

Housing Supply Action Plan Becomes More Concrete; Market Normalization Underway

White House aims for greater housing affordability. Incentivizing the construction of lower-income housing in various forms is the primary goal of the Housing Supply Action Plan, updated this October. In particular, a proposed income averaging provision for the Low-Income Housing Tax Credit would make development more feasible in sparsely-populated areas, by no longer requiring all tenants to meet the same income threshold. This change joins a series of other alterations and additions, designed to ease the regulatory and financial hurdles of building income-restricted dwellings. Addressing housing affordability is becoming a priority for the Biden administration, after steep home price run-ups directed excess demand to apartments and drove up rental costs.

Economic uncertainty weighing on apartment demand. Following the strongest first quarter on record for multifamily net absorption earlier this year, the metric has now dipped negative in consecutive three-month spans. National vacancy rose from just 2.4 percent in March to 4.1 percent in September. For a historic context, this rate is about 120 basis points below the same month's average between 2000-2019, but up by the same 120-basis-point margin from one year ago. This indicates a normalization is playing out, after a stretch of historically tight conditions. Fewer people are forming new households amid broad-based uncertainty, hindering rental demand. At the same time, new supply is being delivered at a blistering pace, creating a temporary imbalance.

Rent growth settles. The average effective apartment rent in the U.S. was up by a double-digit percentage year-over-year in the third quarter, but the pace is easing as availability increases and units take longer to fill. In September, rentals in the U.S. remained vacant for 27 days on average, up from 23 days in the same month of 2021. This is producing smaller rate adjustments for new tenants. Rent increases for units leased out to new occupiers dropped from a 2022 peak of 19.1 percent in May to 11.3 percent in September. Meanwhile, rates for tenants renewing their leases have climbed throughout this year, as rents are realigned to the market, following significant upward movement over the past 18 months.

Housing Supply Action Plan Updates

Reward jurisdictions that have reformed zoning and land-use policies with higher scores in certain federal grant processes.

Deploy new financing mechanisms to build and preserve more housing, including with: manufactured housing (including with chattel loans), accessory dwelling units (ADUs), two-to-four unit properties, and smaller multifamily buildings.

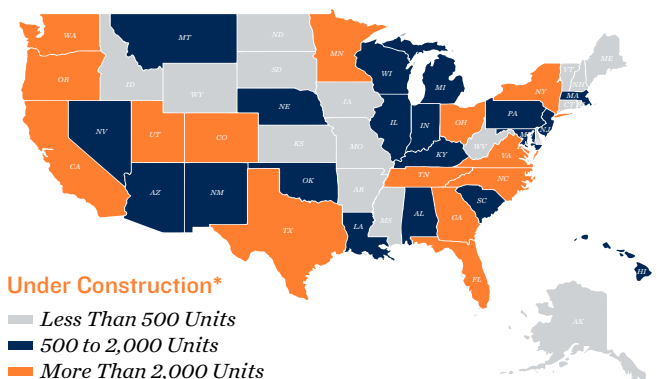
Make construction-to-permanent loans more available, by exploring the feasibility of Fannie Mae purchase of these loans.

Promote the use of government COVID-19 recovery funds to expand affordable housing supply.

Reform the Low-Income Housing Tax Credit (LIHTC), which provides credits to private investors developing affordable rental housing, and the HOME Investment Partnerships Program, which provides grants to states and localities that communities use to fund a wide range of housing activities.

Ensure that more government-owned supply of homes and other housing goes to owners who will live in them — or non-profits who will rehab them — instead of institutional investors.

Affordable Rental Construction by State



* As of October 17, 2022; Includes All Units in Fully Affordable Complexes

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage; Yardi Matrix