

Out of Reach 2008: Rental Housing and the Current Crisis

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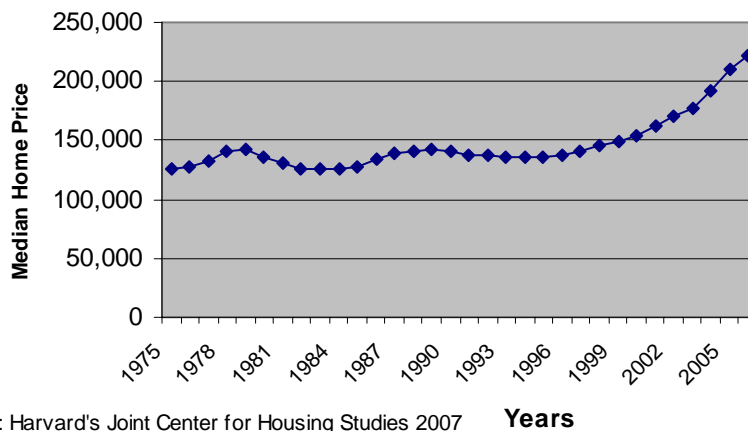
We know low and moderate income homeowners are suffering in the current housing environment. But what about *renters*?

Presentation Outline

- Defining the current housing crisis
 - Its impact on low-income households & neighborhoods
 - Its impact on renters
- Out of Reach: The persistent income-housing cost problem
- How the current crisis will affect rents and incomes

Unprecedented price increases

The Recent Trend in Real Home Prices (2000-2006)
(2006 Constant Dollars)

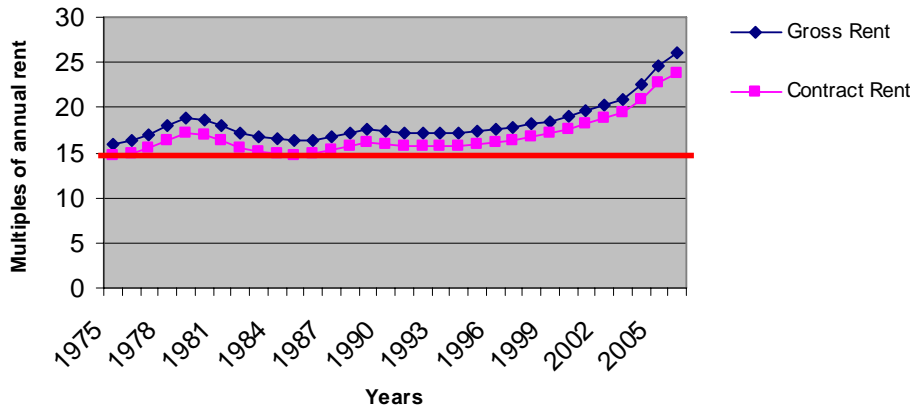


How sustainable was the housing boom?

- Theoretically, the price of a home is the current value of the stream of future rent payments (even for owners).
- Until recently, home prices have in fact moved in close relation to rents.
- A rule of thumb from this history is that a house should cost about 15 times the annual rent for a comparable rental unit.

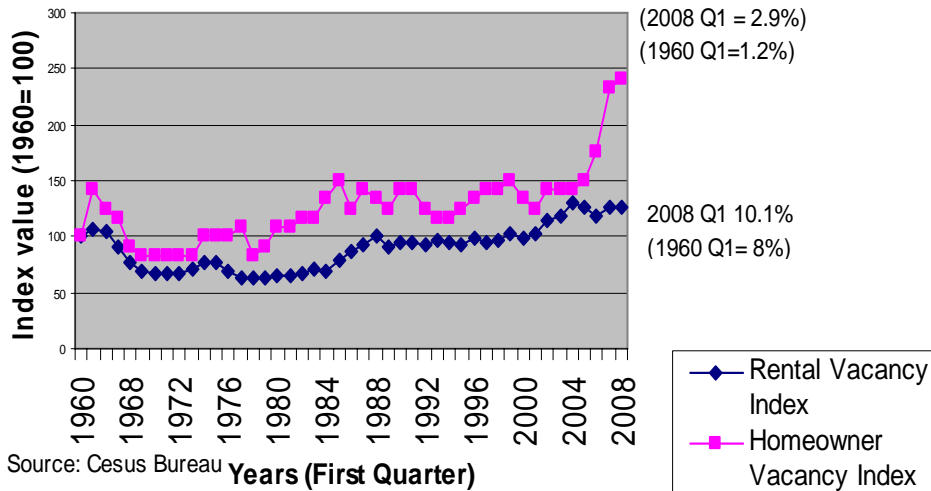
Unprecedented price to annual rent ratio

US Median Home Price Divided by Median Annual Rent (2007 Constant Dollars)

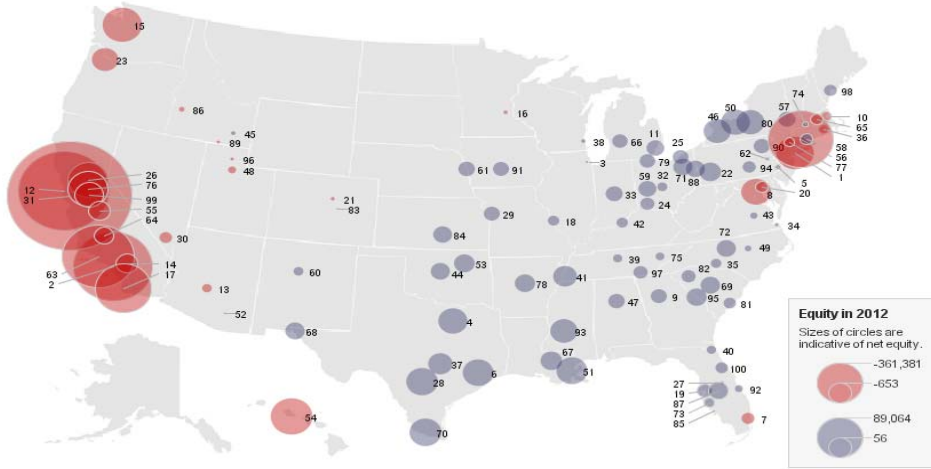


Unprecedented homeowner vacancy

Vacancy Rate Indexes 1960-2008



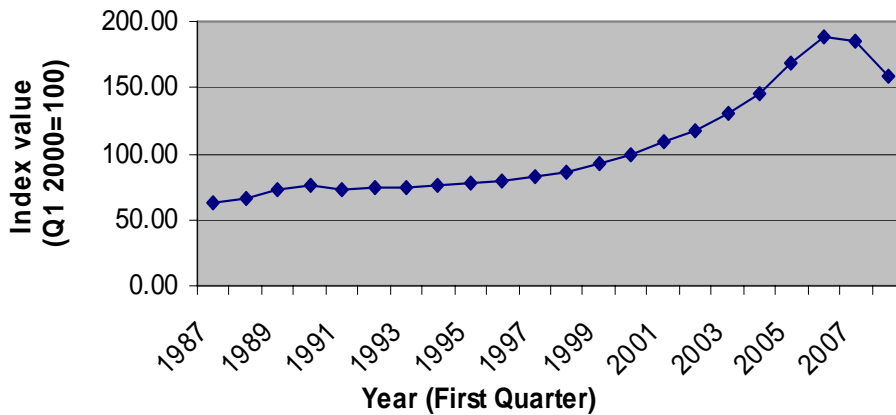
With a return to historical price/rent ratios, some areas would see significant price declines and equity loss.



In the most recent quarter, Americans' equity in their homes has already dropped to the lowest level recorded since World War II. Homeowners' portion of equity fell to 46.2 percent, i.e. housing debt exceeds the equity homeowners have built up.

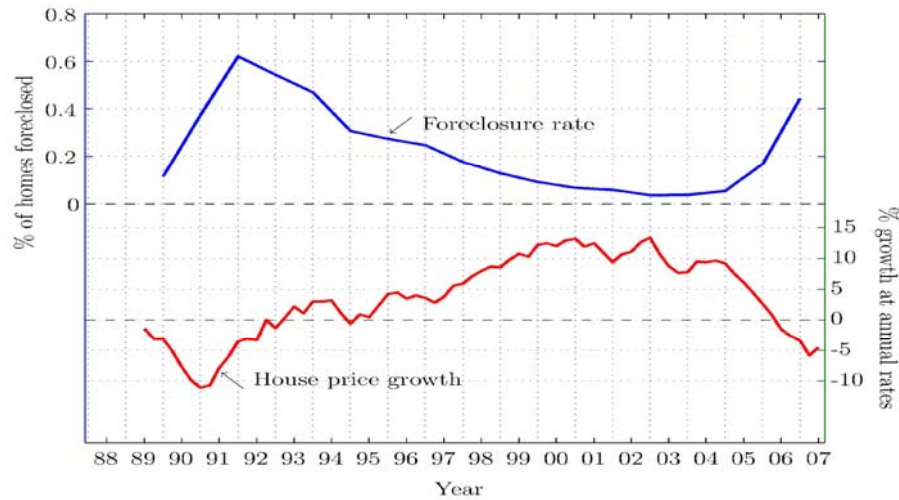
Unprecedented price declines

The Recent Trend Using the S&P/Case-Shiller U.S. National Home Price Index 1987-2008



Source: Standard and Poors 2008

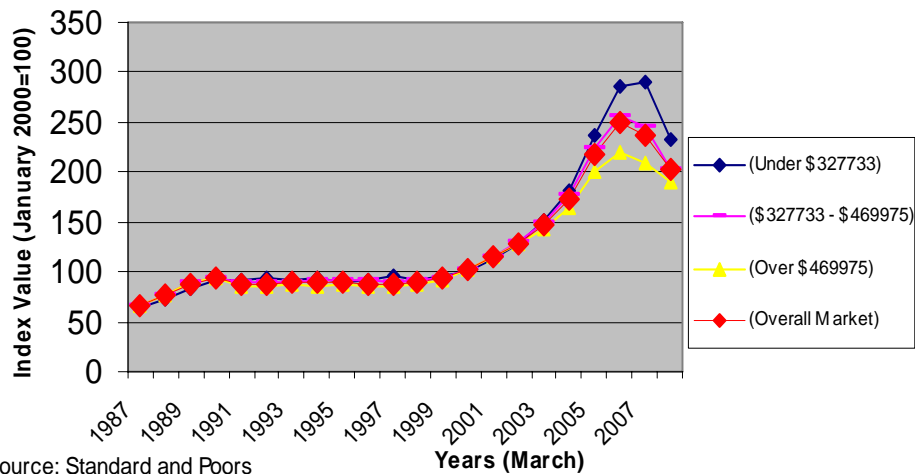
The price and foreclosure connection in Massachusetts



Source: Gerardi, Shapiro, and Willen (2007)

Lowest tier prices rose & may fall the fastest

S&P/Case Schiller Tiered Index Washington, D.C.



Source: Standard and Poors

What does this mean for low-income households and neighborhoods?

Low-income households are very susceptible to foreclosure

Not much is known about the incomes of owner and renter households impacted by foreclosure...

- 61% of 143,000 households calling the 888-995-HOPE hotline in 4th Q '07 had incomes of less than \$42,000 (87% of median income in the US) (Homeownership Preservation Foundation)

- Households earning <50% of the area median income in Cleveland were two times more likely to enter foreclosure than those earning >120% of the median income (Coulton, et al 2008)

Housing counselors' caseloads are largely low-income

Income Category by Area Median Income (AMI) <small>(101 responses; 38 for 0-30% and 31-50% categories)</small>	Average
Very Low Income (0-50% AMI)	35%
0-30% AMI	17%
31-50% AMI	17%
Other Low Income (51-80% AMI)	34%
Total Low Income (0-80% AMI)	69%
Not Low Income	31%

On average, 69% of housing counselors' foreclosure-related clients are Low Income. Over one-third earn less than 50% of the area median income.

Source: NLIHC Research Note #08-03

"Many of the households we are seeing are of low to moderate income. Usually there is a loss of job or a medical emergency that puts the household in this position...We are also seeing households on fixed incomes that are unable to keep up with the increased cost of fuel and food." --- NY

"Many of my clients are the same type of clients that have always, and will always face these kinds of problems - low income families that have no room for savings." --- UT

Disadvantaged communities: The perfect foreclosure storm

- Disadvantaged communities don't need to wait for a broad recession
 - More rapid price declines
 - Most vulnerable to income variability
 - When the economy catches cold they catch pneumonia
 - High subprime and predatory loan rates

Foreclosure's effect on disadvantaged communities

- The foreclosure rate in Chicago's high-minority neighborhoods was 2.5 times the regional rate (Woodstock Institute 2008)
- Foreclosure rates in high-minority and high-poverty neighborhoods were 3.6-5.4 times higher than in other parts of Cleveland (Coulton, et al 2008)
- Values of homes near foreclosed properties are estimated to decline by an average of \$5,000 as a result of their proximity, resulting in a \$202 billion reduction in local tax base (Center for Responsible Lending 2008)
- Proximity to a concentration of foreclosed properties in New York has been shown to reduce a home's sales price by as much as 3.7%, or \$8,000 (Been 2008)

Concentrations in high-poverty areas

New England property foreclosure rates are highest in high-poverty neighborhoods, which are also characterized by other indicators of socioeconomic disadvantage.

		Percent Renter			
		Low	Average	High	Total
Poverty Rate	Low	0.21%	0.19%	0.21%	0.21%
	Average	0.30%	0.27%	0.20%	0.26%
	High	0.25%	0.51%	0.50%	0.50%
	Total	0.24%	0.29%	0.43%	0.32%

Median Neighborhood Characteristics	High Poverty, High Renter	Avg. Poverty, Mixed Tenure	Low Poverty, Low Renter	All Neighborhoods
Property Foreclosure Rate	0.50%	0.27%	0.21%	0.32%
Poverty rate	20.4%	6.0%	2.5%	6.0%
Percent renter	71.1%	30.5%	10.9%	30.4%
Median household income	\$31,056	\$50,305	\$70,755	\$50,435
Median home value	\$110,300	\$146,800	\$195,750	\$152,750
Percent non-white	43.4%	7.6%	4.5%	8.5%
% without a high school degree	29.9%	14.3%	7.6%	13.4%

Source: NLIHC Research Note #08-02 & tabulations of data from The Warren Group

How is foreclosure affecting rental units?

Multi-unit properties are vulnerable

Very little research has investigated the characteristics of the properties that are entering foreclosure...

- 35% of the 13,872 foreclosure filings in the City of Chicago last year were on 2-6 unit buildings (Woodstock Institute 2008)
- 60% of the 15,000 foreclosure filings in New York City last year were on multi-unit buildings (Furman Center 2008)

Multi-unit stock in New England hit hard by foreclosure

	Properties	Units
Total	14,993	23,440
Single-Unit	10,257	10,257
Percent of Total	68%	44%
Multi-Unit	4,736	13,183
Percent of Total	32%	56%

Source: NLIHC Research Note #08-01

One-third of the properties and over half of the units in the final stages of foreclosure in New England are in multi-unit buildings.

Renters swept up in foreclosure crisis

- 20% of all foreclosures were not owner-occupied in 3Q '07
(Mortgage Bankers Association as cited in Joint Center for Housing Studies of Harvard University 2008)
- 25% of foreclosed *single-family* homes in California were occupied by renters (Lazarus 2008)
- 25% of foreclosed homes in Kalamazoo, MI, were renter-occupied (Jessup 2008)
- 29% of foreclosed properties in Mecklenburg County, NC, are renter-occupied or vacant (Carlock 2008)
- 29% of foreclosure filings in Cuyahoga County are for rental properties (Rothstein 2008)
- 43% of foreclosures in Hennepin County and 60% in Minneapolis were not owner-occupied (Hennepin County Task Force 2007)
- 50% of households living in foreclosed buildings in New York City were renters (Furman Center 2008)

Renters displaced from both single- and multi-unit housing

What type of unit did renter households occupy when they were evicted? (72 responses)	
All resided in single-unit bldg	27.8%
Majority resided in single-unit bldg	30.6%
50/50 split	8.3%
Majority resided in multi-unit bldg	19.4%
All resided in multi-unit bldg	13.9%
Total	100.0%

58% of housing counselors reported that most or all of their renter clients evicted by foreclosure lived in single-unit buildings.

Depending on the assumptions, over a third to nearly two-thirds of the 23,000 foreclosed units in New England may have housed renters.

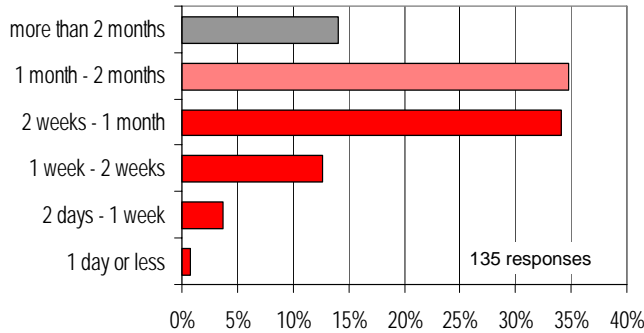
Estimated Percent Renter-Occupied Assuming...		
	the owner lives in the multi-unit property	all units in multi-unit properties are rented
all single-units are owner-occupied	36%	56%
85% of single-units are owner-occupied	43%	63%

Source: NLIHC Research Notes #08-01 & #08-03

Threat of eviction rises with foreclosure

- Calls to HOME Line from renters facing foreclosure in Minnesota increased from 78 in 2006 to 424 in 2007 (Heath & Jones 2008)
- The number of renters facing foreclosure and seeking help from the Cleveland Tenants Organization grew from 243 in 2006 to 420 in 2007. In the first quarter of 2008 alone, there were 373 calls (Rothstein 2008)
- Foreclosure-related evictions approved by the Cleveland Housing Court nearly doubled from 2006 to 2007 (Rothstein 2008)
- Evictions in the Boston Housing Court more than doubled from 2006 to 2007 (Appelbaum 2007)
- 5,000 families have been evicted from their rental homes in the last 18 months in Nevada (Rucker 2008)

Insufficient time between notification & eviction



86% of housing counselors report that renters typically have less than 2 months to vacate a foreclosed property; 51% report less than 1 month

Source: NLIHC Research Note #08-03

"The renters have very little warning of losing their homes...No one, including the owner, tells them what is going on in most cases, and they rarely get their security deposits returned." --- IL

"Renters are usually reassured by their housing provider that the foreclosure paperwork was a mistake/will be worked out and generally don't realize they have to vacate until the 11th hour." --- OH

Evicted renters in tenuous living situations

- 76% of state and local homeless coalitions report that those going through foreclosure stay with family/friends after eviction, followed by emergency shelters (54%), living on the streets (42%), and renting (38%) (Erlenbusch, et al 2008)
- 928 homeless adults in Michigan listed "foreclosure" as one of the top two reasons for their homelessness in 2007. The number in 1Q '08 was 217% higher than in 1Q '06 (Ritter 2008)
- Three of the 50 families interviewed in Cleveland spent time in a shelter; most rent another unit or stay with family and friends (Rothstein 2008)
- Finding a place to live after a foreclosure-related eviction costs a household renting in Cleveland an estimated \$2,558, on average (Rothstein 2008)

Housing counselors report a variety of post-eviction outcomes

Are you aware of evicted renters ending up in the following situations? (132 to 142 responses)	Yes	No	Don't Know
An apartment or home for rent nearby	78%	5%	17%
A relative's home nearby	76%	6%	18%
An apartment or home for rent in another community	67%	9%	24%
A relative's home in another community	61%	11%	28%
Assisted/Subsidized housing	60%	21%	19%
The home of a nonrelative nearby	56%	11%	34%
Homeless shelter	52%	22%	26%
Hotel/Motel	51%	18%	30%
The home of a nonrelative in another community	44%	16%	40%
Automobile/Outside/Camp Site	30%	29%	40%

Source: NLIHC Research
Note #08-03

“The rental market has become significantly more challenging due to the current foreclosure crisis...There are both tenants that are displaced by foreclosure as well as potential buyers that can't or don't want to enter into homeownership that are now competing with other tenants for limited rental units.” --- MA

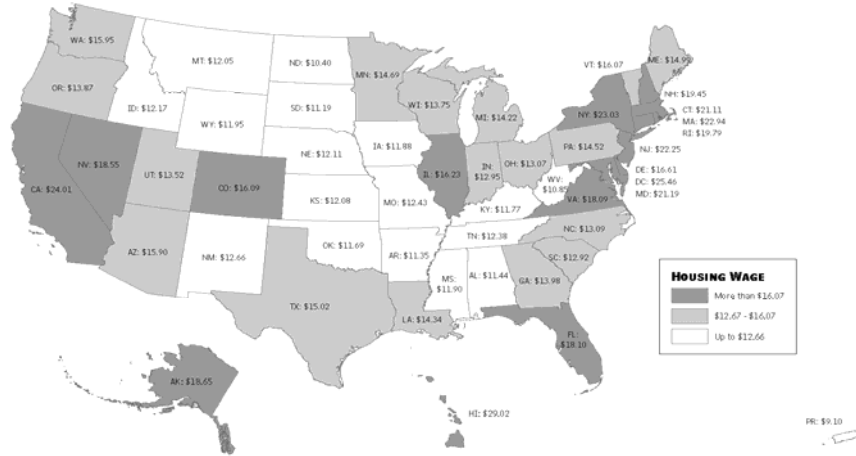
“We have been seeing an increase in families requesting assistance with security deposits and first months rent and rent assistance because they have been foreclosed on.” --- MO

What does this all mean for rental markets?

Out of Reach 2008: The existing wage-rent imbalance

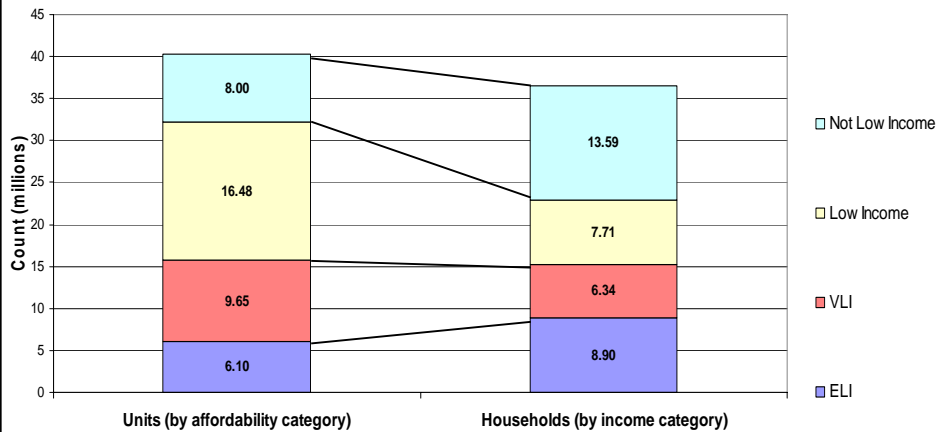
TWO-BEDROOM HOUSING WAGE

Represents the hourly wage that a household must earn (working 40 hours a week, 52 weeks a year) in order to afford the Fair Market Rent for a two-bedroom unit at 30% of income.



There existing supply-demand mismatch

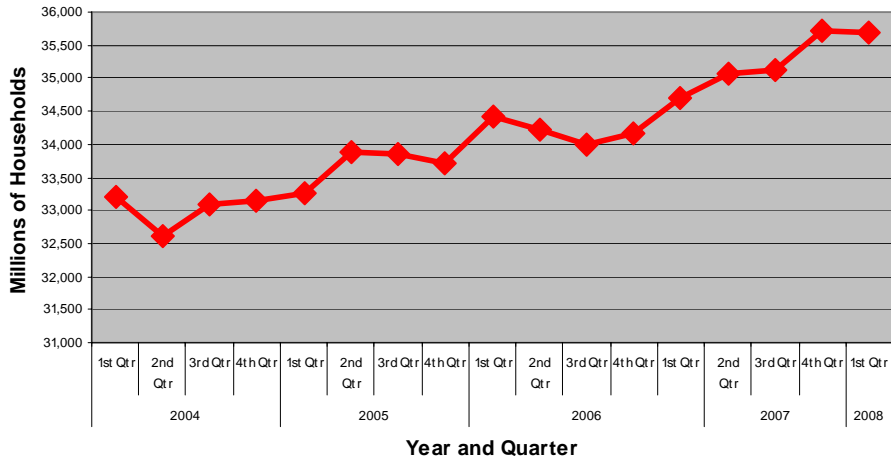
Rental units and renters in the US, matched by affordability and income categories (2006)



Source: NLIHC Tabulations of 2006 ACS PUMS data

Now a rising number of renters...

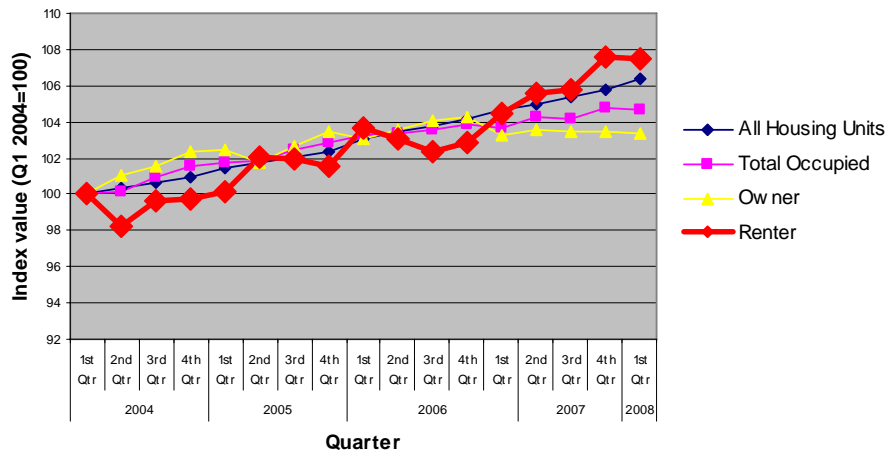
Number of Renters Q1 2004 - Q1 2008



Source: US Census

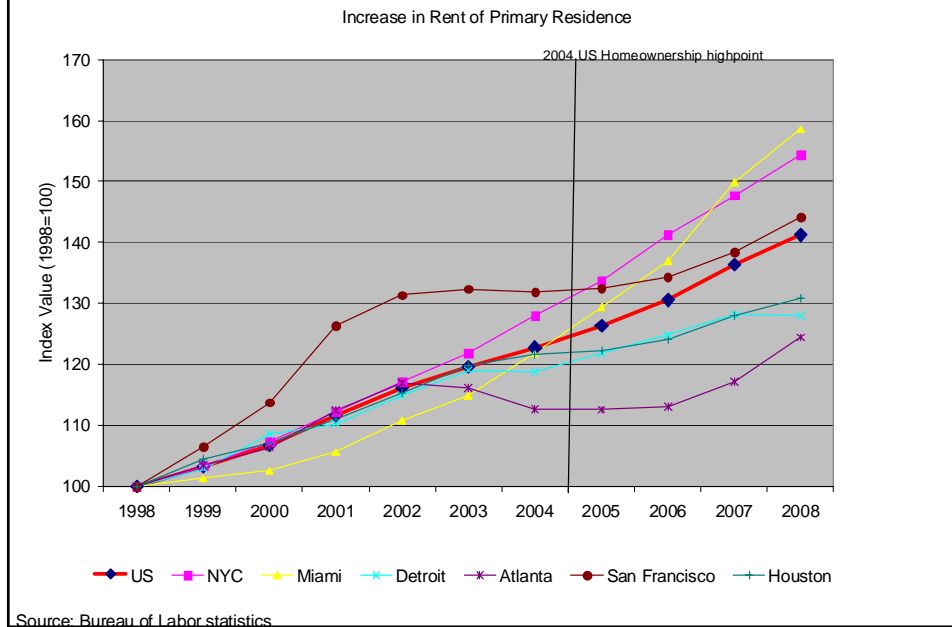
...relative to all households...

Growth in Housing Units and Households by Tenure Q1 2004 - Q1 2008



Source: US Census

... has led to higher rents



Where we are today

- Prices are now falling into line with fundamentals.
- This could make purchasing a home more affordable, *but it also*
 - Makes prospects for gaining equity uncertain,
 - Constricts employment, wages, and the economy, and
 - Leads to foreclosure, removing units from the stock at least temporarily.

The consequences of falling prices can increase demand and constrain the supply of affordable rental housing.

Looking forward

- No relief for the lowest tier of the rental market
- Where demand for housing remains high, entire rental markets will tighten
- Without an “income recovery,” rents will move even further Out of Reach
- Communities must anticipate the need for affordable rental housing even as they try to limit foreclosures
- Housing counselors must be prepared to help foreclosed homeowners and renters navigate the changing rental market
- Corporate and government policies must address renters in foreclosure, today!

NLIHC Resources

(www.nlihc.org/template/page.cfm?id=21)

- [07/17/08](#) :Research Note #08-03: Income and Tenure of Households Seeking Foreclosure Counseling: A report from recent surveys,
- [06/17/08](#) :Research Note #08-02: Neighborhood Poverty and Tenure Characteristics and the Incidence of Foreclosure in New England,
- [05/15/08](#) Ownership, Rental Costs and the Prospects of Building Home Equity: An Analysis of 100 Metropolitan Areas (Joint Report with Center for Economic and Policy Research), Research
- [05/06/08](#) :Research Note #08-01: Properties, Units, and Tenure in the Foreclosure Crisis: An Initial Analysis of Properties at the End of the Foreclosure Process in New England
- [04/03/08](#) :The Cost of Maintaining Ownership in the Current Crisis: Comparisons in 20 Cities (Joint Report with Center for Economic and Policy Research)
- [03/03/08](#) :Getting to the Heart of Housing’s Fundamental Question: How Much Can a Family Afford? A Primer on Housing Affordability Standards in U.S. Housing Policy
- [03/03/08](#) :Housing at the Half: Mid-Decade Progress Report from the 2005 American Community Survey