



Multifamily Market Commentary – July 2018

Multifamily Challenges and Opportunities in the Lower Mississippi Delta

Perhaps best known as the birthplace of B.B. King, Muddy Waters, and other great American Bluesmen, the Lower Mississippi Delta region has many counties located in rural areas. Collectively, counties in the Lower Mississippi Delta region have faced many societal, demographic, and economic challenges over the years. However, the region is not simply defined by its challenges. There are also some areas of population and economic improvement. As a result, there is potential for future expansion and providing even greater liquidity to the multifamily market.

Defining the Lower Mississippi Delta

The Lower Mississippi Delta region has traditionally been defined as consisting of certain counties near the Mississippi River in the states of Illinois, Missouri, Arkansas, Louisiana, Mississippi, Tennessee, and Kentucky. Under the Duty to Serve regulations of the 2008 Housing and Economic Recovery Act, which identify the Lower Mississippi as a high-needs rural region, certain rural census tracts in Alabama are also included, as shown in the map to the right.

Lower Mississippi Delta is Largely Rural

The Lower Mississippi Delta region has an estimated population of 9.6 million, or just over 3 percent of the nation's population. Most of the region's residents live in rural areas.

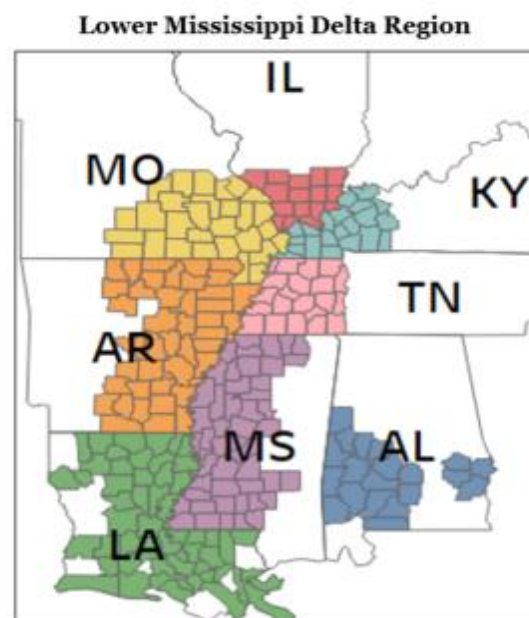
In fact, an estimated 5 million residents, just over half of all Lower Mississippi Delta residents, live in rural census tracts. This is more than double the rate of population in rural areas for the United States as a whole: 52 percent of households in the Delta region live in rural areas compared to 23 percent for the U.S. overall.

The Population is Older

The average age of residents in the Lower Mississippi Delta region is slightly higher than that of the U.S. as a whole. In rural areas it is even higher. The average age of residents in rural census tracts is 39.9, about 2.2 years older than the U.S. average.

Limited Demographic Diversity

As seen in the charts on the next page, the majority of residents in the Lower Mississippi Delta region are identified as being non-Hispanic white. The Hispanic white population is just 2 percent. In contrast, African American households are an important demographic representation of the region since their share is more than twice the national average: African American households represent 32 percent of all households in the Lower Mississippi Delta, compared to just 13 percent for the U.S. as a whole.



Source: Federal Housing Finance Agency (FHFA)

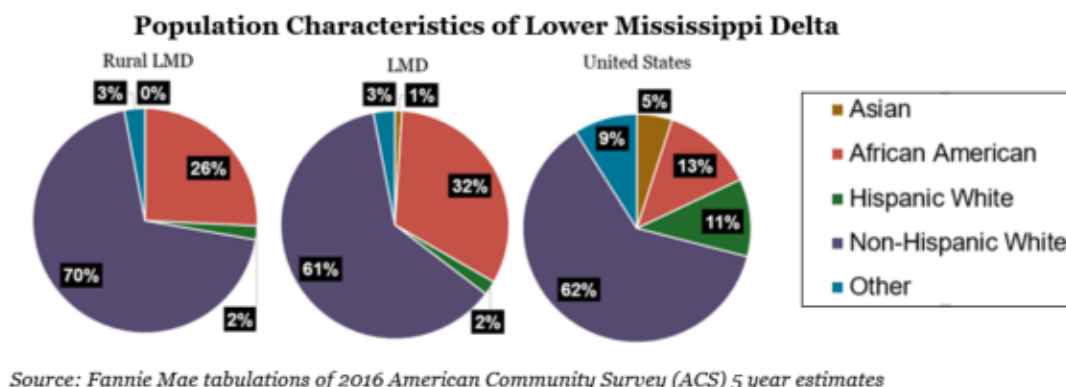
Lower Mississippi Delta Quick Facts

	Rural LMD	LMD	U.S.
Population	5.0 M	9.6 M	314.0 M
Population Growth	-1.3%	1.8%	4.8%
Population in Rural	100%	52%	23%
Poverty Rate	23%	21%	15%
Average Age	39.9	38.0	37.7
Homeownership Share	71%	66%	64%
Renter Share	29%	34%	36%

Source: Fannie Mae tabulations of 2016 American Community Survey (ACS) 5 year estimates



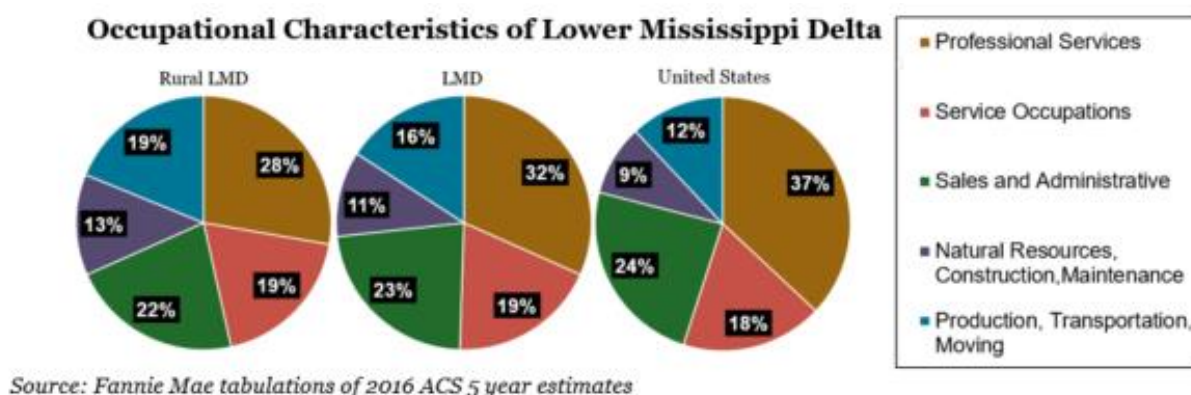
Despite the increase in population in the Lower Mississippi Delta, it continues to trail that of the U.S. as a whole. From 2010-2016, the population of the region has grown by only 1.8 percent, compared to 4.8 percent for the nation. Rural tracts in the Lower Mississippi Delta face even more severe demographic challenges as they lost 1.3 percent of the region's total population over the same period, likely due to households seeking better economic opportunities elsewhere.



Occupational Challenges Persist...

Households may seek opportunities elsewhere as fewer residents are able to get jobs in the Delta. The unemployment rates in both the overall and rural Lower Mississippi Delta regions are more than 2 percent higher than the national average due to fewer job opportunities for residents. In addition, the share of households in jobs outside of the better-paying professional services category is higher than the national average, as illustrated in the charts below.

For example, the share of households in jobs in manufacturing, transportation, and logistics is estimated to be 19 percent, about 7 percent higher than the U.S. as a whole. The share of households in the rural Lower Mississippi Delta working in the natural resources, construction, and maintenance category is about 13 percent, which is about 4 percent higher than the national average. This category includes farmers, fishermen, and those working in forestry services, none of which are typically high-paying occupations.



... As Well as Economic Ones

Since a larger share of households in the Lower Mississippi Delta, particularly in its rural tracts, tend to work in lower-paying occupations such as farming, the region suffers from lower than average household incomes. Indeed, the median household income in the Lower Mississippi Delta is about \$11,000 lower than the national average. And the median household income is even lower in the region's rural tracts: At just \$38,600, the median household income in the region's rural tracts is almost \$17,000 per year lower than the \$55,300 recorded for the U.S. as a whole. As a result, the poverty rate in the overall Lower Mississippi Delta region is 21 percent compared with the national average of 15 percent.



The Poverty Rate is Elevated

While the poverty rate is elevated for the entire Lower Mississippi Delta region, it rises even higher to 23 percent in its rural census tracts, representing nearly one-quarter of the region's households.

A large portion of the Lower Mississippi Delta's households face economic challenges, and renters fare slightly worse. Overall, renters in the Lower Mississippi Delta earn \$28,800 in median household income annually compared with median renter household income of \$35,200 for the U.S. as a whole.

Renters in the region's rural census tracts earn even less, with a median household income of about \$24,200 annually, which is \$11,000 less annually than income for renters nationwide and less than half of the national household income.

Lower Mississippi Delta Incomes

	Rural LMD	LMD	U.S.
Poverty Rate	23%	21%	15%
Median Household Income	\$38.6	\$43.9	\$55.3
Median Renter Household Income	\$24.2	\$28.8	\$35.2

Source: Fannie Mae Tabulations of 2016 ACS 5 year estimates

A Majority of Renters are Cost Burdened

With so many residents living in rural areas, one might expect housing to be affordable. However, low incomes lead to higher cost burdens for renters. An estimated 52 percent of renter households in the Lower Mississippi Delta overall are cost burdened, spending over 30 percent of income on rent and utilities. Over a quarter of renters in this area, 27 percent, are severely cost burdened, spending over half of income on rent and utilities. This is one percentage point higher than the U.S. as a whole.

Renters Tend to Favor Single-Family Homes

In the rural Lower Mississippi Delta tracts, about 69 percent of renter households occupy single-family homes. In addition, renters in the rural census tracts of the Delta region are more likely to rent manufactured housing than to rent typical multifamily structures. In fact, 16 percent of renter households in the rural tracts of the Delta rent manufactured homes compared to 14 percent renting typical apartments units. However, the share of renters in apartments in the Lower Mississippi Delta region overall is higher, at 26 percent of all renter households.

Lower Mississippi Delta Renter Households

	Rural LMD	LMD	U.S.
Single Family	69%	64%	53%
Manufactured Housing	16%	10%	4%
Multifamily	14%	26%	42%
Severe Cost Burden	26%	27%	26%

Source: Fannie Mae Tabulations of 2016 ACS 5 year estimates



Rural Lower Mississippi Delta Shows Variation in Population Growth

Rural tracts in the Lower Mississippi Delta face many challenges, but there is great variation among counties. In fact, there are some rural counties that are adding to, rather than losing from, their total populations.

For instance, the fastest growing county by population since 2010 for the Lower Mississippi Delta rural census tracts is Russell County, Alabama, which grew by 32 percent over the past six years. Russell County is close to Fort Benning, a military base, which benefitted from the last round of the U.S. Base Realignment and Closure – or BRAC – changes.

Most Faster-Growing Counties in Louisiana

Most of the faster-growing Lower Mississippi Delta rural tracts are located in Louisiana and in areas that are reliant on the energy sector as a key economic driver. This sector can be volatile as evidenced by the recent decline in oil prices, resulting in a big pullback in drilling over the past several years.

Fortunately, the energy sector has a brighter long-term outlook, which should help boost local economic conditions in some of the Lower Mississippi Delta rural areas in the future.

Proximity to Colleges Helps

Ties to educational institutions appear to have had a significant influence on growth in some of the Lower Mississippi Delta rural areas. For instance, Lafayette County, Mississippi, which experienced cumulative population growth of 15 percent from 2010 to 2016 in its rural tracts, is home to the University of Mississippi. In Louisiana, East Baton Rouge Parish, which saw population growth of 11 percent over the same period, is home to Louisiana State University, a large research university and one of the parish's key economic drivers.

Some Rural Areas Are Supported by Larger Metro Areas

Another key driver of growth for some of the Lower Mississippi Delta's rural areas is their proximity to a larger and growing metro area. For example, Livingston, Louisiana, is adjacent to Baton Rouge, the state capital. Livingston's proximity to the state's capital in tandem with the energy sector as a key economic driver has allowed the county to grow by 11 percent over the past six years due to an influx of new residents looking for more affordable housing and a better quality of life.

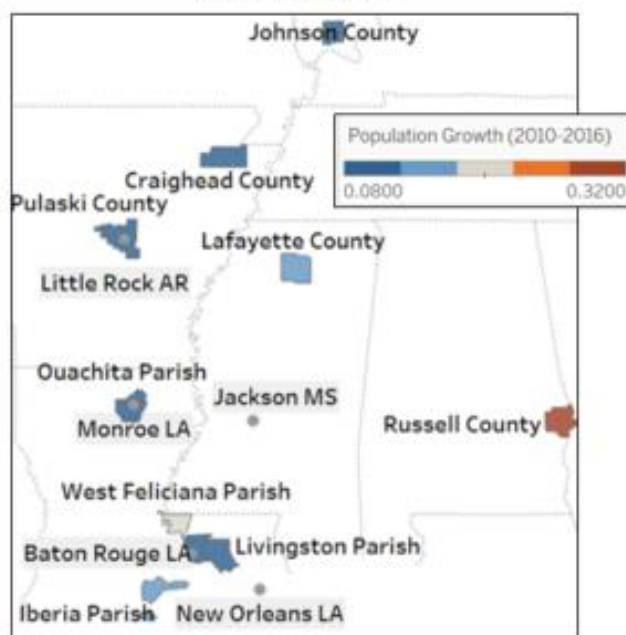
In fact, the county that experienced the fastest job growth in rural census tracts was Ascension Parish, part of the Baton Rouge metro area, which has enjoyed cumulative 12.2 percent employment growth rate over the past six years.

Other Rural Areas Have Diverse Economies

Ouachita Parish/Monroe, Louisiana is another example of a faster-growing area. Located near the Arkansas border, it is perhaps best known as the location for the "Duck Dynasty" reality television show. It has a fairly diverse economy, including healthcare, financial services, and telecommunications. National telecommunications company CenturyLink, which is in the Standard and Poor's (S&P) 500 Index, is headquartered there.

As seen in the map on the next page, most of the Lower Mississippi Delta counties with high population growth over the past few years are expected to continue having solid household formations over the next five years, according to Census Bureau projections. These households will need a place to call home, some of which will include multifamily rental housing.

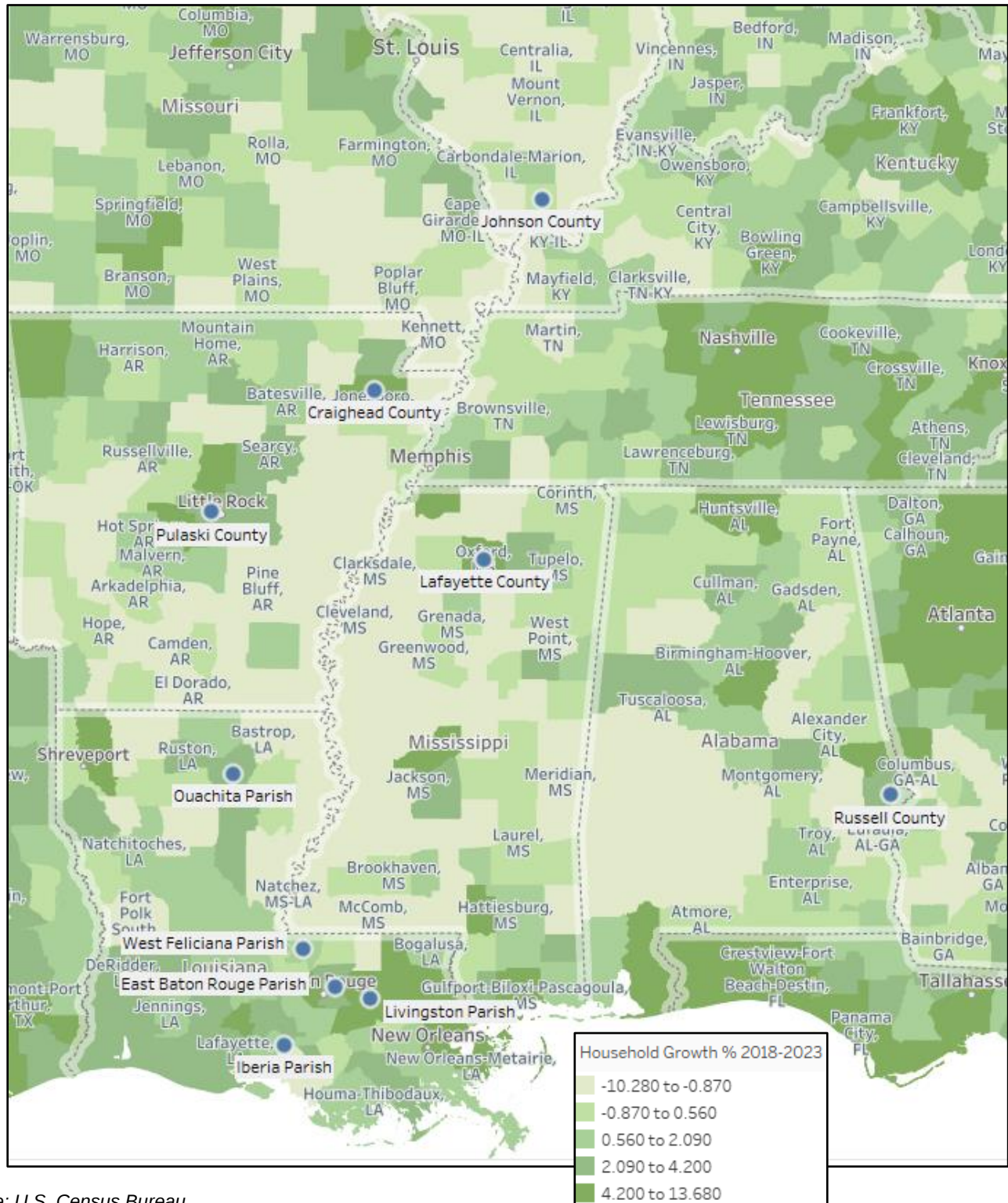
Faster Growing Counties by Population in the Lower Mississippi Delta Rural Census Tracts



Source: 2010 and 2016 ACS 5 year estimates



Projected Household Growth by Lower Delta County (2018-2023)



Source: U.S. Census Bureau
Household Projections per Tableau



Rural Lower Mississippi Delta Has Apartments!

According to CoStar, there are just under 1,200 properties consisting of 5-50 units in the rural areas of the Lower Mississippi Delta, as seen in the map to the right. These properties contain nearly 30,000 units for an average of about 25 multifamily units per property.

These properties appear to have higher vacancy rates than properties with 5-50 units nationally. As of June 2018, the vacancy rate for these properties was 6.2 percent compared to a national vacancy rate of about 4.4 percent. Rents for these rural Lower Mississippi Delta properties are about \$560 per month, which is significantly lower than the national average of nearly \$1,100 per month for properties with 5-50 units.

County with Most Units in Missouri

According to data from CoStar, the county in the Lower Mississippi Delta with the greatest number of multifamily units is St. Francois, Missouri, with just under 1,000 units. While St. Francois is just 70 miles from St. Louis, its economy is not dependent upon the larger metro area. St. Francois' economy is primarily driven by mining and manufacturing.

The counties with the second and third highest counts of multifamily properties are Baxter and White counties in Arkansas with just under 750 units each. Other counties with significant numbers of multifamily units include Lincoln Parish, Louisiana, with just under 700 units and home to Grambling State University and Christian County in Kentucky, located near Fort Campbell, with just under 650 apartments. Many of these counties were also among the top areas for lending activity in 2017 and/or 2016.

Multifamily Demand Steady

Demand for multifamily properties in the rural census tracts of the Lower Mississippi Delta appears stable, as seen in the table to the right.

The vacancy rates in St. Francois and Baxter counties, as well as in Lincoln Parish, are all under 5.7 percent. Rent growth has been steady as well. Year-over-year rent growth for Baxter County and Lincoln Parish was 1.8 percent as of June 2018, according to data from CoStar. Even so, this rent growth was still below the 2.6 percent rent growth recorded nationally for properties with 5-50 units.

The county with the highest rent growth year over year was Ouachita Parish, Louisiana, with 4.8 percent growth. Among other rural Lower Mississippi Delta counties with average rent growth that met or even exceeded the national average were White County, Arkansas, with 2.8 percent rent growth and Dyer County, Tennessee, with 4.3 percent growth.

Multifamily Units by Rural Lower Mississippi Delta County



Source: CoStar

Properties with 5-50 Units in Select Rural Lower Mississippi Delta Counties

County	Units	Vacancy	Rent (Monthly)	Rent Growth (Annual)
St. Francois, MO	1,000	5.6%	\$515	1.4%
Baxter, AR	750	4.4%	\$510	1.8%
Lincoln Parrish, LA	700	5.1%	\$685	1.8%

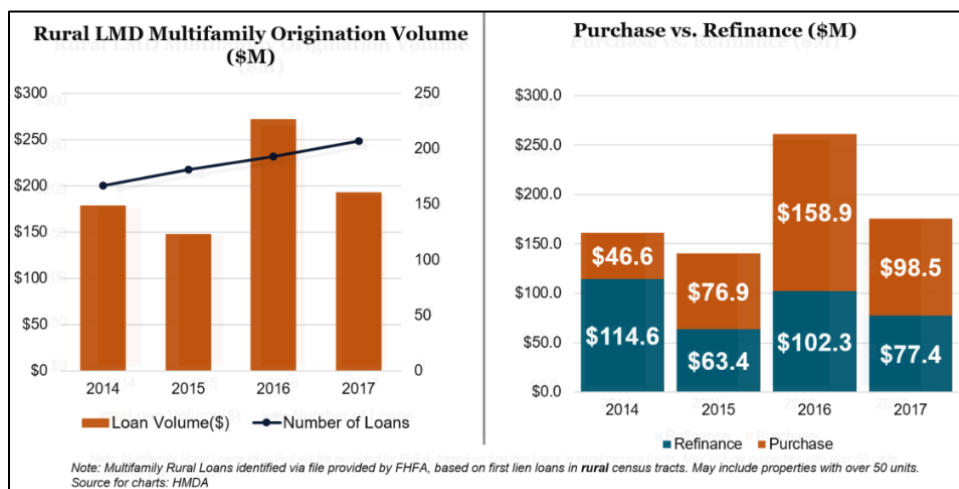
Source: CoStar, as of June 2018



Rural Lower Mississippi Delta Lending Characteristics

Availability of multifamily lending data is limited in the Lower Mississippi Delta rural areas since many small lenders and community banks are not required to report data under the Home Mortgage Disclosure Act (HMDA). Based on the most recent available HMDA data, lending trends in the Lower Mississippi Delta rural tracts appear to be limited and therefore slightly volatile. As shown in the adjacent chart, 2017 multifamily lending volume totaled \$192.5 million on 207 loans, with an average loan size of about \$930,000. This was a significant decline from the 2016 lending volume of \$271.6 million on 193 loans with an average loan balance of \$1.4 million.

Origination Volume in Rural Lower Mississippi Delta



Although it appears that there has been an increase in sales transactions, refinances represented a significant share of lending activity. In 2017, loans for purchase totaled \$98.5 million, but refinances of multifamily properties were not too far behind at an estimated \$77.4 million. And while loan origination volumes have not increased, the number of loans have, which may indicate that property values are not rising significantly.

A Limited Number of Multifamily Lenders in Rural Tracts

As shown in the table below, lenders originating multifamily loans in rural areas of the Lower Mississippi Delta tend to be smaller, and top lenders vary greatly from year to year. The only lender that appears among the top five in both 2017 and 2016 was First State Community Bank. Most lenders originated small multifamily loan balances well under \$1.5 million.

Top Counties for Multifamily Lending in Rural Tracts

Multifamily lending appeared to take place consistently in only two counties over the past two years as shown in the adjacent table. One top county was Lincoln Parish, Louisiana, which, among other things, is home to Grambling State University, a historically black, public, coeducational university. The other top county for lending was St. Francois County, Missouri, which has the highest number of apartments in rural census tracts of any rural county in the Lower Mississippi Delta, according to CoStar.

Many Reasons to Finance Small Multifamily

Lower Mississippi Delta Multifamily Lending in Rural Areas

Select Top LMD Lenders:				Select Top LMD Counties for Lending:			
Lender	Loans (#)	Volume (\$M)	Average Loan (\$M)	County	Loans (#)	Volume (\$M)	Average Loan (\$M)
2017				2017			
PLANTERS BANK & TRUST COMPANY	9	\$3.2	\$0.4	LINCOLN PARISH, LA	14	\$17.2	\$1.2
FIRST STATE COMMUNITY BANK	8	6.2	0.8	ST. FRANCOIS COUNTY, MO	11	15.2	1.4
BANK OF MISSOURI, THE	6	8.3	1.4	MCCRACKEN COUNTY, KY	8	4.9	0.6
BANCORPSOUTH BANK	5	3.3	0.7	CHRISTIAN COUNTY, KY	7	4.2	0.6
FIRST COMMUNITY BANK OF BATESV	5	6.3	1.3	LAFAYETTE COUNTY, MS	7	27.5	3.9
2016				2016			
CAMPUS FCU	21	\$3.2	\$0.2	IBERVILLE PARISH, LA	20	\$3.0	\$0.2
FIRST ST CMNTY BK	9	3.7	0.4	ST. FRANCOIS COUNTY, MO	11	9.6	0.9
GUARANTY B&TC	7	5.6	0.8	LINCOLN PARISH, LA	9	9.7	1.1
FIRST NB	7	8.8	1.3	WARREN COUNTY, MS	8	4.8	0.6
SOUTHERN BK	5	2.1	0.4	MISSISSIPPI COUNTY, AR	8	6.5	0.8

Note: Multifamily Rural Loans identified via file provided by FHFA, based on first lien loans Source for tables: HMDA



Small multifamily buildings can be an important source of affordable housing. For that reason, in its regulation implementing the Duty to Serve regulations, the Federal Housing Finance Agency (FHFA) provides credit to Fannie Mae and Freddie Mac for financing small multifamily housing in the affordable housing preservation market as well as the rural housing market if the housing serves families of moderate-, low-, or very-low incomes. In addition, FHFA's housing goals' regulation also recognizes the importance of the Fannie Mae and Freddie Mac in financing small multifamily housing where the housing serves low-income families.

There are Lending Opportunities in the Lower Mississippi Delta

Although there are a limited number of multifamily properties located throughout the Lower Mississippi Delta, opportunities for lending, and providing liquidity, do exist. Many of the region's rural tracts are located in towns near institutions of higher learning or in small towns that are in nearby proximity to larger metro areas.

There are also lending opportunities in slower-growth rural tracts. With the expertise of local partners such as non-profits and other like-minded entities, as well as property owners, it is possible to have a solid impact on improving conditions throughout the rural areas of the Lower Mississippi Delta.

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