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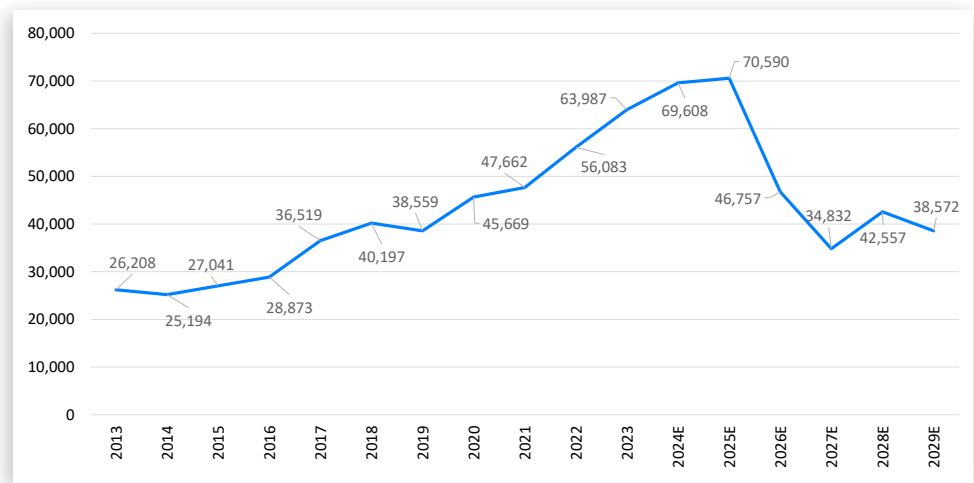
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Interplay Between Market-Rate and Affordable Multifamily Rents Varies Greatly by Market

A growing number of renter households in the U.S. are cost burdened, meaning they pay more than 30% of income on rent. The Harvard Joint Center for Housing Studies estimates the cost burdened designation applies to 80% of renter households with incomes up to 60% of the area median income (AMI), 47% of renters with incomes up to 80% of AMI and 28% of renters with incomes up to 100% of AMI. Consequently, the need for affordable housing has never been greater.

Recognizing the need for affordable housing to low- and moderate-income families, policymakers at all levels of government are trying to increase supply. Yardi Matrix forecasts deliveries of fully affordable housing to reach 69,600 units in 2024 and then hit a multi-year peak in 2025 at 70,500 units before dropping in future years. Starts have declined sharply in 2024 due to a variety of factors, including the cost of capital, land and construction materials.

Fully Affordable Deliveries in the U.S. to Peak in 2025 Before Dropping



Source: Yardi Matrix

Despite the strong demand for low-cost units, the availability and competitiveness of fully affordable housing—defined as properties in which at least 90% of units have income restrictions—varies by market across the U.S., based on a study of Yardi Matrix's affordable housing database. The database encompasses more than 3.3 million units in 20,000 properties, including 11,000 owned by private sector entities and about 9,000 controlled by non-profit organizations: non-governmental authorities (NGOs) and public housing authorities (PHAs).

In this first-of-its-kind study, we compared the average maximum allowable rent of fully affordable units owned by private entities with the average advertised rent of market-rate units broken into four levels of apartment quality defined in Matrix.

■ The fully affordable maximum allowable rent averages are determined by using a per-unit calculation of factors that include the federal Department of Housing and Urban Development (HUD)'s income limits, which differ by location; family size adjustments; utility allowances; and the specific property income restriction splits (how many units' rents are restricted to 40% or 60% or 80% of AMI, etc.)

■ The four property quality types that are embedded in Matrix are:

- Discretionary (equivalent to A+, A apartments).
- Upper Mid-Range (A-, B+).
- Low Mid-Range (B, B-).
- Workforce-Upper (C+, C).

For each metro, we calculated the average advertised rent in each of the market-rate quality categories and the share of apartment units comprised by each category. To use Austin as an

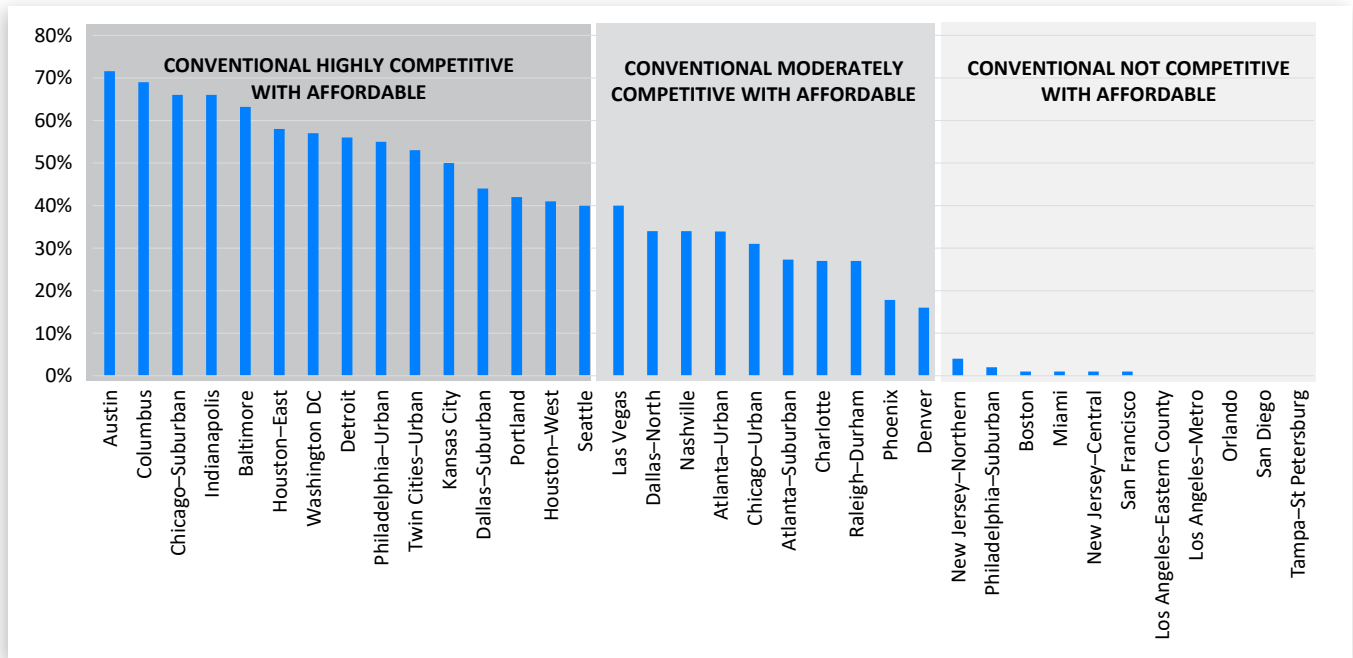
example, the average fully affordable maximum rent is \$1,540, while the advertised averages in the market-rate categories are:

- \$1,941 for Discretionary, which comprises 23% of stock in the metro.
- \$1,711 for Upper Mid-Range, which comprises 46% of stock in the metro.
- \$1,378 for Low Mid-Range, which comprises 20% of stock in the metro.
- \$1,285 for Workforce-Upper, which comprises 5% of stock in the metro.
- \$1,540 for Fully Affordable - Private Sector, which comprises 6% of stock in the metro.

Using the government's definition of "affordability" (when housing costs consume 30% or more of household income), we calculated the percentage of area median income it would take to "afford" the rent in each quality category before becoming cost burdened. In the example of Austin:

- Households that earn 73% of the AMI could afford the average rent of a Discretionary property.
- Households that earn 64% of the AMI could afford the average rent of an Upper Mid-Range property.
- Households that earn 52% of the AMI could afford the average rent of a Lower Mid-Range property.
- Households that earn 50% of the AMI could afford the average rent of a Workforce-Upper property.
- Households that earn 58% of the AMI could afford the average rent of a Fully Affordable property.

Percentage of Market-Rate Stock in Competition With Fully Affordable Developments



Source: Yardi Matrix

Housing quality categories were deemed “competitive” with fully affordable when the percentage of households that could afford the average rent for market-rate units fell within 10% of the same calculation for fully affordable units. We further credited all of the properties within the quality category to be competitive with affordable. To use the Austin example, Upper Mid-Range (46% of total stock), Low Mid-Range (20%) and Workforce-Upper (5%) were all considered competitive with affordable. Totalling the percentage of stock in those categories, we determined that 71% of multifamily properties in Austin are competitive with fully affordable units.

Factors That Determine Competitiveness

The results nationally make apparent that the level of competitiveness between market-rate and fully affordable properties varies greatly by locale. At least 90% of market-rate stock is competitive with affordable properties in seven small markets, including South Dakota; Wichita, Kan.;

Huntsville, Ala.; Amarillo, Texas; Des Moines, Iowa; Fayetteville, Ark.; and Omaha, Neb.

On the other end of the spectrum, there are 32 metros in which no market-rate properties are deemed competitive according to our analysis. These non-competitive metros are mostly large markets such as San Francisco, Los Angeles, Boston, Miami and Northern New Jersey, but the list also includes a few tertiary metros such as Hickory, N.C., and Port St. Lucie, Fla. There appear to be several main factors that correlate to market-rate properties’ competitiveness with affordable:

Cost. One reason why some market-rate properties are more or less competitive with affordable is the average cost of all rents in a market. In metros with extremely high average rents, such as San Francisco (where the market-rate average is \$3,028 and fully affordable average is \$1,982) or Boston (where the market-rate average is \$2,801 and fully affordable average is \$1,819), there is a big gap between market-rate and fully affordable rents.

BOSTON

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$3,636	109%	34,574	20%	53%	-
Upper Mid-Range (A-, B+)	\$3,120	95%	49,527	29%	39%	-
Low Mid-Range (B, B-)	\$2,514	77%	34,852	20%	21%	-
Workforce–Upper (C+, C)	\$2,226	69%	39,214	23%	13%	-
Fully Affordable–Private Sector	\$1,819	56%	12,317	7%	-	-
Total/Average	\$2,801	85%	170,484	100%	-	0%

Source: Yardi Matrix

COLUMBUS

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$1,816	82%	3,835	2%	27%	-
Upper Mid-Range (A-, B+)	\$1,608	72%	45,159	26%	17%	-
Low Mid-Range (B, B-)	\$1,343	59%	62,025	35%	4%	35%
Workforce–Upper (C+, C)	\$1,075	48%	56,821	32%	-7%	32%
Fully Affordable–Private Sector	\$1,147	55%	7,171	4%	-	-
Total/Average	\$1,327	59%	175,011	100%	-	67%

Source: Yardi Matrix

Conversely, in markets such as Columbus (where the market-rate average is \$1,327 and the fully affordable average is \$1,147) or Oklahoma City (where the market-rate average is \$1,039 and the fully affordable average is \$984), the average market-rate rents are low, creating a small gap with affordable rates.

Supply Growth. Another factor is levels of new supply. In markets with rapid supply growth, it is often the case that more market-rate properties are competitive with affordable properties. Austin, which added 30.1% to stock since January 2020 and perennially is among the national leaders in supply growth, is an example. An example on the other side of the equation is Orange County, which has added only 7.0% to its stock since January 2020 and is located in a state with many barriers to development. Our analysis found that market-rate properties are not competitive with affordable units in Orange County.

The reasons for the impact of supply growth are complicated. The primary factor seems to be that markets that have less burdensome entitlement and regulatory processes are more responsive to market demand. Another factor is that markets that allow more affordable construction have a smaller gap between market-rate and affordable rents. The quality level of recently built affordable stock is often better than decades-old less-expensive Workforce units that lack modern amenities or are less well-maintained. Newer fully affordable stock often has amenities such as pools and common areas that can push the price higher.

Composition of Stock. There is a competitiveness disparity that involves the composition of property quality as a percentage of total stock. In other words, markets in which stock is dominated by Low Mid-Range and Workforce properties have a higher percentage of market-rate properties

ORANGE COUNTY

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$3,248	97%	44,278	23%	43%	-
Upper Mid-Range (A-, B+)	\$2,999	91%	34,751	18%	37%	-
Low Mid-Range (B, B-)	\$2,670	80%	57,248	29%	26%	-
Workforce–Upper (C+, C)	\$2,330	70%	47,897	25%	16%	-
Fully Affordable–Private Sector	\$1,769	54%	10,596	5%	-	-
Total/Average	\$2,727	81%	194,770	100%	-	0%

Source: Yardi Matrix

AUSTIN

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$1,941	73%	62,479	23%	15%	-
Upper Mid-Range (A-, B+)	\$1,711	64%	126,158	46%	6%	46%
Low Mid-Range (B, B-)	\$1,378	52%	55,311	20%	-6%	20%
Workforce–Upper (C+, C)	\$1,285	50%	14,627	5%	-8%	5%
Fully Affordable–Private Sector	\$1,540	58%	17,714	6%	-	-
Total/Average	\$1,663	62%	276,289	100%	-	-71%

Source: Yardi Matrix

competitive with affordable. This disparity exists for different reasons, including when the bulk of the stock was built. Cities that have grown in recent decades often—but not always—have a greater percentage of high-quality stock.

An example of this trend is St. Louis, where 68% of stock is in the Low Mid-Range and Workforce categories that are competitive with affordable units. The inverse is also true, in that some markets that have a higher percentage of Discretionary and Upper Mid-Range stock have fewer market-rate properties competitive with affordable. Examples of this trend include Orlando, where 60% of stock is in Discretionary and Upper Mid-Range categories that are not competitive with affordable units, or Denver, which also has 60% of stock in the Discretionary and Upper Mid-Range categories.

Affordable Market Needs More Transparency

Some caveats are necessary. The competitiveness factors that we cite are present to one degree or another at various levels in each market. In other words, the reasons for competitiveness with affordable properties constitute an “and/or” analysis and differ from market to market. What’s more, our study, the first of its type, is by its nature very broad. It relies on combining all properties in a quality type by metro, not an individual property analysis. The relative competitiveness between market-rate and affordable in each market is in reality more nuanced.

That said, we believe that this analysis represents a valuable first step to compare the differences between market-rate and affordable rents and to understand why some markets are more

ST LOUIS

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$2,200	102%	5,972	5%	43%	-
Upper Mid-Range (A-, B+)	\$1,643	75%	21,580	19%	16%	-
Low Mid-Range (B, B-)	\$1,308	58%	37,848	33%	-1%	33%
Workforce–Upper (C+, C)	\$971	44%	40,267	35%	-15%	35%
Fully Affordable–Private Sector	\$1,196	59%	9,264	8%	-	-
Total/Average	\$1,290	58%	114,931	100%	-	68%

Source: Yardi Matrix

ORLANDO

Quality Category	Average Rent	Average	Total	% Stock	AMI % Premium	Competitive
	Per Unit	AMI %	Units	by Unit	to Affordable	w/ Affordable
Discretionary (A+, A)	\$2,069	100%	52,854	21%	42%	-
Upper Mid-Range (A-, B+)	\$1,893	90%	97,575	39%	32%	-
Low Mid-Range (B, B-)	\$1,621	78%	49,759	20%	20%	-
Workforce–Upper (C+, C)	\$1,345	69%	20,032	8%	11%	-
Fully Affordable–Private Sector	\$1,181	58%	29,663	12%	-	-
Total/Average	\$1,748	84%	249,883	100%	-	0%

Source: Yardi Matrix

successful at producing housing that meets the demands of households with limited incomes. Far from being the last word on the topic, we view this as a beginning of what we hope is an ongoing effort to study numbers that are now available through the new Matrix database. We expect to refine our methodologies and encourage users to develop their own.

As we said at the outset, the affordability crisis has put a spotlight on the need for affordable housing. The solution, however, will involve

more than just funding. Information and data are vital to creating efficient and functioning markets. The affordable housing sector has long lacked transparency on the level of market-rate apartments. We hope that the transparency provided by the Yardi Matrix database will generate a greater understanding and enable the market to operate more efficiently and help stakeholders better meet the demand for affordable housing.

—Paul Fiorilla, Director of Research, Yardi Matrix

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