Yardi Matrix

National Affordable Housing Report

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The Interplay Between Market Rate And Affordable Housing Rents

The growing number of households that are rent burdened has put a spotlight on housing costs and led policymakers to implement programs intended to produce more affordable housing. The federal tax bill signed into law this spring, for example, permanently increases funding for the Low-Income Housing Tax Credit (LIHTC) program by 12%, which will provide $14 billion of tax credits to be allocated among the states annually. The Opportunity Zone program, which provides tax incentives to build housing in low-income areas, also was extended and revamped.

Because the need for housing that is affordable to low- and middle-income families is so great, it is important that the money be spent wisely. One way to increase efficiency is to use data to ensure that projects are delivered to locations with both strong demand and less robust competition from market rate properties. That may sound simple, but the competitiveness between market rate and fully affordable housing (defined by Yardi Matrix as properties where at least 90% of units have income restrictions tied to subsidies) varies not only across regions but within each metro.

A comparison of rents between market rate and fully affordable housing units in Yardi Matrix's national database—which encompasses 120,000 multifamily properties (26,000 fully affordable) with 23 million units (3.5 million fully affordable)—resulted in a few main conclusions:

- In some metros, a large percentage of market rate properties' advertised rents are competitive with fully affordable properties' rents, while in others there is very little competition between the two.

- Within each metro, the level of competitiveness varies greatly, depending on factors that include the cost of market rate rents, the amount of supply, the age of the multifamily stock and the income of residents within each submarket.

- The level of competitiveness is a key component in affordable housing performance. Market rate properties that are competitive with affordable properties serve overlapping income groups and may compete for the same tenants. Therefore, occupancy rates of fully affordable properties are generally higher in metros in which market rate rents are less competitive with affordable rents.

We define competitiveness using an affordability index developed by Matrix and based on the federal calculation of Area Median Income. We determine the AMI level at which rents are considered "affordable" based on the government's standard that housing costs should not exceed 30% of gross household income. When rents for market rate and fully affordable properties are "affordable" to households earning similar incomes (less than 10% difference in AMI), we deem that to be competitive. The full methodology is in the appendix at the end of the report.