



Yardi[®] Matrix

National Affordable Housing Report

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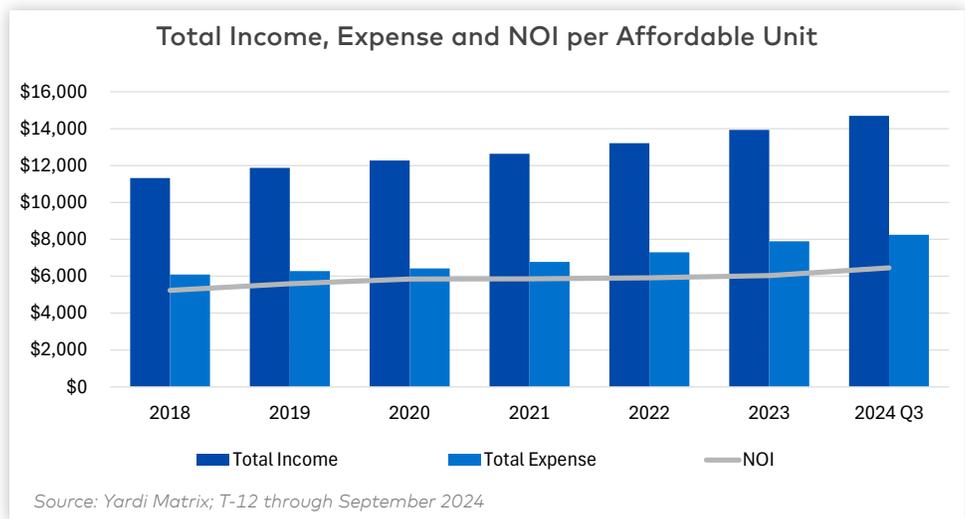
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Expenses, Income Rise In Affordable Housing Properties

Expenses have increased at above-trend levels for several years at all multifamily assets, but it could be most keenly felt for affordable properties, where expenses generally take up a greater share of revenue than in market-rate properties, according to an analysis of Yardi Matrix data. Through three quarters of 2024, expenses rose an average of 6.4% year-over-year per affordable multifamily unit nationally, according to Matrix. That’s a deceleration compared to the previous two years, but still more than typical annual expense growth of 3-4%.

The growth in expenses was led by property insurance, which has increased rapidly in recent years due to the growing number of weather-related damage claims and marketing costs. Insurance per unit rose 20.3% year-over-year through September 2024, while marketing rose 18.4%. On a regional basis, the Southwest (8.5%) and West (6.8%) led in expense growth in affordable properties over the past year. Expense growth is highest in rapidly growing areas in which inflation is high and where insurance costs are soaring.

The data comes from an analysis of 6,443 affordable multifamily properties in 114 metros across the U.S. in the Yardi Matrix database. The sample includes fully affordable properties, which we define as assets in which at least 90% of units are designated as affordable. That encompasses prop-



erties owned by Public Housing Agencies (PHAs) and Non-Governmental Organizations (NGOs), and private sector owners that use Low-Income Housing Tax Credits (LIHTC), Section 8 subsidies or other affordable programs. All data cited in this report comes from the Yardi Matrix database. For this paper, we used trailing 12-month analysis to calculate year-over-year change.

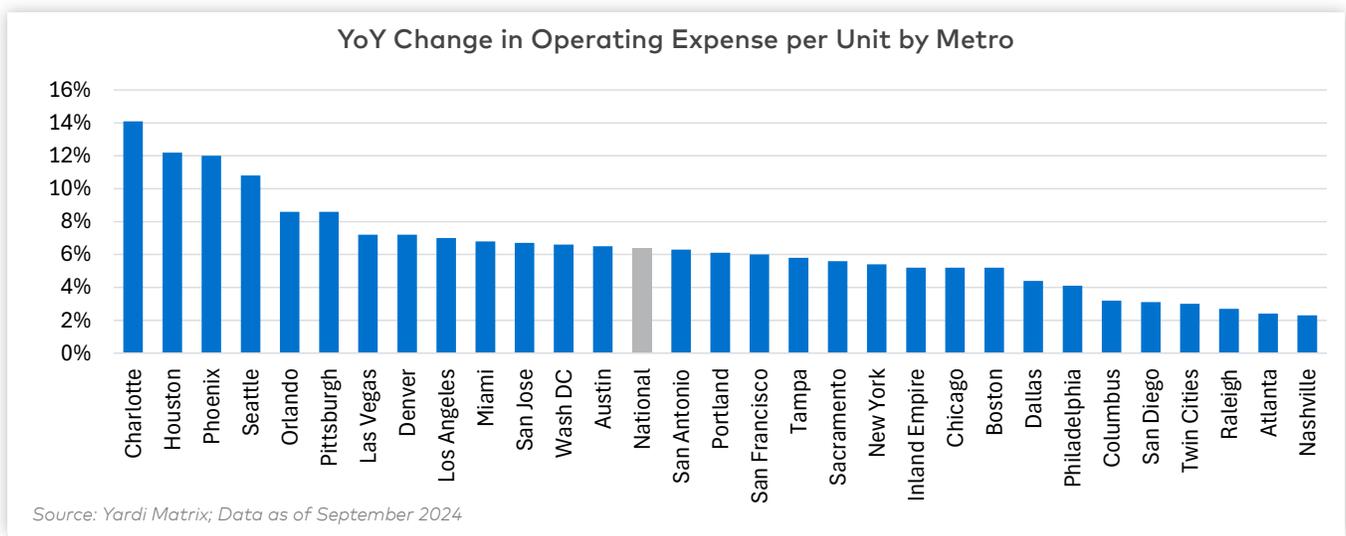
While expense growth has been above-trend of late, it has largely been in sync with increases in revenue at affordable properties. Consequently, affordable multifamily properties generally have recorded strong increases in net operating income over the past year, even as expenses grow rapidly. Still, with inflation and wage growth moderating in the economy, the formula that governs affordable property rents and income growth is likely to limit rent growth going forward. Without getting a handle on expenses, owners may find their properties' NOI shrinking.

Expense Growth High, Led by Insurance

As of the end of the third quarter of 2024, the average expense per unit for affordable multifamily properties nationally was \$8,243, which was up

\$499, or 6.4% year-over-year. The growth rate in expenses at affordable properties represents a slight deceleration from 8.2% in the full year of 2023 and 7.7% in 2022. Expenses grew slower in previous years: 5.4% in 2021, 2.2% in 2020, 3.2% in 2019 and 3.6% in 2018. Markets with the highest average expenses at affordable properties include New York (\$14,485), Boston (\$13,240) and San Francisco (\$10,662), while the lowest average expenses are in Orlando (\$5,773), Las Vegas (\$6,000) and San Antonio (\$6,095).

Since 2018, when the average expense per unit at affordable housing properties was \$6,089, expenses have risen a total of 35.3%. The biggest driver of higher expenses has been property insurance, which rose 20.3% year-over-year through September 2024 to \$811 per unit. Property insurance costs have increased by at least 15% for the last five years, rising 135.7% since 2018. Insurance growth is not just an affordable housing phenomenon, since costs have risen comparably in the market-rate multifamily sector as well, driven by similar factors. Claims have mushroomed in recent years due to major weather-related events, such as hurricanes and floods, as well as wildfires and cold weather events.



Growth in Costs by Expense Category

Expense Category	YOY % Change
Insurance	20.3%
Marketing	18.4%
Total NOI	8.1%
Administrative	7.3%
Repairs & Maintenance	6.7%
Total Operating Expense	6.4%
Payroll	5.7%
Management	5.2%
Utilities	2.0%
Taxes	1.5%

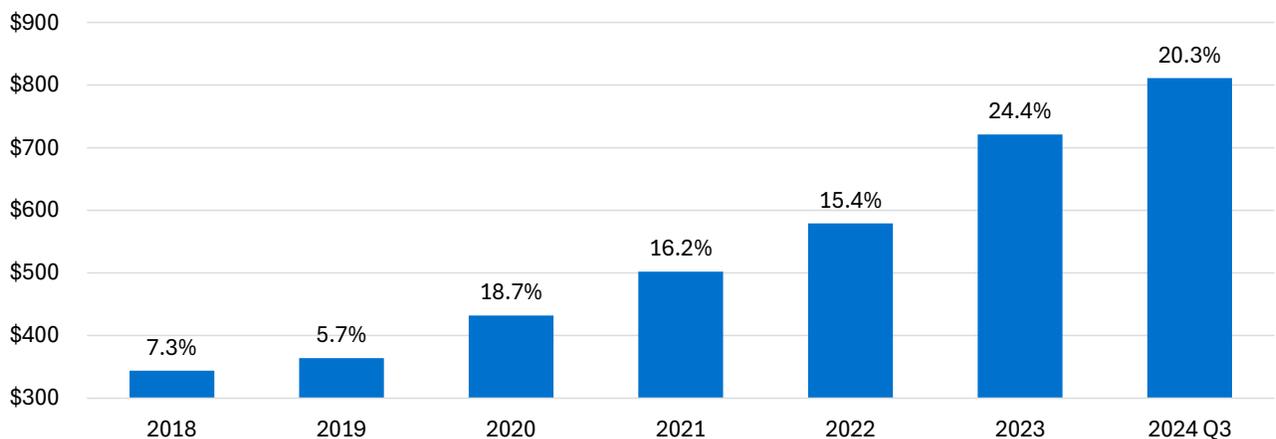
Source: Yardi Matrix; Data as of September 2024

While property insurance costs are rising rapidly most everywhere, regions subject to large damage events have seen higher growth. The Southeast (23.9%) saw the largest increase year-over-year through September 2024, followed by the Southwest (22.3%) and West (21.1%). Eight metros recorded growth of 25% or more during that time: Houston (41.5%), Charlotte (39.4%), Tampa (34.3%), Los Angeles (31.6%), Phoenix (28.7%), Miami (27.7%), Sacramento (27.1%) and Orlando (25.5%).

As a share of total expenses at affordable properties, insurance rose to 9.8% as of 3Q 2024, up from 5.6% in 2018. The growth puts an onus on property owners to develop risk management strategies to slow insurance rate increases. That includes taking active steps to reduce losses on security and resiliency, developing portfolio-level capital planning and risk modeling, strategizing with underwriters and reinsurers, and negotiating with lenders on loan terms, underwriting standards and deductibles.

Insurance isn't the only expense category that is rising fast. "Other" operating expenses rose 26.4% year-over-year through 3Q 2024, while marketing increased 18.4%, administration 7.3%, and repairs and maintenance 6.7%. Other expenses are a small share of total expenses, so that represented only an \$8 per unit year-over-year increase for property owners. Increased marketing costs can be traced in part to the robust multifamily supply pipeline and the need for property owners to attract tenants as the amount of available stock grows in high-supply markets. Labor costs have increased as the job market remains tight and employers pay more to attract and retain managers and other employees.

Affordable Housing Insurance Cost per Unit, YoY Growth



Source: Yardi Matrix; T-12 through September 2024

Growth in expenses at affordable housing properties is not distributed evenly across the country. By region, year-over-year through 3Q 2024, the Southwest (8.5%) and West (6.8%) were above the national average, the Southeast (6.4%) matched the average, and the Northeast (6.1%) and Midwest (5.4%) were below the national average.

Operating Expense by Region

Region	YoY \$ Change in Operating Expense	YoY % Change in Operating Expense
Southwest	\$551	8.5%
West	\$521	6.8%
Southeast	\$456	6.4%
National	\$499	6.4%
Northeast	\$609	6.1%
Midwest	\$403	5.4%

Source: Yardi Matrix; Data as of September 2024

Insurance increases were high everywhere, led by the Southeast (23.9% year-over-year through 3Q 2024), followed by the Southwest (22.3%), West (21.1%), Midwest (16.9%) and Northeast (15.1%). The Northeast, at 8.3% year-over-year through 3Q 2024, led in income growth, resulting in an 11.8% growth in NOI. Income growth was 7.7% in the Southeast (9.7% NOI growth), 6.7% in the Midwest (9.1% NOI), 6.6% in the Southwest (4.1% NOI) and 6.5% in the West (6.2% NOI).

Insurance Cost by Region

Region	YoY \$ Change in Insurance Cost	YoY % Change in Insurance Cost
Southeast	\$169	23.9%
Southwest	\$157	22.3%
West	\$128	21.1%
National	\$137	20.3%
Midwest	\$91	16.9%
Northeast	\$133	15.1%

Source: Yardi Matrix; Data as of September 2024

By market size, tertiary markets had the highest increase in expenses at affordable properties (6.6% year-over-year through 3Q 2024), while secondary markets were up 6.5% and gateway 6.3%. Tertiary markets also recorded the highest income growth (8.2%), while gateway income rose 6.8% and secondary markets 6.7%.

Net Income Up in 2024

Expense growth is a dilemma for apartment owners, but inflation and wage growth have created a silver lining for affordable housing properties, where rent growth limits are set annually by formulas governed by the federal Department of Housing and Urban Development. The HUD formulas allow rent increases based on the greater of 5% annually or two times the rate of inflation. Because the inflation rate dropped below 2% in 2012 and remained there for the most part until the pandemic hit in 2020, the maximum rent increase has been fairly restrained and stable for most of the last decade.

However, with inflation soaring in the wake of the COVID-19 pandemic, the formula has more recently allowed for higher rent growth. In 2024, HUD decided to limit the maximum allowable rent increase to 10% because the formula would have allowed for 14% growth. (Rent increases can be restricted further by local jurisdictions, and of course property owners can choose to increase rents less than the maximum level.)

Maximum allowable rents are based on a formula, and rate growth varies depending on local area median income (AMI), but generally speaking the HUD cap allowed for higher-than-normal rent growth in 2024, which is reflected in the strong income growth of affordable properties. Income per unit increased by an average of 7.2% nationally year-over-year through 3Q 2024 at affordable properties. That compares to 5.5% in calendar year 2023, 4.6% in 2022 and 3.0% in 2021. Five metros recorded double-digit increases.

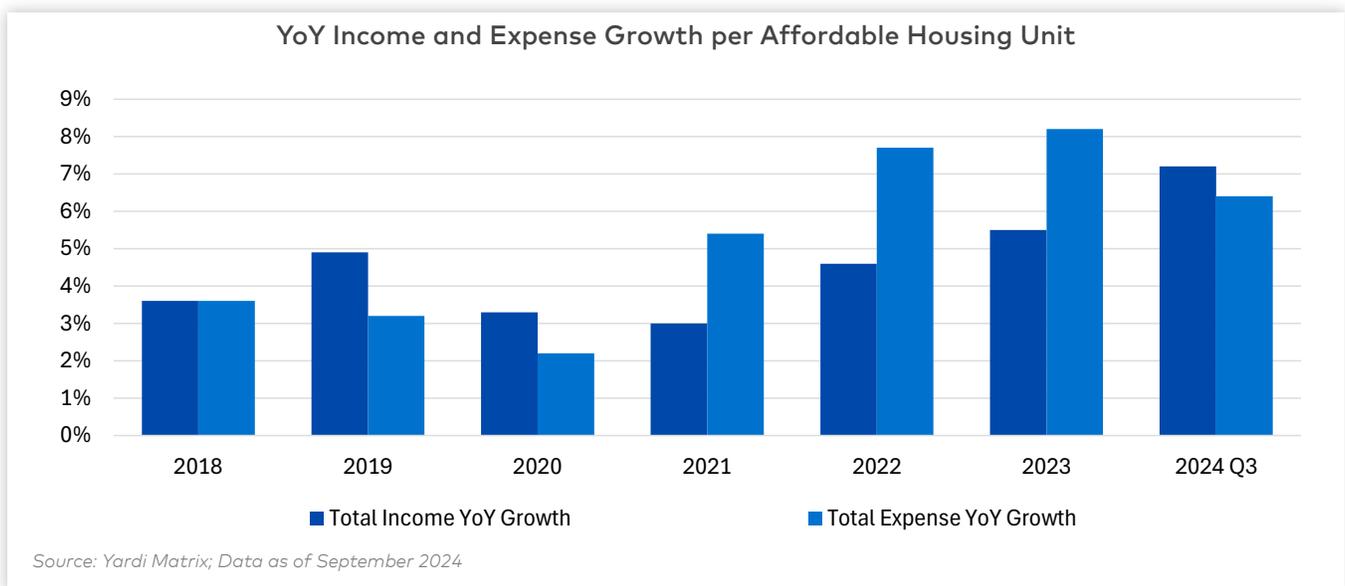
es in income: Nashville (12.9%), San Antonio (12.0%), San Diego (11.4%), Charlotte (10.1%) and Sacramento (10.0%).

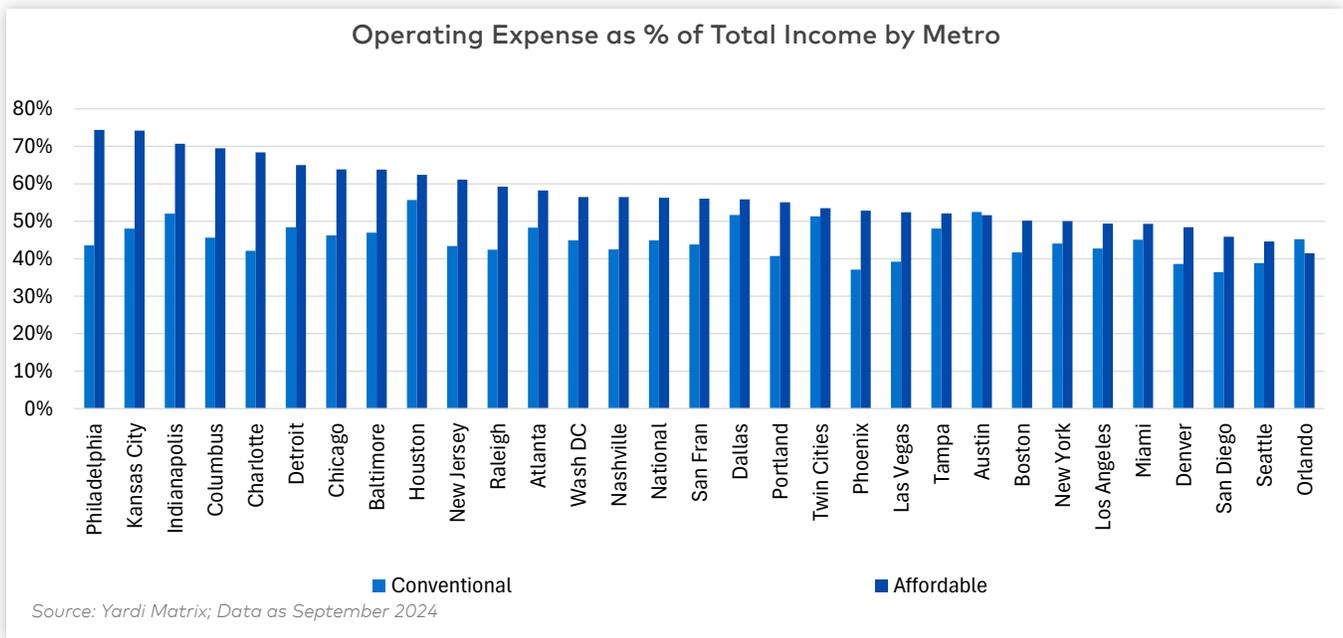
Boosted by the rise in HUD rent growth formula, net operating income at affordable properties increased by 8.1% per unit nationally year-over-year through 3Q 2024. That compares to increases of 2.0% in 2023, 1.0% in 2022, 0.3% in 2021 and 4.6% in 2020. Nine metros recorded double-digit increases in average NOI, led by Nashville (25.0%), San Diego (20.2%), Raleigh (19.8%) and San Antonio (19.6%).

Strong income growth was no guarantee of positive NOI growth, however. In some markets with healthy increases in income, expenses more than ate up revenue growth. Examples include Charlotte (10.1% income growth and 14.1% expense growth, resulting in -1.2% NOI); Houston (6.0% income growth and 12.2% expense growth, resulting in -3.1% NOI); and Pittsburgh (6.2% income growth, 8.6% expense growth, resulting in -3.2% NOI).

Despite being protected somewhat from negative market forces by the HUD formula that ties rent growth to inflation, affordable properties operate on a thinner margin than market-rate assets. Expenses in the average affordable property comprise 56.3% of revenue compared to just 44.9% in market-rate assets. Those thinner margins are compounded by the fact that a higher percentage of tenants in affordable properties miss rent payments.

Markets in which expenses at affordable properties comprise the highest share of income are Philadelphia (74.4%), Kansas City (74.2%) and Indianapolis (70.7%). But the percentage varies by market, and in six—Los Angeles, Miami, Denver, San Diego, Seattle and Orlando—expenses are less than half of income, ranging from 41.5% to 49.4%. Markets with the largest gap between expenses as a percentage of income in affordable as opposed to market-rate properties include Philadelphia (74.4% of income at affordable properties and 43.5% for market rate), Charlotte (68.4% of income at affordable properties and 42.1% for market rate) and Kansas City (74.2% of income at affordable properties and 48.0% for market rate).





Efficiency Is Key for Affordable Owners

Growth in expenses has shot up at multifamily properties, both market rate and affordable, due to a plethora of factors including increases in property insurance, the rising cost of labor and materials, and incidental items such as marketing. The growth rate and the cause of the increase in expenses vary by market, with the highest increases coming in rapidly growing markets such as Charlotte, Houston and Phoenix.

There is both good and bad news for affordable properties. The good news is that the formula

that governs rent growth allows for higher increases when inflation and wage growth in the economy are high. The bad news is that expenses generally eat up a higher percentage of income in affordable properties than market-rate assets. Plus, especially since the pandemic eviction bans went into place, affordable properties have a higher percentage of tenants that fail to pay rent on time. The upshot is that owners of affordable properties would be wise to examine operating efficiencies and develop strategies to cut costs.

—Paul Fiorilla, Director of Research, Yardi Matrix

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