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Building blocks: Muni bonds construct affordable housing across America



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Municipal bonds have long played an essential role in addressing America's housing affordability crisis. As housing costs strain household budgets nationwide, municipal housing bonds offer investors attractive tax-exempt yields while providing communities the low-cost capital needed to expand affordable housing across all income levels.

BY THE NUMBERS

- 33%: U.S. households' spending on housing (affordability benchmark is 30%)¹
- 198%: Housing bond issuance growth from 2016 to 2025²
- 5.53%: Housing index return in 2025 versus the muni index at 4.41%³
- 7%: Housing bonds' share of the \$4.4T municipal market⁴

MUNICIPAL BONDS CONNECT INVESTORS TO AFFORDABLE HOUSING

Affordability has become a defining issue across the United States, shaping political discourse and driving election outcomes. Recently, Mayor Mamdani won the New York City mayoral election on a platform of rent freezes, free childcare and fare-free buses.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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At the federal level, President Trump recently signed an executive order banning large institutional investors from buying single-family homes. These proposals reflect growing recognition that living costs have become unsustainable for many households.

Municipal bonds directly support affordable housing development while offering investors an opportunity for tax-exempt income. The S&P Municipal Bond Housing Index outperformed the broader market in 2025, returning 5.53% versus 4.41%.

Tax-exempt status allows governmental entities and private developers to access capital at lower costs than conventional financing, creating savings that may be passed to renters and homebuyers. Housing projects generate returns over decades, matching well with municipal bonds’ long maturities and creating predictability for developers while ensuring lasting affordability.

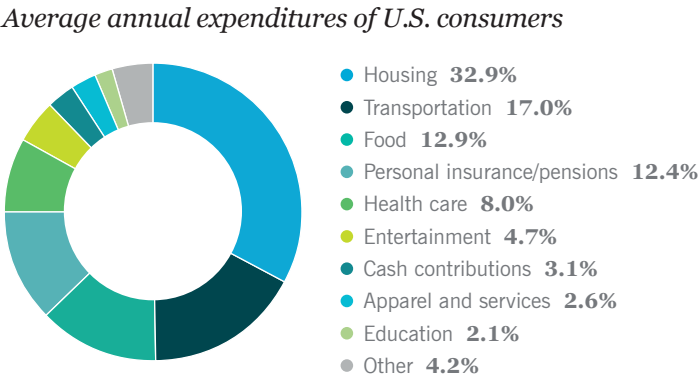
HOUSING CONSUMES ONE-THIRD OF HOUSEHOLD BUDGETS

Expensive housing can crowd out resources for other household necessities. The average American household spends nearly 33% of total

expenditures on housing — above the traditional 30% affordability threshold — according to the Bureau of Labor Statistics (Figure 1). Beyond this benchmark, families face difficult trade-offs with essentials like food, childcare and education.

As housing costs have escalated, increasing numbers of American households have crossed this threshold. For example, more than a quarter of renters in states such as California, New York, Florida and Nevada spend over half their income on housing costs (Figure 2).

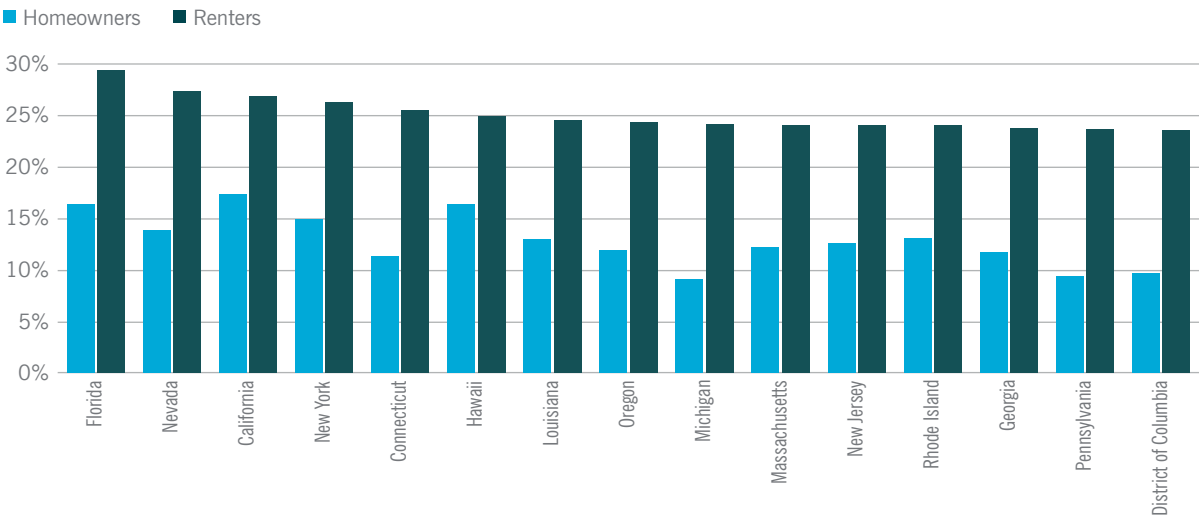
Figure 1: Cost-burdened families have fewer resources for necessities



Data source: Consumer Expenditure Surveys, U.S. Bureau of Labor Statistics, September 2024.

Figure 2: Increasing numbers of households cross the affordability threshold

Households spending more than 50% of household income on housing costs (%)



Data source: 2024 American Community Survey 1-Year Estimates Detailed Tables; Table Id B25140.

GOVERNMENTS ADDRESS HOUSING AFFORDABILITY

Zoning reform increases housing supply by allowing higher-density development, mixed-use projects and greater building flexibility, unlocking land for new construction.

Streamlining building approvals reduces the lengthy permitting process, helping developers move faster while lowering costs.

Mandatory inclusionary requirements mandate that market-rate developments include affordable units, a long-used strategy to increase supply.

Rent control protects existing tenants but may reduce new construction incentives, potentially constraining supply and reducing housing quality.

State grant programs provide direct financial support through federal programs administered by states, including community development block grants and low-income housing tax credits.

Housing trust funds support affordable housing development at all government levels, funded by property taxes, development fees or bonds.

HOUSING BOND ISSUANCE HAS RISEN OVER PAST DECADE

Housing bonds comprise about 7% of the \$4.4 trillion municipal bond market and currently yield an average of 3.58% for bonds with 10-year maturities, versus the broader market at 3.06% (Figure 3). Nearly a quarter of all outstanding municipal housing bonds finance projects in California or New York — two states with high housing costs. Annual housing bond issuance has increased steadily over the past decade, up 198% between 2016 and 2025.

According to National Council of State Housing Agencies (NCSHA), state housing finance agencies alone have helped finance construction of millions of affordable rental homes and supported hundreds of thousands of first-time homebuyers through bond-financed programs.

Housing in the municipal market is financed primarily through single-family, multi-family and workforce housing bonds, though some municipalities also issue general obligation (GO) bonds.

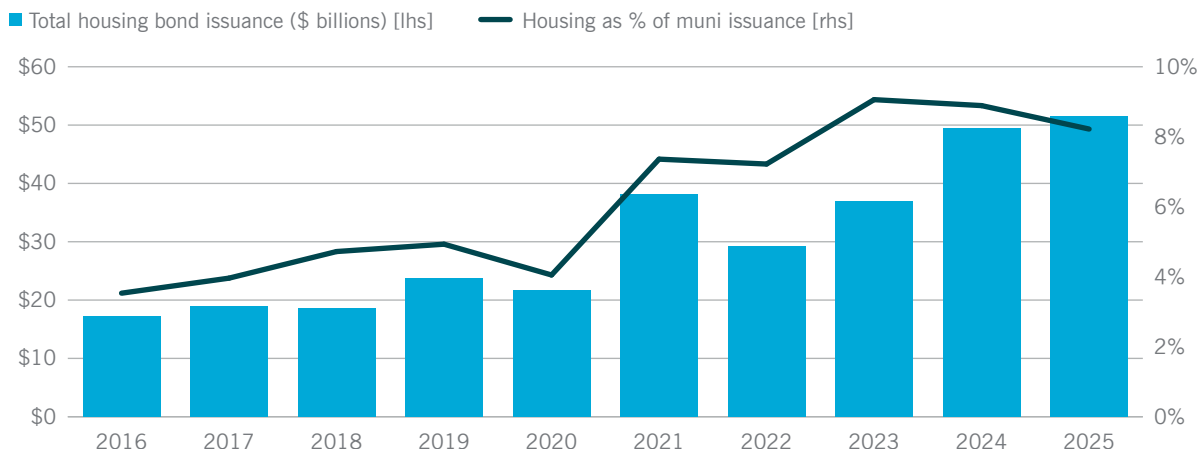
MUNICIPAL HOUSING BONDS SERVE DIVERSE INCOME LEVELS AND NEEDS

Single-family housing bonds, often structured as mortgage revenue bonds issued by state housing finance agencies (HFAs), help lower-income, first-time buyers purchase homes through below-market interest rate mortgages and down payment assistance. By reducing monthly payments, these bonds make homeownership accessible while helping families build wealth through home equity.

When evaluating single-family housing bonds, we seek issuances backed by federal guarantees and strong collateral structures supporting high credit ratings and stable cash flows. Yields tend to run higher than credit quality alone suggests, reflecting inherent prepayment risk from various factors such as mortgage refinancings and home sales. Term bonds recently priced around 70 basis points above the AAA municipal yield curve.

In early 2026, the Illinois Housing Development Authority issued \$200 million in revenue bonds backed by mortgage-backed securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac — entities with explicit or implicit federal guarantees.

Figure 3: Housing bonds comprise about 7% of the muni market



Data source: Bloomberg, L.P.

This structure supports very high credit ratings (Aaa by Moody's). Similarly, New Mexico Mortgage Finance Authority issued \$120 million in revenue bonds rated Aa1, with its portfolio of 100% mortgage-backed securities supporting strong credit quality.

Multi-family housing revenue bonds support affordable rental housing by financing construction and rehabilitation of apartment complexes reserved for low-to-moderate-income households, secured by projected revenue streams from the developments.

Bonds issued by state or local housing finance agencies are typically secured by large pools of mortgage loans and generally carry strong credit ratings. These projects may have supplemental security such as FHA mortgage insurance, GNMA-guaranteed mortgage-backed securities, or credit enhancement from Fannie Mae or Freddie Mac.

Multi-family housing projects can also be financed on a single-asset basis. These deals tend to have lower credit quality due to concentrated credit risk and often price 200 basis points or wider than the AAA municipal yield curve.

We seek to invest in multi-family housing bonds from issuers with solid finances, effective governance and reliable loan performance. Key indicators include healthy asset-to-debt ratios, profitable margins, very low delinquency rates (typically under 1%) and experienced management with robust oversight.

MULTI-FAMILY HOUSING BONDS IN ACTION

Two recent issuances demonstrate the scale and structure of quality multi-family housing bonds.

- **New York City Housing Development Corporation** recently priced a \$350 million refinancing for the 50th Avenue Apartments in Queens. Of 619 units, 20% serve households at 50% area median income (AMI) or less, 30% serve moderate-to-middle-income households, and half are market rate. The bonds are rated Aa2/AA+. In 2025, NYCHDC issued \$1.8 billion, financing 8,647 affordable units.
- **Massachusetts Housing Finance Agency (MassHousing)** provides mortgage financing for low-to-moderate-income families statewide. As of June 30, 2025, its \$2.97 billion multifamily portfolio supported over 240 developments.

MassHousing recently issued \$308 million to finance 8 affordable developments totaling 789 units across 30 buildings, leveraging mixed funding sources including low-income housing tax (LIHTC) credits, subordinate debt and local government funds.

Workforce or essential housing bonds

represent a relatively new financing type targeting essential workers — teachers, nurses, firefighters, and others whose incomes may exceed traditional affordable housing thresholds but who still struggle to afford market-rate housing in expensive metropolitan areas. These bonds recognize that affordability challenges extend beyond the lowest-income households to encompass much of the working middle class.

Municipal bonds fund multifamily apartment complexes providing discounted housing to qualified tenants earning 80% to 120% of Area Median Income. These high-yield bonds are generally non-rated, backed by a first lien mortgage on the housing complex, and provide higher yields than single- or multi-family housing bonds given their riskier credit profile.

Two examples are Altana-Glendale and Platinum Triangle Anaheim, both issued by California Statewide Communities Development Authority. Solid demand for affordable multi-family housing in California cities including Anaheim and Glendale supports bond repayment.

General obligation bonds are increasingly being used for affordable housing-related projects and programs. These bonds can fund land acquisition, infrastructure improvements, direct construction subsidies and gap financing for projects requiring public support.

While the total amount of GO bond proceeds dedicated to housing nationwide is difficult to quantify, significant examples demonstrate the scale of commitment. Chicago recently authorized \$1.25 billion in new GO borrowing specifically for affordable housing initiatives, backed by the city's full faith and credit.

In California, multiple jurisdictions including San Francisco, Oakland and Berkeley have approved GO bonds for affordable housing through voter referendum, reflecting residents' willingness to tax themselves to address the housing crisis. GO bonds issued for housing purposes currently average a yield of 3.02% for bonds with 10-year maturities.

MUNICIPAL BONDS AND COMMUNITY OUTCOMES

For households across America contending with affordability pressures, municipal bonds demonstrate how strategic infrastructure investment can meaningfully address community challenges. America's housing affordability crisis didn't develop overnight and will not be resolved through any single intervention.

However, municipal bonds represent a proven, scalable tool that leverages the tax code's support for state and local governments to help deliver tangible benefits to households struggling with rising costs. As policymakers debate various approaches to affordability — from zoning reform to rent control — the quiet work of municipal bond financing continues to add housing units, support first-time homebuyers and preserve existing affordable housing stock.

MUNI BONDS CONNECT WITH AMERICANS' LIVED EXPERIENCE

The Nuveen munis in your community series explores the connection between effective muni bond investing and Americans' lived experience. Nuveen's muni credit analyst team — one of the industry's largest and longest tenured — constantly assesses the impact of the trends that influence muni credit quality across all market sectors.

Municipal bonds are a foundational element in Nuveen's proud heritage of investing to support public purpose — and an asset class that touches the everyday lives of all Americans. Munis fund essential infrastructure for state and local government: K-12 schools, colleges and universities; roads and airports; hospitals; water and sewer utilities; housing and more.

Our research identifies what we believe are attractive investment opportunities. It also yields practical insights into what individuals can expect when it comes to the availability, operation and cost of services used daily — things like the price of an airline ticket or a hospital visit, the health of regional transportation options, the quality of local school systems or the dependability of critical utilities.

For more information, please visit nuveen.com.

Endnotes

- 1 Consumer Expenditure Surveys, U.S. Bureau of Labor Statistics, September 2024.
- 2 Bloomberg, L.P.
- 3 Bloomberg, L.P., S&P Muni Bond Housing Index, S&P Muni Bond Index.
- 4 Bloomberg, L.P.

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