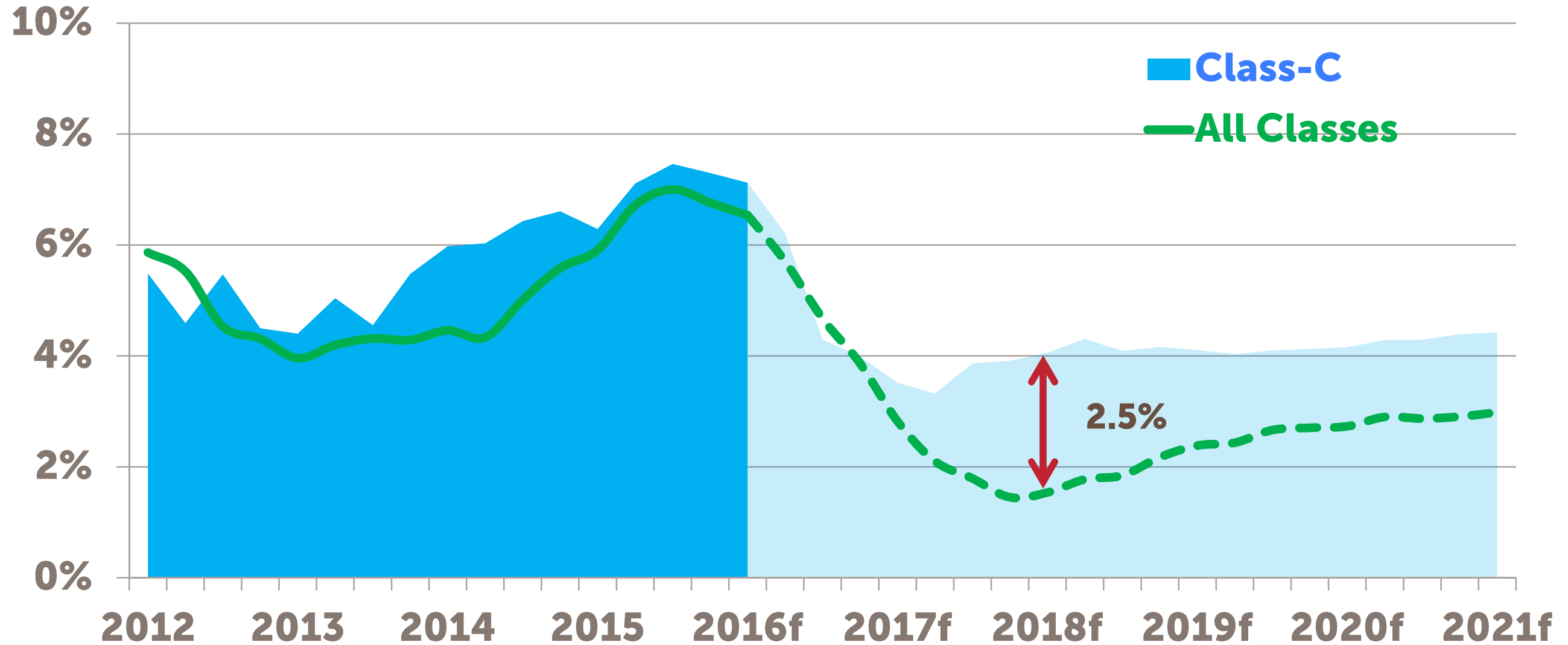
# Dallas Property Class Rent Trends

Sources: Axiometrics Data, RED Capital Research Tabulations



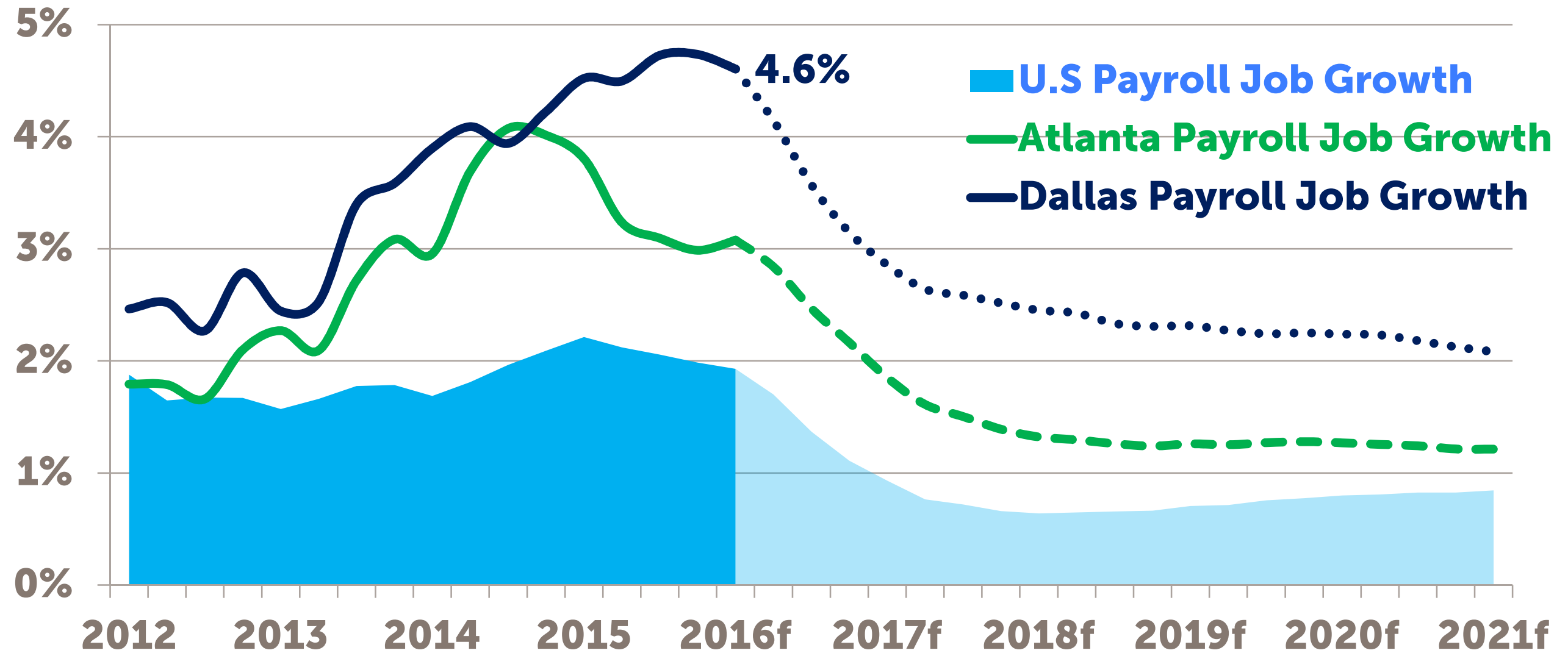
# Dallas All Segment and Class-C Forecasts

Sources: Axiometrics Data, RED Capital Research Forecasts



## Dallas vs. Atlanta Payroll Growth Forecasts

Sources: Bureau of Labor Statistics Data, RED Capital Research Forecasts



## Examples: Stable, Slow-growth Midwest Markets

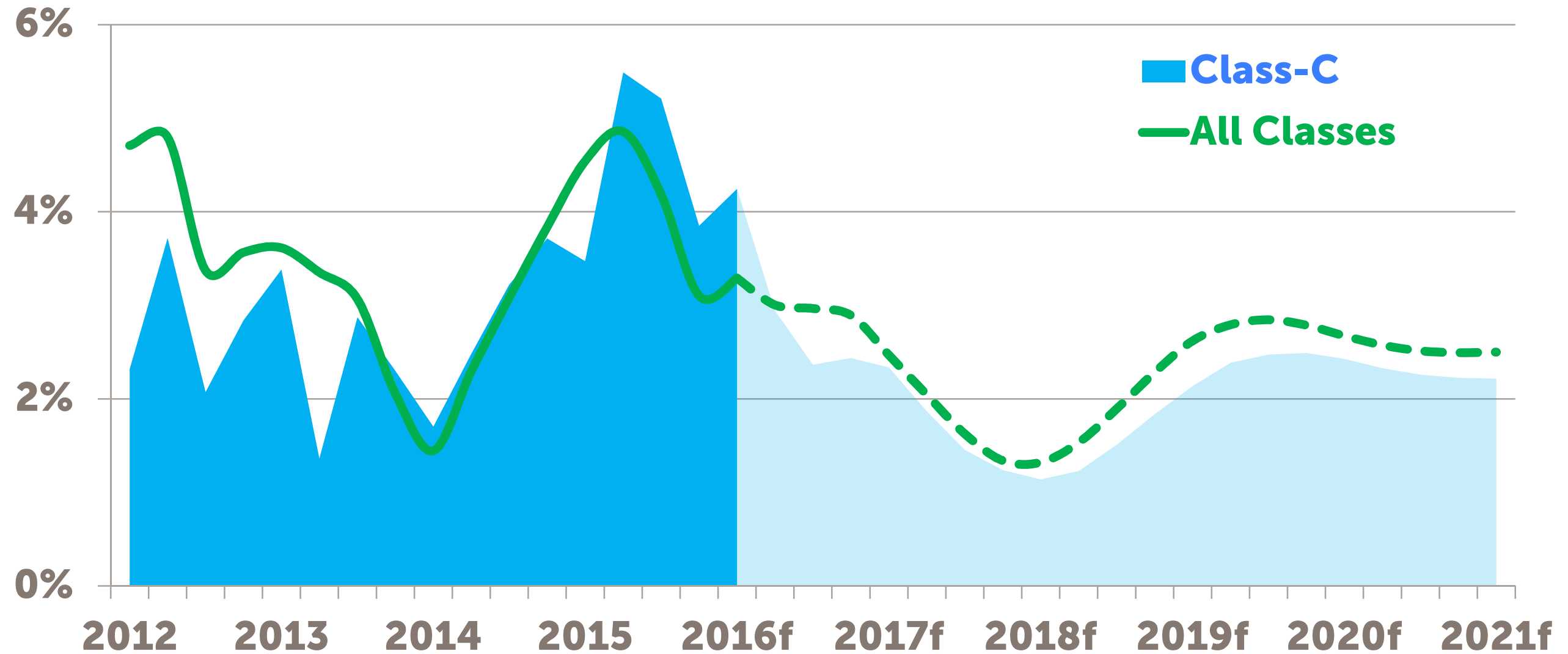
Sources: Novogradac, Axiometrics Data, RED Capital Research Forecasts

Metro	Max LIHTC Rent	Wtd. Avg. Class-C/B Eff. Rent	Class-C Eff. Rent Growth	Class-B Eff. Rent Growth	Class-C Avg. Occupancy	5-year Class-C Forecast
Chicago	\$953	\$995/\$1,513	4.1%	3.8%	95.5%	1.4%
Columbus	\$852	\$598/\$855	3.1%	4.9%	95.2%	1.0%

Meto	3-person Income Limit
Chicago	\$41,580
Columbus	\$37,620

# Chicago All Segment and Class-C Forecasts

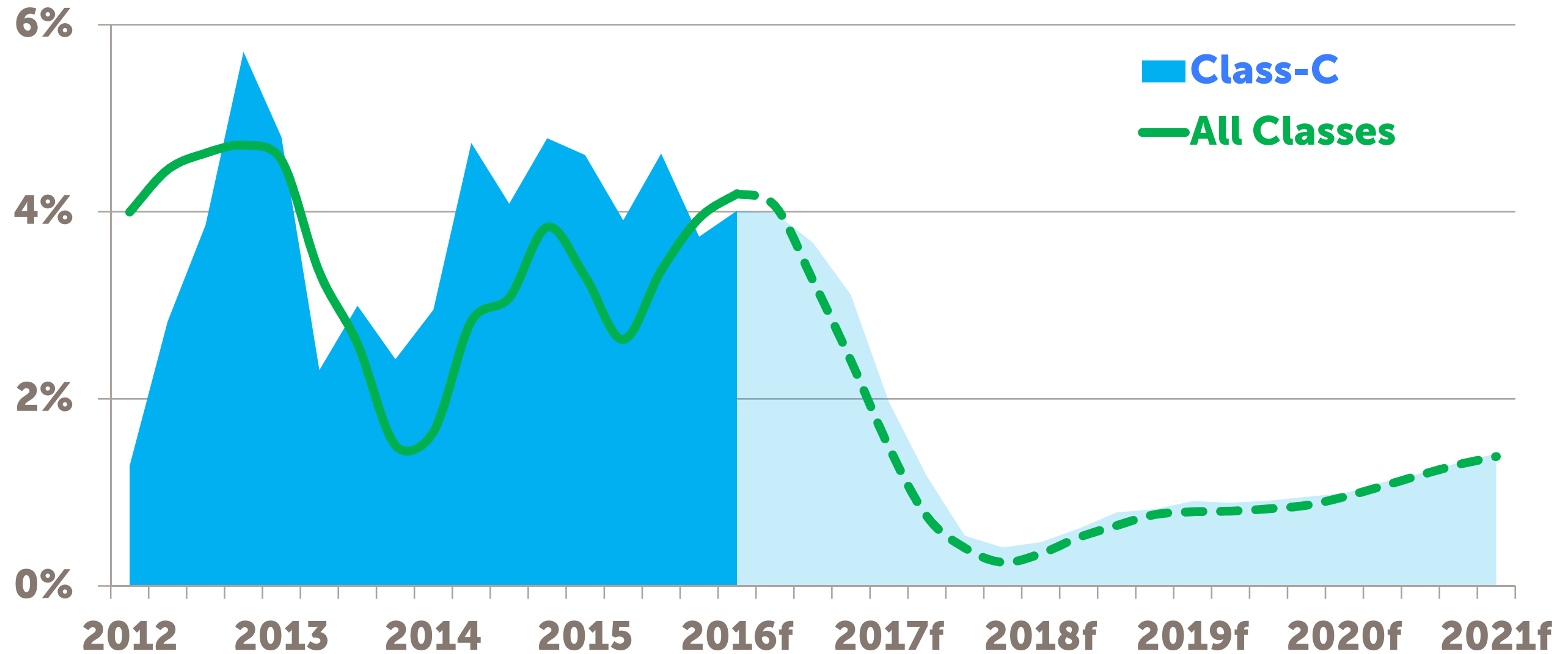
Sources: Axiometrics Data, RED Capital Research Forecasts





## Columbus All Segment and Class-C Forecasts

Sources: Axiometrics Data, RED Capital Research Forecasts



## Ranking Matrix

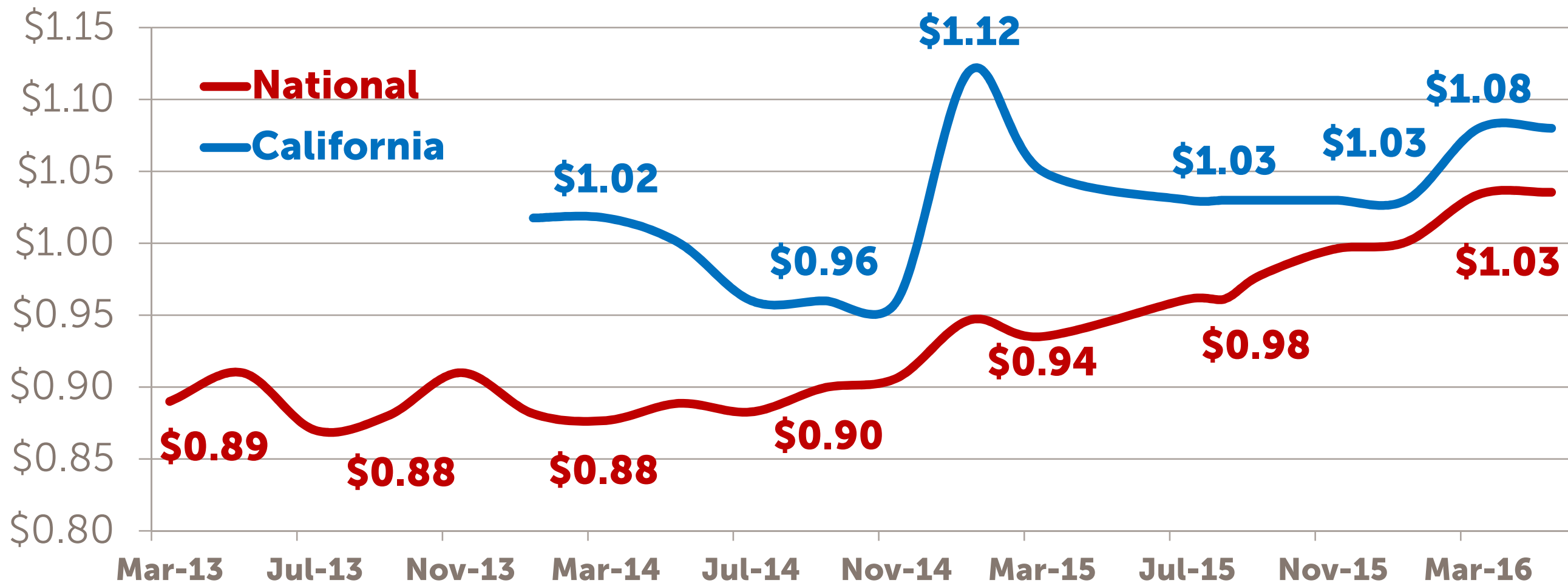
Metro	Class-C Rent vs. Max Tax Credit Rent	Average Class-C Occupancy	Economic Outlook	Class-C Rent Growth Forecast	Land Costs
Atlanta	4	6	2	3	2
Boston	2	T1	5	6	5
Chicago	3	3	6	4	4
Columbus	6	4	4	5	1
Dallas	5	5	1	2	3
East Bay	1	T1	3	1	6

## SECTION FOUR: CAPITAL COSTS

## Recent Tax Credit Pricing Trends

Sources: Tax Credit Advisor Periodical, RED Capital Research Tabulations

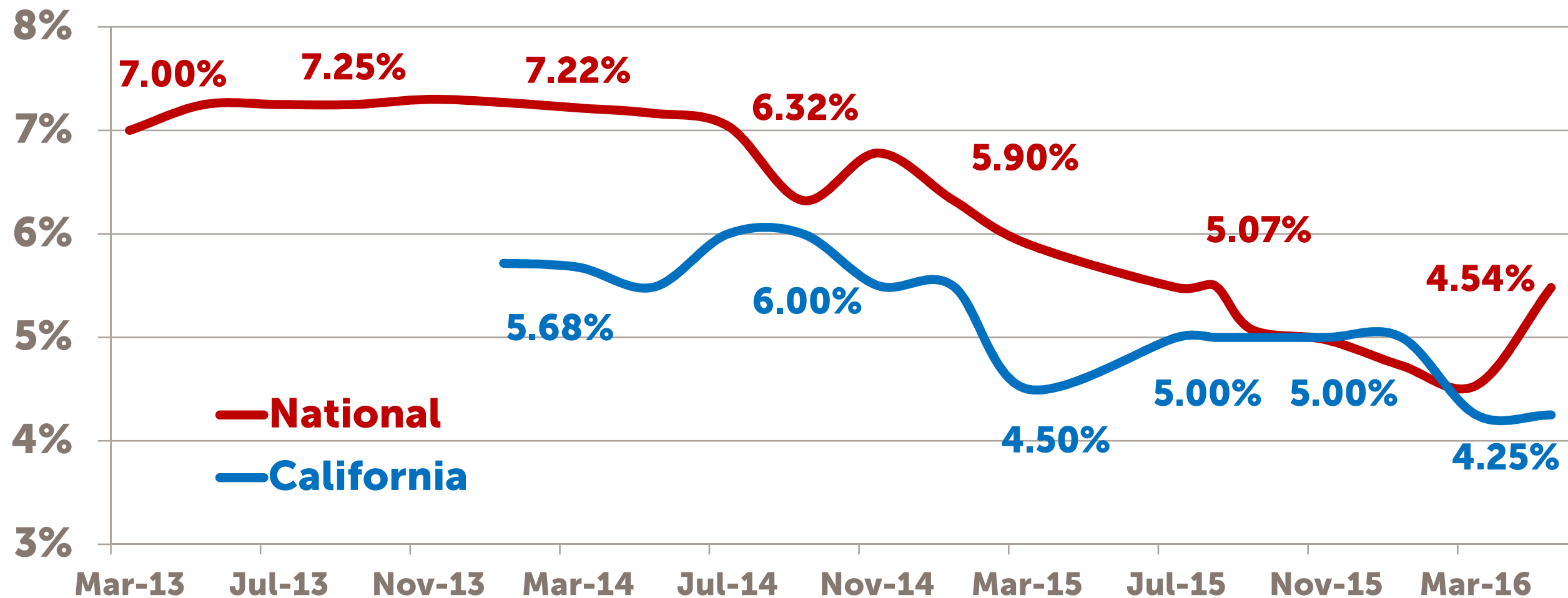
### Recent LIHTC Pricing Trends



## Recent Tax Credit Yield Trends

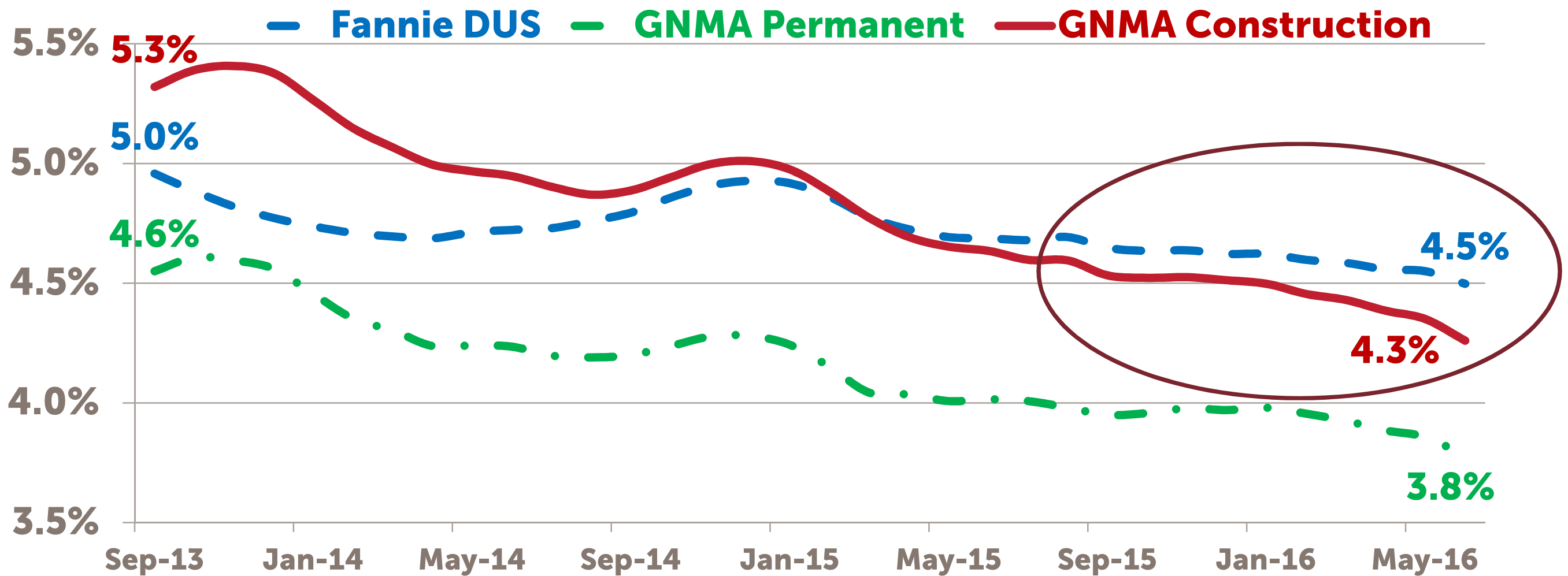
Sources: Tax Credit Advisor Periodical, RED Capital Research Tabulations

### Recent LIHTC Yield Trends



## Recent Permanent Mortgage Rate Trends

Sources: RED Capital Markets, LLC

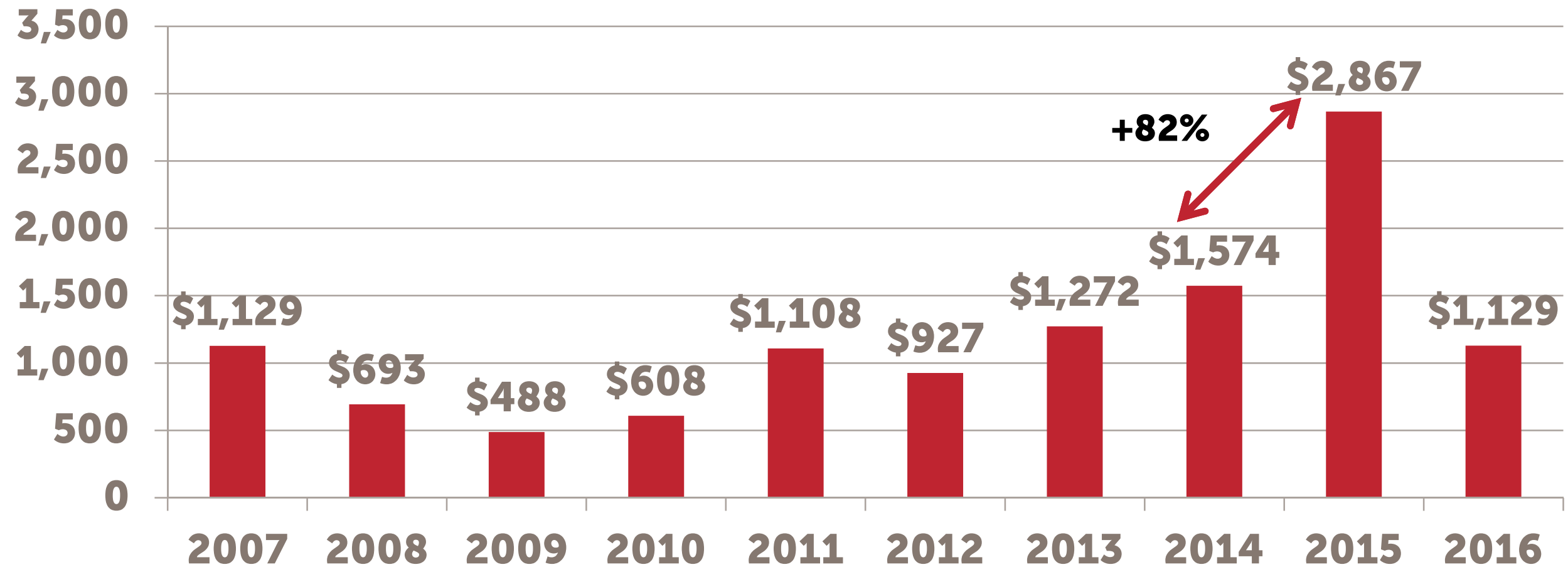


## SECTION FOUR: VALUE TRENDS

## Value Trends: Sales Volume Rent Restricted Multifamily Properties

Source: CoStar

Annual Sales  
Proceeds (\$MM)

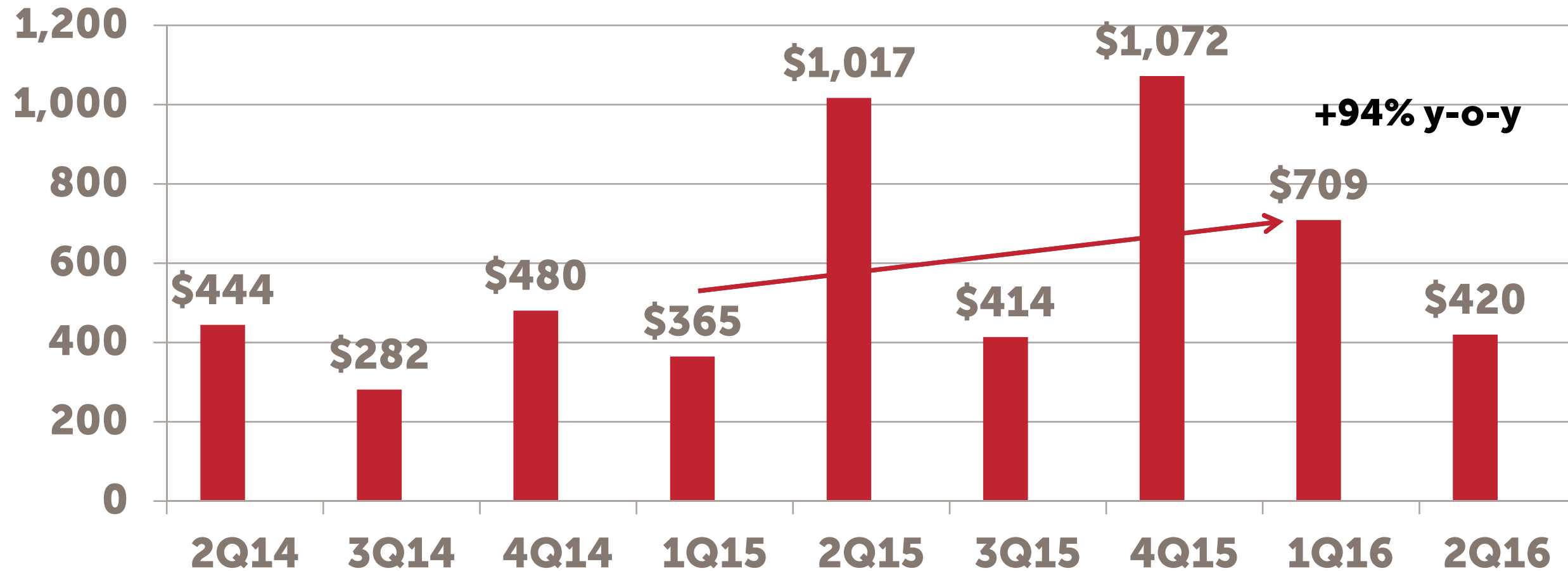




## Value Trends: Sales Volume Rent Restricted Multifamily Properties

Source: CoStar

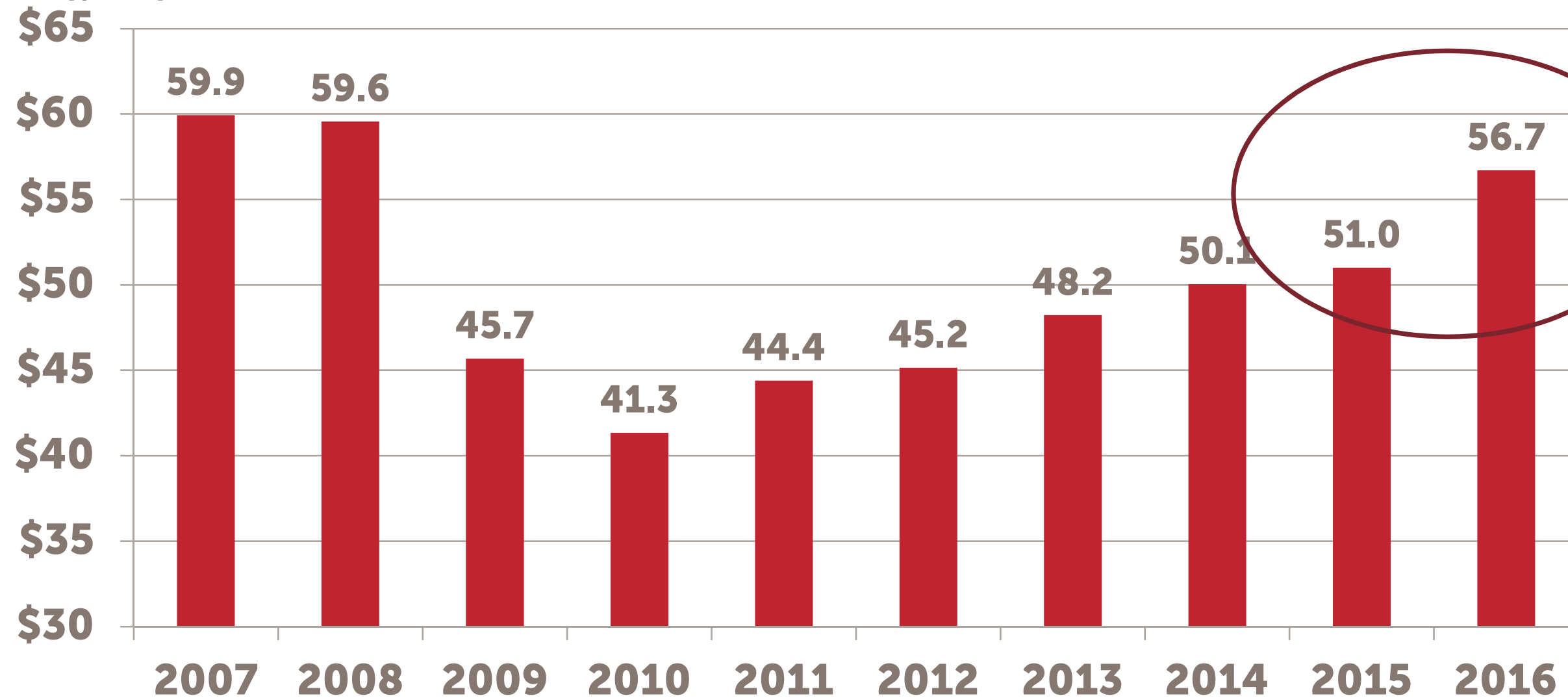
Quarterly Sales  
Proceeds (\$MM)



## Value Trends: Price / Unit Trends

Source: CoStar

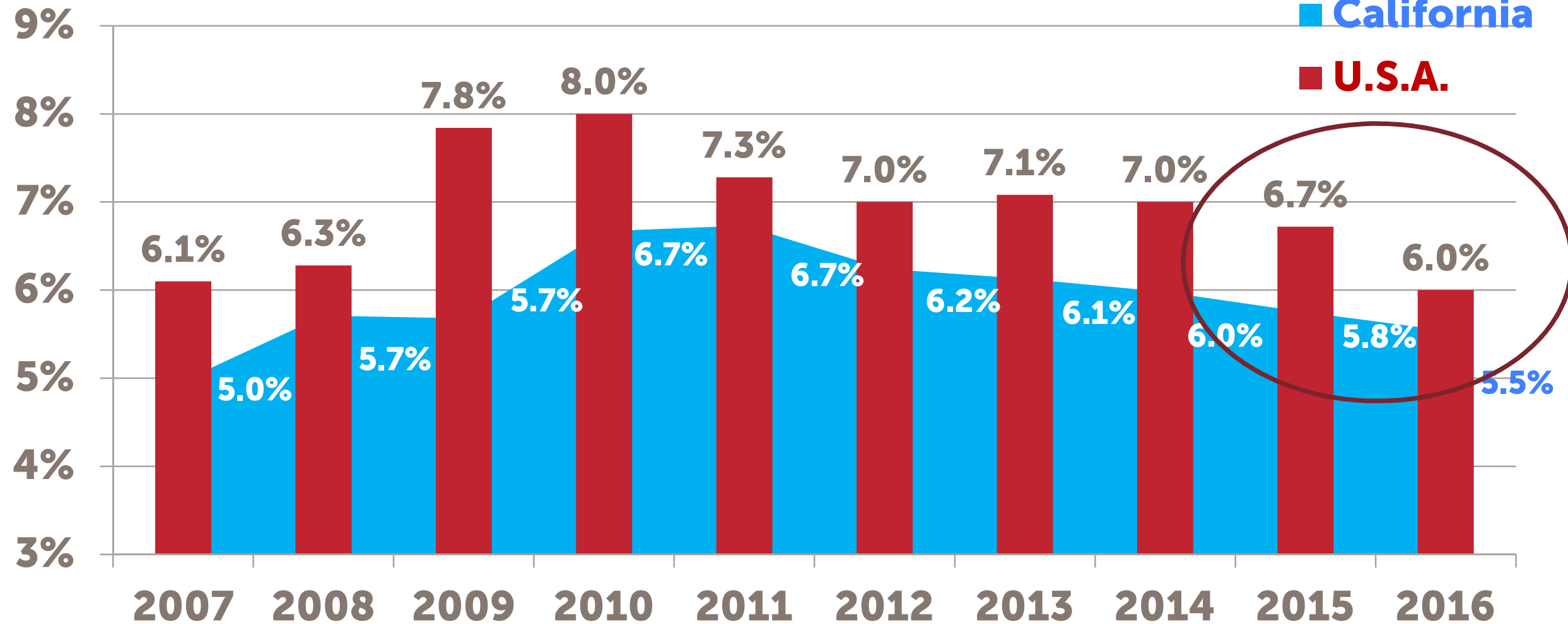
Median Price/Unit  
(\$000)



## Value Trends: Median Capitalization Rate Trends

Source: CoStar

Median Cap Rate



## Final Thoughts:

- With the introduction of new FASB accounting provisions that enhance after tax reported income from LIHTC partnerships, tax credit investments are increasingly attractive to non-CRA influenced investors.
- Offering high yields, low cash flow volatility and potential back-end wind falls, enhanced by the availability of highly advantageous FHA-guaranteed construction-to-perm financing, LIHTC investments are emerging as a attractive and distinct new CRE asset class.
- Indeed, the affordable housing industry may be on the cusp of a renaissance that will provide significant social benefits to Americans while opening up tremendous opportunities for industry participants.

THANK YOU VERY MUCH FOR YOUR KINDNESS!