IMPACT®
COMMUNITY CAPITAL

MARKET COMMENTARY Q2:2024

The Multifamily Market's "Supply" Issue

The prevailing narrative in 2023, and 2024, is that there remains a significant oversupply of new multifamily rental units compared to overall demand. In the first quarter, 1.25 million new units were either under construction or on their way to hitting the market, according to the Yardi Matrix. Of that, more than 766,000 units weren't yet in lease-up and won't be completed until at least later this year or next, representing a 36.6% increase in the pipeline from a year ago.[1]

While the newfound supply coming onto the market is already having an effect — with average rents nationwide virtually flat or down for the past seven months — it is having little impact on the one area of the market where there has been far *too little* building: affordable housing.[2]

A new report by the National Low Income Housing Coalition (NLIHC) found the need for affordable rental housing is now more severe than it was prior to the pandemic, with the shortage of affordable rental homes up 480,000 from 2019. Overall, there's a shortfall of 7.3 million homes for extremely low-income renters in the U.S, where there are only 34 affordable homes available for every 100 extremely low-income renter households. This gap isn't just deep, it's widespread, affecting every state and 50 of the largest metropolitan areas.[3]

Affordable housing is unique in that demand is strong both in good times, when housing prices are boosted by rising incomes, and in challenging times, when the need for affordability is driven by a weakening job market. Between 2013 and 2022, the most recent year for which there is data, collected rents for affordable housing properties receiving federal tax credits have remained consistent between 96% and 97%, according to the Cohn Reznick Affordable Housing Credit Study. At the same time, the cumulative foreclosure rate for LIHTC properties and other housing with affordability restrictions through federal tax credits has not exceeded 1% for the past 22 years.[4]

Alongside these supply and demand dynamics, inflation and interest rate levels remain concerning. Heading into the year, the consensus view of fixed income investors was that the Federal Reserve was on the verge of beginning to lower interest rates this spring or summer, with longer-term bonds potentially set up to be the big beneficiaries of loosening monetary policy. However, the persistence of inflation this year has kept the Fed stuck on pause, and it remains uncertain when or if the central bank might begin to lower rates in 2024. In April, Fed Chairman Jerome Powell noted that recent data have not given the policymakers confidence that inflation is under control. He added that if inflation remains elevated, the central bank could keep rates where they are "for as long as needed."[5]

This new backdrop of persistent inflation and higher-for-longer rates has investors rethinking their approach to fixed income, with short-term instruments and yield focused strategies at the forefront, especially since the yield curve continues to be inverted. Short-term affordable housing bridge loans can be part of that discussion, not just because of their lower duration but also their stable cash flow yields owing to the stability of property performance within this space.

MICHAEL J. LOHMEIER
Chief Investment Officer

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1 *"Yardi Matrix Forecasts Moderating Multifamily Development, Record Deliveries in 2024,"* Yardi.com. Feb. 12, 2024.
2 *National Multifamily Market Report – February, 2024*, Yardi Matrix. March 13, 2024.
3 *The Gap: A Shortage of Affordable Homes*, National Low Income Housing Coalition. March 2024.
4 *Affordable Housing Credit Study: A Comprehensive LIHTC Property Performance Report.* Cohn Reznick. November 2023.
5 *"Fed's Powell: Elevated Inflation Will Likely Delay Rate Cuts This Year,"* Associated Press. April 16, 2024.

Photo credit: Rent.com

Q1 2024 INVESTING HIGHLIGHTS

Deal activity throughout the multifamily market slowed in the first quarter, and the affordable housing segment wasn't immune. At the start of the year, IMPACT helped finance 948 units of affordable housing through new commitments, purchases, and bridge loans totaling nearly $81 million. That was down from the 1,990 units financed in the last three months of 2023. A few of our first quarter deals are described below:

948
Units of affordable housing financed in Q1

SPOTLIGHT PROPERTY: WASHINGTON APARTMENTS

- **Address:** 600 Kingshighway Boulevard St. Louis, MO 63108
- **Property Description:** Originally built in 1902, this property was rehabbed in 2006 under the Low-Income Housing Tax Credit program. All the 99 units are covered by Section 8 contracts. The development is located on a one-acre site in St. Louis, surrounded by a mix of residential and commercial properties.
- **Sponsor:** SDG Housing Partners, LLC
- **Governmental Support:** Section 8 project-based Housing Assistance Program ("HAP")
- **AMI Restrictions:** The property has multiple layers of rental restrictions from different financing sources. It is subject to a 42 Low Income Housing Tax Credit program which restricts 100% of the units to 60% Area Median Income; a Bond LURA that restricts 20 units to 50% AMI; and a HOME/Missouri Housing Development Commission LURA which restricts five units at 50% AMI.
- **Amenities:** The property is in a neighborhood that boasts convenient access to multiple public transportation options, including four nearby bus stops and the Metro light rail, which provides direct service to downtown St. Louis. Residents have access to an onsite laundry room and a playground and enjoy proximity to community amenities such as the vast 1,300-acre Forest Park.
- **IMPACT Financing:** $8,502,500 Bridge Loan
- **Originator:** Rose Community Capital

Photo credit: Rentable

SPOTLIGHT PROPERTY: PINE TERRACE

- **Address:** 1612 Amy Drive & 1704 N. Edwards Mt. Pleasant, TX 75455
- **Property Description:** This property is a rehabilitation of a 76-unit development for seniors using a combination of 4% tax credits, tax exempt permanent debt, and subordinate financing. It was originally developed in two phases but is being operated as a single, contiguous property.
- **Sponsor:** Mount Pleasant Public Facility Corporation
- **Governmental Support:** $300,000 FHLP-AHP Grant subordinate loan, 4% tax credits, and tax-exempt permanent financing.
- **Originator:** Churchill Stateside Group
- **AMI Restrictions:** 52 of the units are covered by a Section 8 contract, while the remaining units are leased at 60% AMI.
- **Amenities:** The property will offer a laundry room, community room, community kitchen, patio, covered picnic area with a grill, swimming pool, and exercise room. There will be free, supportive services for qualifying units, including education and training for eligible residents, housekeeping and other services via Care.com, and local on-demand transit service via TRAX.
- **IMPACT Financing:** $3,300,000 tax-exempt loan

ADDITIONAL IMPACT UPDATES:

- In celebration of International Women's History Month in March, IMPACT Community Capital shined a spotlight on three senior female leaders: Managing Director Stephanie Tirman, General Counsel Liz Kang, and Financial Controller Alex Kharmats. Read about their advice, priorities, and perspectives here.
- Read IMPACT Community Capital's newest commentary: **Bridging the Gap: Opportunities in Short-Term Loans to Address Long-Term Affordability**.

THANK YOU to all our investors, owners, employees and lending partners for supporting our mission and vision.

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