Yardi® Matrix

National Affordable Housing Report

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Affordable Multifamily Deliveries Set to Peak in 2025

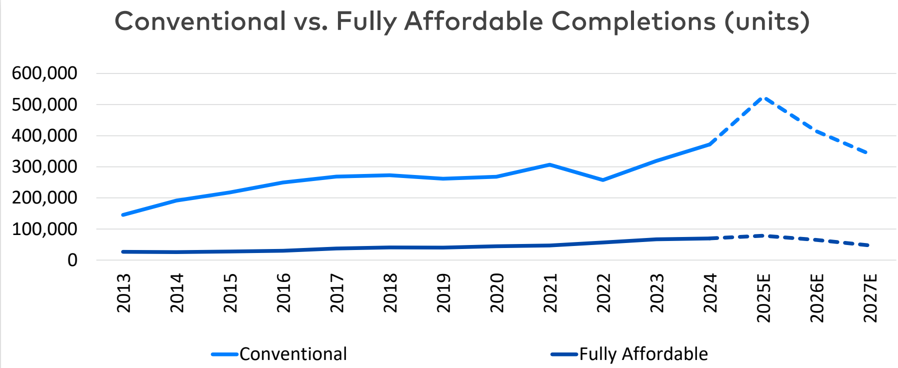
With shelter costs a growing issue across the country, construction of affordable multifamily housing is an increasingly important component of the nation's housing stock. Completions of affordable multifamily (defined as properties that agree to limit rents as a condition of a tax credit or subsidy) are set to reach a multi-year high of 78,000 in 2025, according to Yardi Matrix's new affordable database.

Meanwhile, starts have dropped as construction becomes more difficult, which means deliveries will decline in coming years at the same time the demand is growing. Starts of fully affordable units fell by 28.7% to 66,000 in 2024, the lowest number since 2020. However, starts of market-rate apartments fell even faster, by 47% to 208,000 in 2024, the lowest number since 2013. The result is that affordable multifamily construction is increasing as a share of all multifamily development activity.

Some of the decline in affordable housing starts is due to the same factors that limit market-rate construction. Those include the costs of land, labor and materials; rising insurance premiums; lack of labor; delays in entitlements; and slower construction times. For affordable properties, that means as costs rise, the same amount of subsidies produces fewer units. And the longer it takes to build, the fewer units get delivered. Yet another potential problem for the segment is that the value of tax credits may be reduced if corporate taxes are cut, which means affordable development general partners must raise more equity to capitalize projects.

Affordable construction is not equal across the country. How it is distributed is based to a large degree on demand and support of state and local governments. Matrix found that California, Texas and Florida lead the nation in affordable multifamily stock and development. California has 166,000 fully affordable units, Florida has 157,000 and Texas has 138,500. California leads the country in fully affordable units under construction, with 11,074, trailed by Florida (6,688 units), Texas (4,537), New York (2,480) and North Carolina (2,122) rounding out the top five. Between 2025 and 2027, California is projected to lead the U.S. with 12,556 fully affordable deliveries by private developers, with Texas (8,751 units), Florida (7,739), North Carolina (4,533) and New York (3,325) rounding out the top five states.

Growing Importance of Affordable Housing

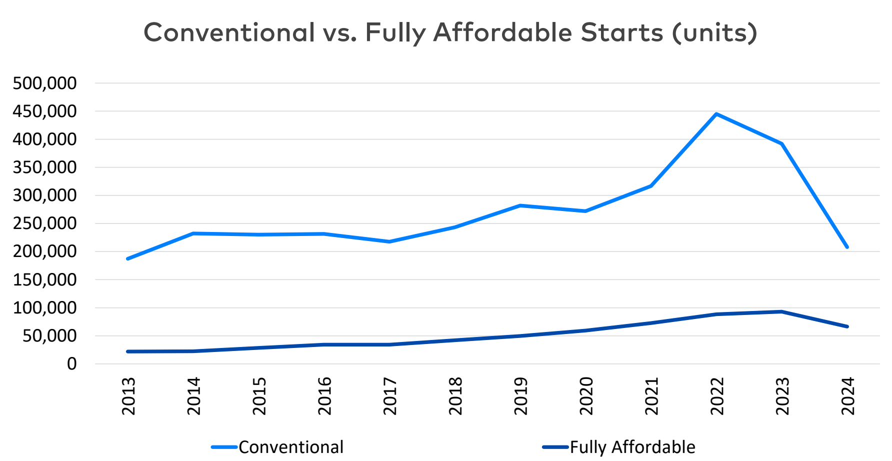


Source: Yardi Matrix; Data as of January 2025

As the cost of owning and renting a home has increased more rapidly than income in recent decades, the U.S. faces a shortage of affordable housing units, estimated at upwards of seven million. Subsidized housing has proliferated to provide some relief for low-income families. The largest federal program is the Low-Income Housing Tax Credit (LIHTC), which provides a tax credit to investors in affordable properties that agree to limit rents for 30 years or more to an amount affordable to households earning 60% (or more or less, depending on the property) of the area median income (AMI). The Urban Institute estimated in a recent report that 25% of apartments built in the U.S. between 2000 and 2019 were supported by LIHTCs.

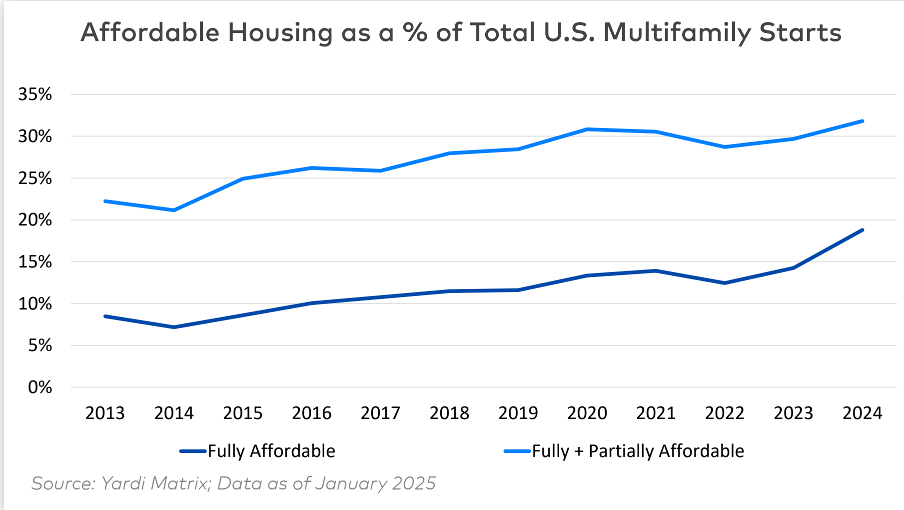
LIHTC is just one of many federal, state and local programs that employ a variety of structures. Other programs include Section 8, a direct subsidy to low-income renters, project-based vouchers, public housing grants, and low-cost loan programs. The Yardi Matrix multifamily database tracks more than 25,000 fully affordable properties with over 3.3 million units.

Total U.S. multifamily starts (including market-rate and affordable apartments, student housing, single-family rentals and senior housing) fell 46% in 2024, to 353,000 units from 652,000 units in 2023 and the recent peak of 710,000 units in 2022. Market-rate starts slowed due to a combination of worries about saturation in high-supply markets and increased costs. In the affordable segment, oversupply is not a concern, but rising costs do present a problem. Fully affordable starts fell by 28.7% to 66,000 units in 2024, down from 93,000 units in 2023 and 88,400 units in 2022.



Source: Yardi Matrix; Data as of January 2025

Because fully affordable starts are falling less rapidly than starts of market-rate multifamily, affordable is comprising a greater share of the development pie. In 2024, fully affordable units comprised 18.8% of multifamily starts, up from 14.2% in 2023 and less than 10% between 2013 and 2015. Combined affordable units at fully and partially affordable properties totaled 31.8% of multifamily starts in 2024, up from 29.7% in 2023 and 21.2% a decade ago.

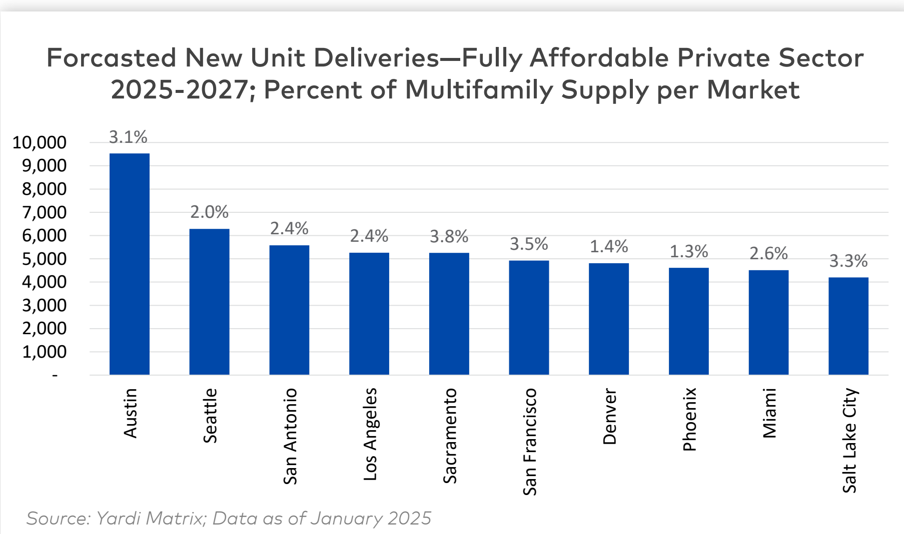


Matrix's database found 14 metros with at least 1,000 fully affordable units under construction by private developers, led by Austin (2,717 units), Miami (2,687), Los Angeles (2,196), Salt Lake City (1,861), Sacramento (1,613), San Diego (1,479) and San Francisco (1,462). The top private developers of fully affordable units under construction are Lincoln Avenue Capital (3,513 units), The Pacific Cos. (2,663), LDG Development (2,489), Dominium (2,415) and Mercy Housing (2,010).

Going forward, Matrix projects deliveries nationally to total 78,377 in 2025, up 12.6% from 69,596 in 2024, before falling to 64,745 in 2026 as the impact of fewer starts begins to take effect. Six markets are expected to top 2,000 fully affordable deliveries in 2025: Austin (3,452 units), Los Angeles (2,752), Brooklyn (2,701), Phoenix (2,688), Miami (2,037) and Seattle (2,018). Five markets are forecast to have more than 5,000 affordable deliveries from 2025 through 2027: Austin (9,528 units), Seattle (6,289), San Antonio (5,581), Los Angeles (5,262) and Sacramento (5,253).

Growing Costs of Material, Labor

Rising costs are eating into affordable apartment development. One factor—out of the hands of the industry—is interest rates. Short-term interest rates rose starting in 2022 as the Federal Reserve tried to slow economic growth and inflation. That has increased construction financing significantly, with private construction debt currently priced in the 11% range. Meanwhile, as they are watched by regulators, commercial banks are trying to reduce exposure to commercial real estate, especially non-cash-flowing assets such as construction loans. That means less construction lending with more conservative leverage levels.



Rising insurance costs—with a 130% increase per unit nationally between 2018 and 2024 for affordable properties, according to Matrix expert data—are a large hurdle for developers. Other costs that impact the delivery pipeline include those relating to development, such as land, materials and labor. The cost of materials like lumber has been volatile since the pandemic, and further increases could come soon if President Trump follows through on threats to implement 25% tariffs on products that come from Canada and Mexico.

Labor costs rose in recent years as unemployment fell and employers had to offer raises to retain workers. Deportations could be a particular problem in large coastal markets such as California, Texas, Florida and New Jersey whose construction workforce relies an inordinate amount on undocumented workers. Affordable development has another layer of labor woes. Projects that get federal aid are subject to the Davis Bacon Act, which requires contractors to pay a local prevailing wage. That sets a high wage standard that strains the ability to pencil affordable projects.

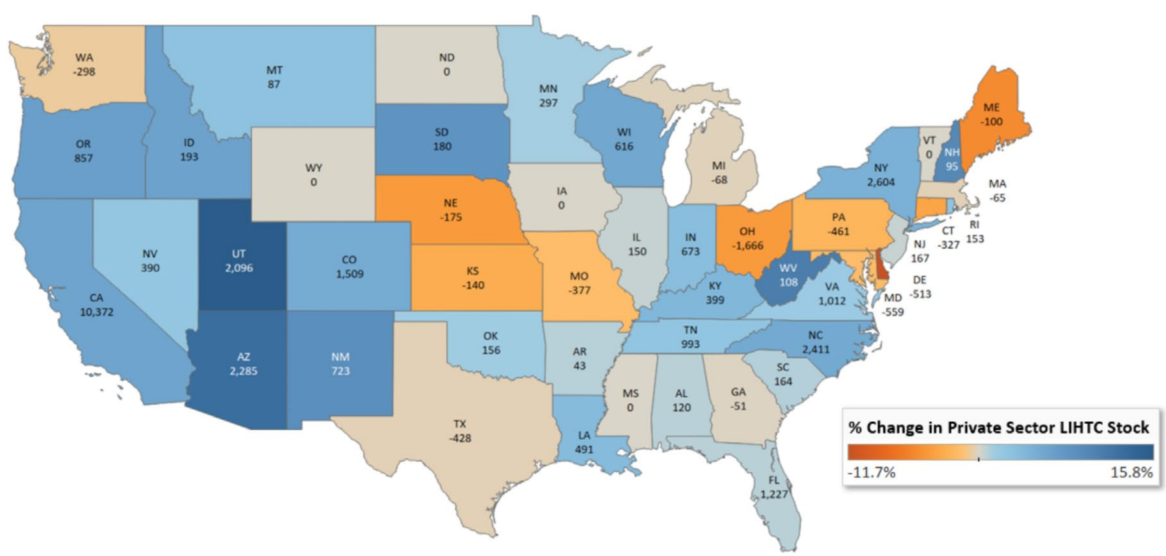
Another labor-related issue that has increased in recent years is the shortage of construction workers, which could be exacerbated by reducing legal immigration and deporting undocumented construction workers. The labor situation has contributed to the length of construction increasing in recent years. Over the past five years (2020-2024), as the median construction duration increased to 19.2 months, 31% of projects were considered on time or ahead of projections, according to accounting firm CohnReznick. During the five years prior (2015-2019), the median construction duration was 16.1 months, and 46% were considered on time or ahead of projection, per CohnReznick.

LIHTC Subsidies

Affordable projects require developers to get at least one form of subsidy, and many projects layer on federal, state and local tax credits and/or low-cost loans. The largest and most common subsidy is LIHTC, a program enacted in 1986 that requires at least 20% of units to be rented to those who earn 50% or less of area median income and at least 40% of units to be rented to those who earn 60% or less of AMI. The Department of Housing and Urban Development calculates AMI from a formula based on the midpoint of a specific area's income, and it is adjusted based on household size. LIHTC developers agree to limit rents using the formula for at least 30 years.

LIHTC provides tax credits equal to 9% of a project's capitalization each year for 10 years. Affordable projects typically have a general partner, which can be a private owner, a non-profit, a pub-

Forecast Net Change in Private Sector LIHTC Units as a Percent of In-State Stock (2025-2027)



Source: Yardi Matrix; Total private sector LIHTC units includes planned, prospective and under construction. Data as of January 2025 lic housing agency (PHA) or a non-governmental organization (NGO) that syndicates the tax credits to limited partners. The limited partners may include a wide range of investors, among them institutions, non-profits and banks that use the credits to meet obligations under the Community Reinvestment Act. As the cost of construction increases, deal sizes do, too. Value of the credits changes based on outside factors such as the corporate tax rate. Credits today are trading for 85-90 cents on the dollar in most cases.

The federal government appropriates an amount of LIHTC credits each year that are allocated to states based on population. The federal government allocated $10 billion of 9% credits in 2024, up from $9.4 billion in 2023, according to Novogradac. States award the credits to developers based on a bidding process. The competition for LIHTC credits varies by state. In some states there is fierce competition to win LIHTC credits, while in others competition is light.

Top 10 Owners of Under Construction Affordable Units

Top 10 Owners	Units Under Construction	% of Under Construction Stock
Lincoln Avenue Capital	3,513	2.1%
Pacific Companies, The	2,663	1.6%
LDG Development	2,489	1.5%
Dominium	2,415	1.5%
Mercy Housing	2,010	1.3%
Pedcor Companies	1,962	1.3%
NRP Group	1,898	1.2%
Meta Housing	1,738	1.1%
Elmington Capital Group	1,411	0.9%
Inland Group	1,368	0.9%

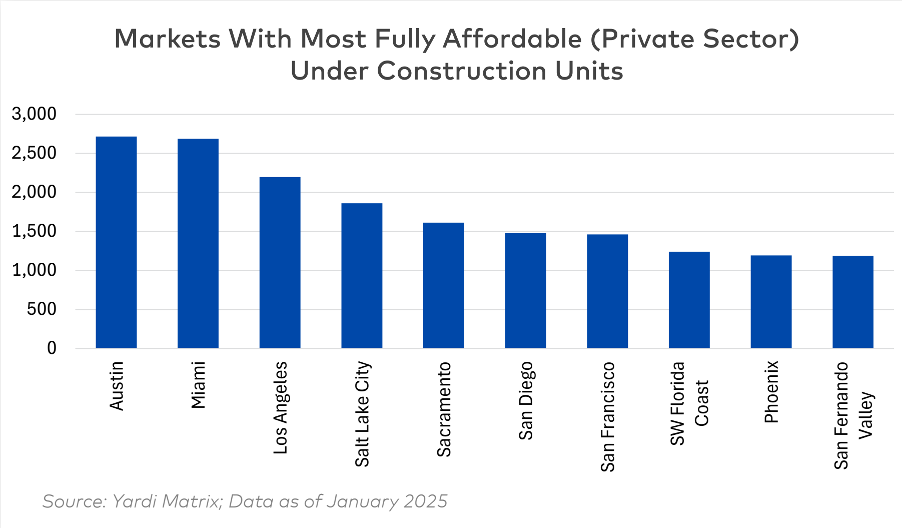
Source: Yardi Matrix; Data as of January 2025

In addition to the bevy of federal programs, affordable developers can access state and local government incentives. Municipalities, for example, can offer property tax rebates or help to pay for infrastructure to make development more feasible. That said, municipalities have a mixed attitude toward affordable housing. Some local officials recognize the importance of having affordable housing in their communities, while others try to discourage development of housing aimed at low-income households. Municipalities can delay projects for years by layering on construction requirements and prolonging the entitlement process.

New Administration, New Policies

With a new administration taking over, the potential for change is enormous. The Trump administration campaigned on the promise of building housing. Developers can expect to retain favorable tax treatment for construction projects and lower corporate taxes. Trump's picks to lead housing agencies have been proponents of opportunity zones, a program enacted during his first administration that lowered taxes on properties built in ZIP codes where residents have low incomes.

A big test will be allocations for LIHTC. A large bipartisan majority passed a bill in 2023 with a 12.5% increase in funding for the 9% LIHTC credit, which would have increased allocations of the credit to $11.3 billion in 2024 and $11.8 billion in 2025. The bill would have also lowered the threshold for 4% private activity bond financing from 50% of land and building costs to 30% for 2024-25, which in essence would have paved the way for increased use of a tool to preserve existing affordable housing. However, the bill that passed in the House stalled in the Senate.



Affordable housing advocates are looking to get the additional funding through both houses and signed into law in 2025, but that will be subject to budget negotiations that will be tight, given the need to pay for an extension of lower taxes in the 2017 tax law that are set to expire at the end of 2025. Housing subsidies are a line item vulnerable to budget cuts.

The upshot is that there is uncertainty surrounding affordable housing development relating to both market conditions and support at various levels of government. What is certain is that the need for affordable housing has accelerated in recent years, and that is not likely to change as interest rates remain high and construction of for-sale housing lags historical levels. Despite that demand, the decline in starts signals fewer affordable multifamily deliveries in the years following 2025.

—Paul Fiorilla, Director of Research, Yardi Matrix