



MaineHousing Outlook 2023

Pressures on Maine’s housing market continued in 2022, whether it be runaway inflationary costs, a shortage of available skilled construction workers, or lingering global supply chain kinks from COVID-19. Those focused on increasing housing inventory in the Pine Tree State, like elsewhere in northern New England, had their work cut out for them.

Housing, especially affordable and workforce housing, will continue to be at the forefront of most Maine people’s minds, including key policymakers in the Maine Legislature and sitting on local city and town councils around the state. The COVID-19 pandemic reestablished the importance of stable housing – indeed home was key in keeping many of us healthy and safe during the pandemic. The pandemic also strained fault points in Maine’s housing landscape contributing to an ongoing shortage of available affordable housing units.

MaineHousing, along with our valued partners, will continue to do our work helping Mainers find, maintain, and heat homes suitable to their needs in 2023.

The following snapshots and updates from several housing industry sectors are meant to provide some key details on what MaineHousing experienced in 2022 and what the agency did to help Maine people obtain and retain safe, warm, and affordable housing, while taking a peek at how things are shaping up in 2023; a year we expect to continue to challenge us with market uncertainty and resource scarcity on all fronts as we move away from an era of robust (although short-term) federal financial supports.

Homeownership

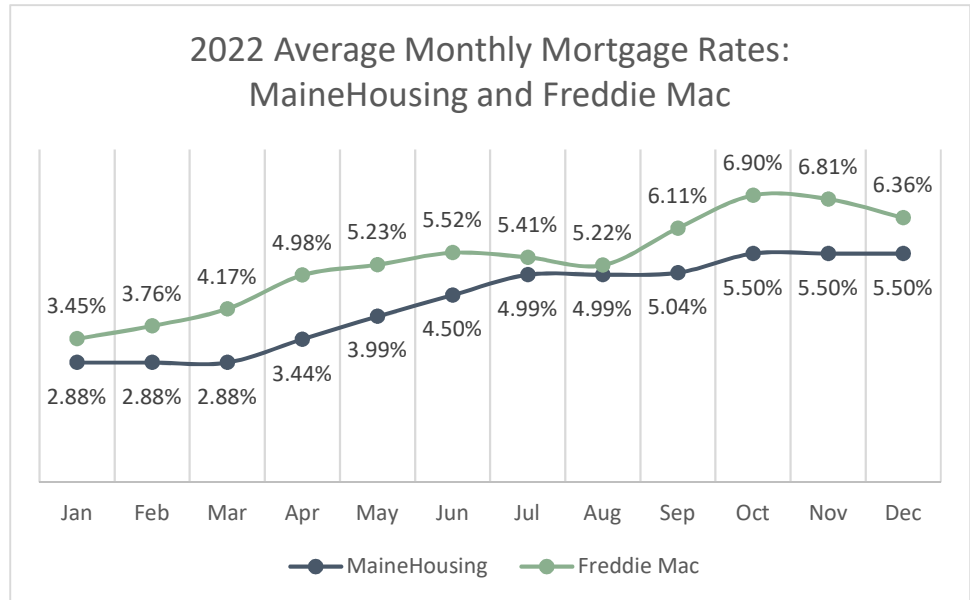
According to MaineHousing’s [2022 Homeownership Housing Facts and Affordability Index](#) the median single-family home sale price in Maine rose to \$334,000, 13 percent over 2021’s \$295,000. The continued rise in price, coupled with rising mortgage rates, making it more difficult to afford a mortgage for households looking to enter homeownership. This is where MaineHousing’s [First Home Loan](#) can help Maine families pursue the American Dream, by providing below market interest rates and down payment assistance. MaineHousing’s First Home Loan rate averaged nearly one percentage point below Freddie Mac in 2022, potentially saving first-time homebuyers up to \$300 per month in interest on the median priced home.

The Federal Reserve raised interest rates seven times during 2022, pushing mortgage rates to their highest level in over a decade. Homebuyers in 2023 should expect higher interest rates for the foreseeable future with fewer expected rate increases by the Fed until they believe inflation is under control from their perspective.



Typically, in a high interest rate environment, home prices are expected to be flat or fall. Barring an economic event such as a recession, it is likely single-family home prices will continue to rise in Maine throughout 2023 due in large part to persistent low supply, especially in southern and coastal counties. Other indicators of single-family home sales slowing is the increasing days on the market.

In December, MaineHousing’s Homeownership Department announced it had dramatically broken the agency’s previous record by purchasing more than \$177.7 million in mortgage loans. This represents a \$25 million loan volume increase from 2021. The total number of loans purchased was also up in 2022 to 918 from 725 in 2021. Because of our non-profit operating model, MaineHousing is able to maintain interest rates well below current market rates and we anticipate interest and demand for our First Home programs will continue apace in 2023. Key to this growing



Source: MaineHousing and Freddie Mac

demand was a decision by MaineHousing to increase the grant that is part of its down payment assistance program for qualified borrowers from \$3,500 to \$5,000. That change in April 2022 will remain in place for 2023 and is expected to help even more Mainers attain their dream of homeownership. Our goal for 2023 is to help 1,000 Maine families purchase their first home.

In December of 2022, MaineHousing’s First Home interest rate of 5.50 percent remained nearly a full point below the closest rate offered in Maine’s mortgage marketplace.

MaineHousing also offers many [programs for homeowners](#), including two remaining federally funded COVID-relief programs that will continue in 2023, the Maine Water Assistance Program and the Homeowner Assistance Fund. Both are aimed at helping households, largely homeowners, overcome financial hardships triggered by the pandemic.

Renting & Affordable Housing Development

Rental home costs are expected to continue to rise in 2023, compounded by both inflationary pressures on landlords and property managers and a private and public housing development pipeline that is being dramatically constricted by workforce shortages and supply chain troubles.

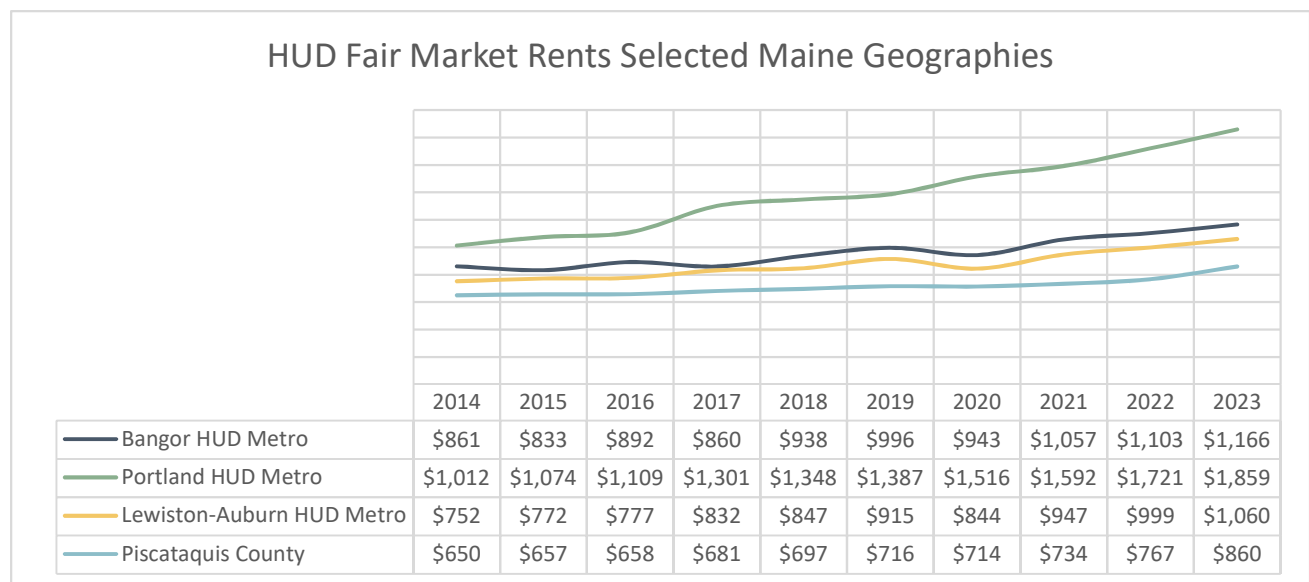
Landlords, owners, and property managers will also continue to face inflationary pressures on all the goods and services needed to operate safe and comfortable rental units in 2023. Climbing interest rates will also push rents higher as rental property investors seek to recoup the expense of higher property transaction and interest costs when rental properties change hands.



Compounding all of these pressures is the end to the federal pandemic Emergency Rental Assistance (ERA) Program, which has funded over \$290 million in rent payments and utility payments in Maine during an 18-month period in 2021 and 2022. The program paid back rent for more than 34,000 households. Meant as a temporary program for those facing pandemic-related financial hardships, demand for this one-time federal resource never abated, highlighting the pre-pandemic nature and ongoing need for housing and rental assistance in Maine.

Recent data from Maine Judicial Branch showed eviction [fillings rose 22%](#) in 2022, coinciding with the end of ERA. However, it appears that most of the rise can be attributed to “no-cause” evictions used by developers to remove tenants after from units after a purchase to renovate them.

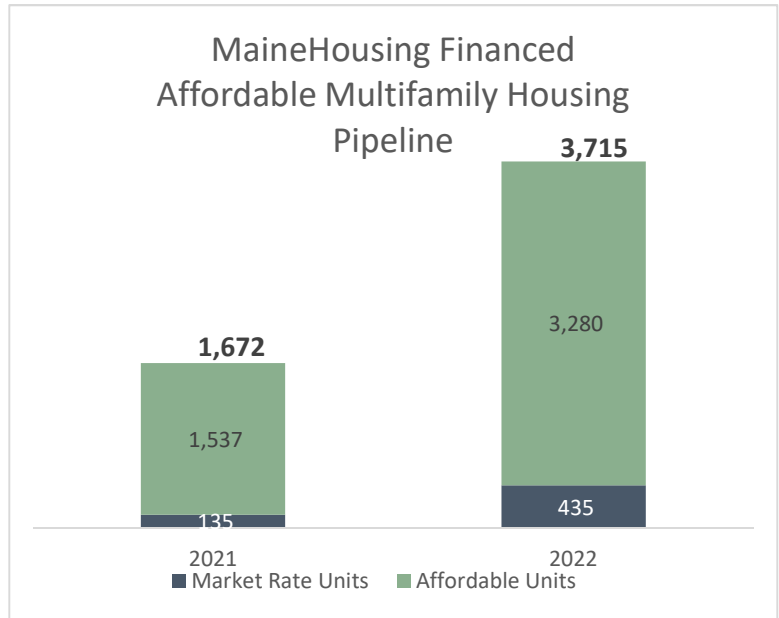
Rent data is difficult to capture as there is no system in place to capture market rents similar to Multiple Listing Service (MLS) used for real estate transactions. The U.S. Department of Housing and Urban Development publishes Fair Market Rents (FMR) for specific geographies and is a good indicator of what market rates could be, though they may track slightly below.



Expanding the availability of affordable rental housing will help more Maine families and older adults find housing suitable to their needs. Currently, MaineHousing has over 3,700 units being constructed or underwritten, of which 3,280 are new affordable units. Closing out 2021, there were just under 1,700 total units in the pipeline. This expansion was aided in large part due to an influx of financing related to the COVID-19 pandemic. While the pipeline has expanded, delays in supply chain, increased construction costs, and labor force issues are delaying completion for most developments



Pre-pandemic the average project duration was much shorter, taking between 18 months and 24 months from start (planning and application) to completion (residents move in) with project construction lasting 10 to 12 months. Projects now take much longer both in underwriting and in construction, with construction durations being dramatically affected by labor shortages for construction managers and subcontractors, and subcontractor availability. Construction phases have now been stretched lasting 18 to 24 months on average. Labor availability and ongoing material delivery delays will continue to be a major factor contributing to increasing project duration in 2023. While it is expected that some material costs could decrease in 2023, the remaining workforce, financing, and supply chain issues are expected to persist for the foreseeable future.



MaineHousing plays a critical role in producing affordable housing in Maine. In 2023, we are committed to funding as many projects possible with the resources available to us. In 2022, we have increased production to unprecedented level and doubled the size of our production team to meet demand.

Home Energy Costs

Maine’s dependence on price-volatile heating fuels, including kerosene and No. 2 fuel oil, continues to have an outsized impact on home affordability, especially for Maine’s lowest-income households, most of whom are already housing cost burdened, paying more than 30 percent of their annual incomes for housing costs.

In 2022, we saw historic and astronomic price jumps for oil, triggered largely by a constricted petroleum market impacted by global politics, decreased domestic production, and the ongoing Russian war in Ukraine. In 2022, the price of heating oil reached a high of \$5.71 per gallon, increasing from less than \$2.00 per gallon in October of 2020 and from around \$3.20 at the start of 2022. Kerosene, which is often used to heat mobile homes, has been subject to supply disruptions and reached over \$7.00 per gallon during this same period, an increase of 88 percent from \$3.75 for the same time in 2021.

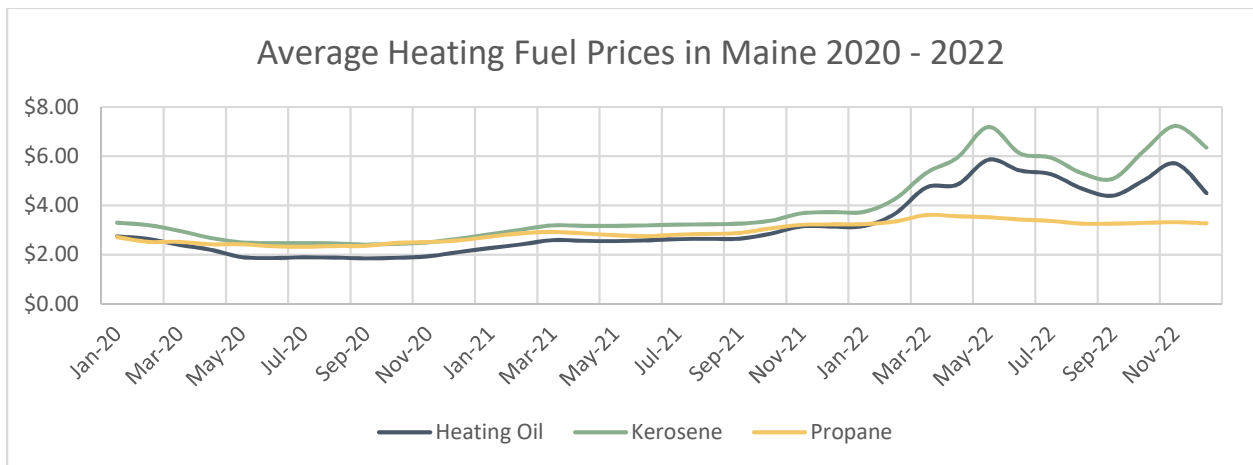
Despite robust and ongoing efforts to convert more homes towards sustainable and renewable heating and energy sources, with more than 60 percent of Maine homes still using a petroleum-based fuel for heat, the state remains at the mercy of the global marketplace.

Compounding this stress on affordability was the near simultaneous rise in the cost of electricity in Maine with substantial electric-utility rate increases approved by the state’s Public Utilities for 2023.



The Governor’s Energy office notes that energy suppliers expect it to be considerably more expensive to supply electricity in the coming year, primarily due to the rising costs of natural gas following the Russian invasion of Ukraine. More than half of all electricity in New England is generated by natural gas, and therefore natural gas essentially sets the market price for electricity in our region.

This across the board energy price spike, though it has somewhat eased in recent weeks, remains a significant hardship for lower and middle income households across Maine. It has also dramatically reduced the buying power for people enrolled in the Home Energy Assistance (HEAP) program, a federal program administered by MaineHousing that provides heating assistance.



Source: <https://www.maine.gov/energy/heating-fuel-prices>

Also exiting the financial landscape for lower-income households in 2023 is supplemental federal stimulus funding and a pre-paid child tax credit that helped partially offset rising prices in 2021 and early 2022.

The Maine Legislature and Governor Janet Mills recently provided state aid and energy assistance supports to low and moderate income households, including up to \$50 million in additional heating support in early 2023. This aid will be critical towards helping thousands of households avoid heating emergencies while also preventing unsafe heating practices that often result in fire or death in the state’s most impoverished communities.

MaineHousing’s will continue its [energy assistance programs](#) in 2023, providing resources to replace and upgrade heating systems, weatherize homes, and add supplemental sources of renewable and efficient heat and cooling to Maine homes. These programs, funded with both state and federal resources, are gaining ground but also face workforce shortages, hindering a more rapid pace of heating systems conversion and upgrade. The outlook for fuel and electricity prices in 2023 remains cloudy, having been affected by the war in Ukraine, sanctions on the exports of Russian oil, OPEC actions, and other geopolitical factors.

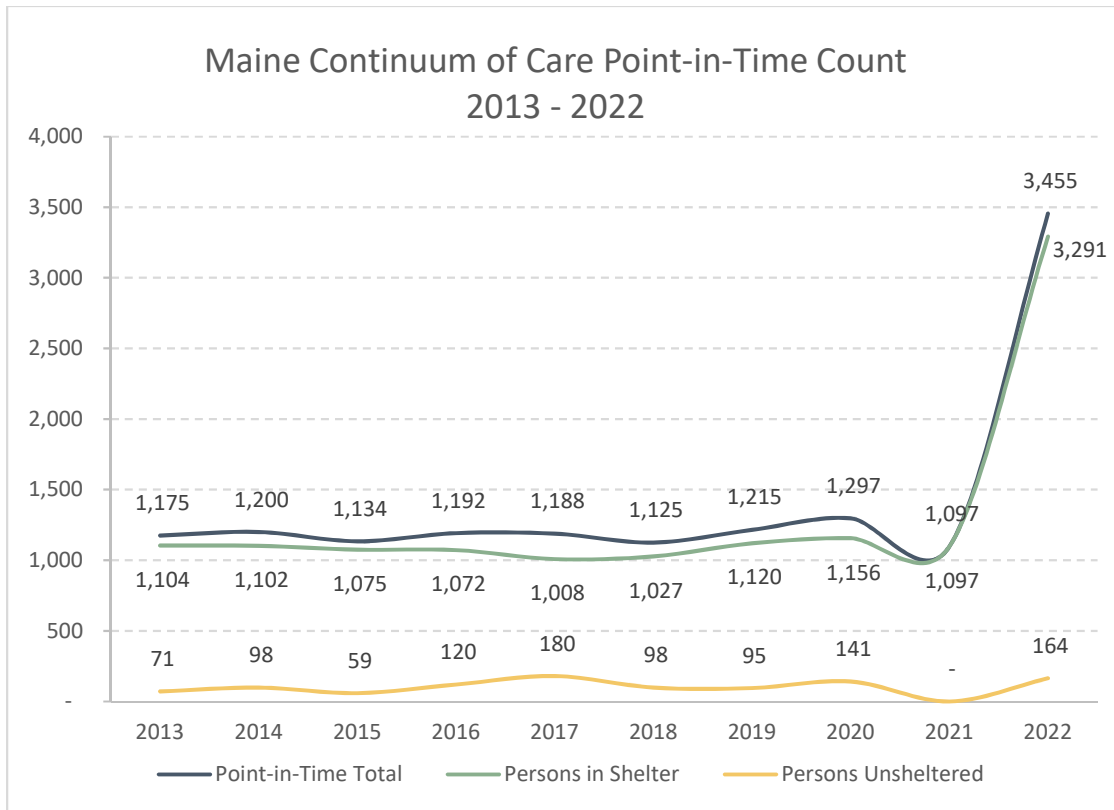
Homelessness

MaineHousing has a leadership role in addressing homelessness in the State. We serve as the Collaborative Applicant for Maine’s Continuum of Care, partner with the Statewide Homeless



Council, and are working closely with Community Solutions in implementing the homeless system redesign.

In 2022, the benchmark for measuring homelessness in Maine continued to be the annual Point-in-Time (PIT) Count, a federally required survey of sheltered and unsheltered persons experiencing homelessness on a single night in January. In 2021, (the first full year of the pandemic) there was a decline in the PIT in part to no unsheltered count done that year. In 2022, there was a dramatic increase from 1,097 in 2021 to 3,455 in 2022.



This noticeable increase was in large part due to the effort to count as many people without a permanent night time residence as possible. Much of the increase is a result in people staying in hotels funded by the Emergency Rental Assistance and General Assistance programs.

Beyond ERA, Federal Emergency Management Agency national state of emergency funding related to COVID-19 continued to fund, on a month-by-month basis, a pair of South Portland hotels that initially served as alternatives to congregate shelters operated by the City of Portland at the onset of the pandemic. These hotels remained in use throughout 2022, facing ongoing challenges including increased calls for emergency services to these locations and ongoing complaints from local citizens and officials of increased crime and other concerns.

In early 2022, the Maine Legislature appropriated \$22 million as part of a supplemental state budget that was earmarked for responding to homelessness in Maine. Those funds continue to be used in a variety of ways including the creation of permanent supportive housing and crisis response. An additional \$21 million aimed at helping the state's most vulnerable households by supporting locally



operated congregate shelters and warming spaces, along with emergency hotel housing for households with little to no income, is a key portion of an emergency housing and heating aid bill approved by the Legislature and signed by Governor Mills in early 2023.

The ongoing work to end homelessness in Maine as we currently know it by implementing better and more robust coordinated statewide system under the Built For Zero strategy will move steadily forward in 2023 as well.

This work reached key milestones in 2022 with the activation of nine new regional hub coordinators across the state. The contracts for these positions were awarded in February and hub coordinators have started their regional work to establish a by-name list and accounting of individuals experiencing or at risk of experiencing homelessness. These coordinators are an instrumental step towards Maine reaching real-time, quality data on all individuals in need of housing support.

In 2023, MaineHousing will continue work to assure that the new hub system is fully implemented and successful, by continued leadership with hub coordinators and other partners to regionalize homeless services in nine areas statewide, and finalizing the development of 76 supportive housing units started in 2022. As an agency we will also continue allocation of 60% of Housing Choice Vouchers for homeless referrals from our homeless service partners.

Highlights to watch for in 2023

We see several innovative ideas and new programs that hold promise for affordable housing in Maine including:

- A [new pilot initiative](#) run by the Genesis Fund to help municipalities, regional planning groups, and new developers gain the technical knowhow to advance affordable housing in their areas.
- Interest rates in our favor for the foreseeable future, continuing to make a MaineHousing First Home Loan the first choice for borrowers in that market.
- A priority goal of increasing homeownership for racial minorities in Maine.
- New non-LIHTC programs, some state financed, others utilizing remaining federal coronavirus relief funds.
- New housing-friendly zoning changes happening in some municipalities ahead LD 2003 fully effective date. South Portland and Auburn are both recent examples.
- Ongoing collaboration on research and development for eco-friendly and cost effective housing construction, design and manufacturing techniques (3-D printing, additive manufacturing) with partners like University of Maine's Advanced Composites and Structures Lab.

Affordable housing remains at the top of the list of issues federal, state, and local policymakers and elected officials are focusing on. This includes a new joint select committee of the Maine Legislature whose sole focus will be affordable and workforce housing for Maine. Governor Mills' proposed biennial budget recognizes this need by requesting \$30 million in funding for MaineHousing's successful [Rural Affordable Housing Rental Program](#) and subsidy for the state's [Low-Income Housing Tax Credit Program](#). This funding will be crucial in helping MaineHousing meet the affordable housing needs of Maine's people.

