

# The Cost of Maintaining Ownership in the Current Crisis

Presented at

"Using HOME and other resources to respond  
to the homeownership crisis"

Presented by

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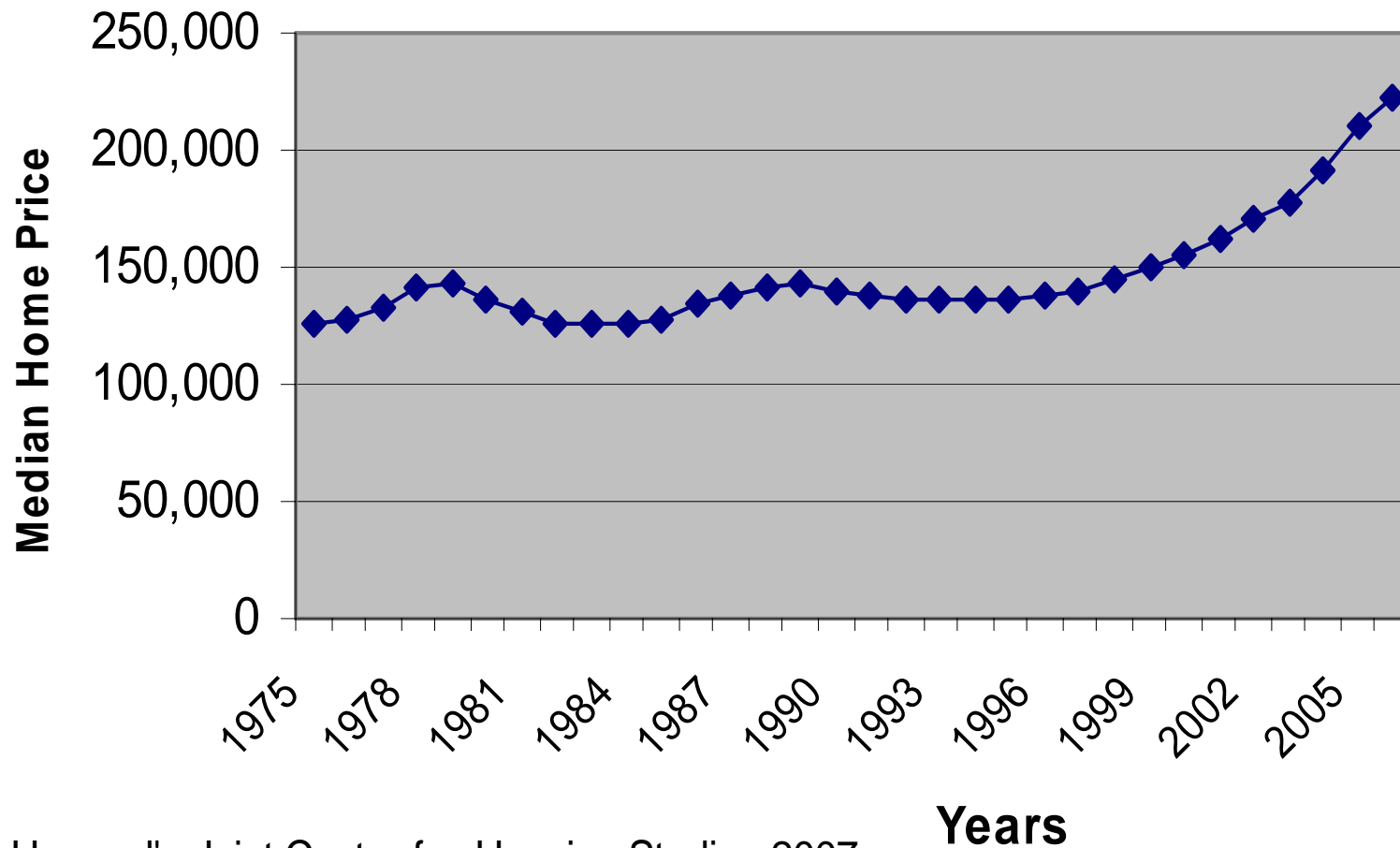
National Low Income Housing Coalition

[WWW.NLIHC.ORG](http://WWW.NLIHC.ORG)

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# Unprecedented price increases

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



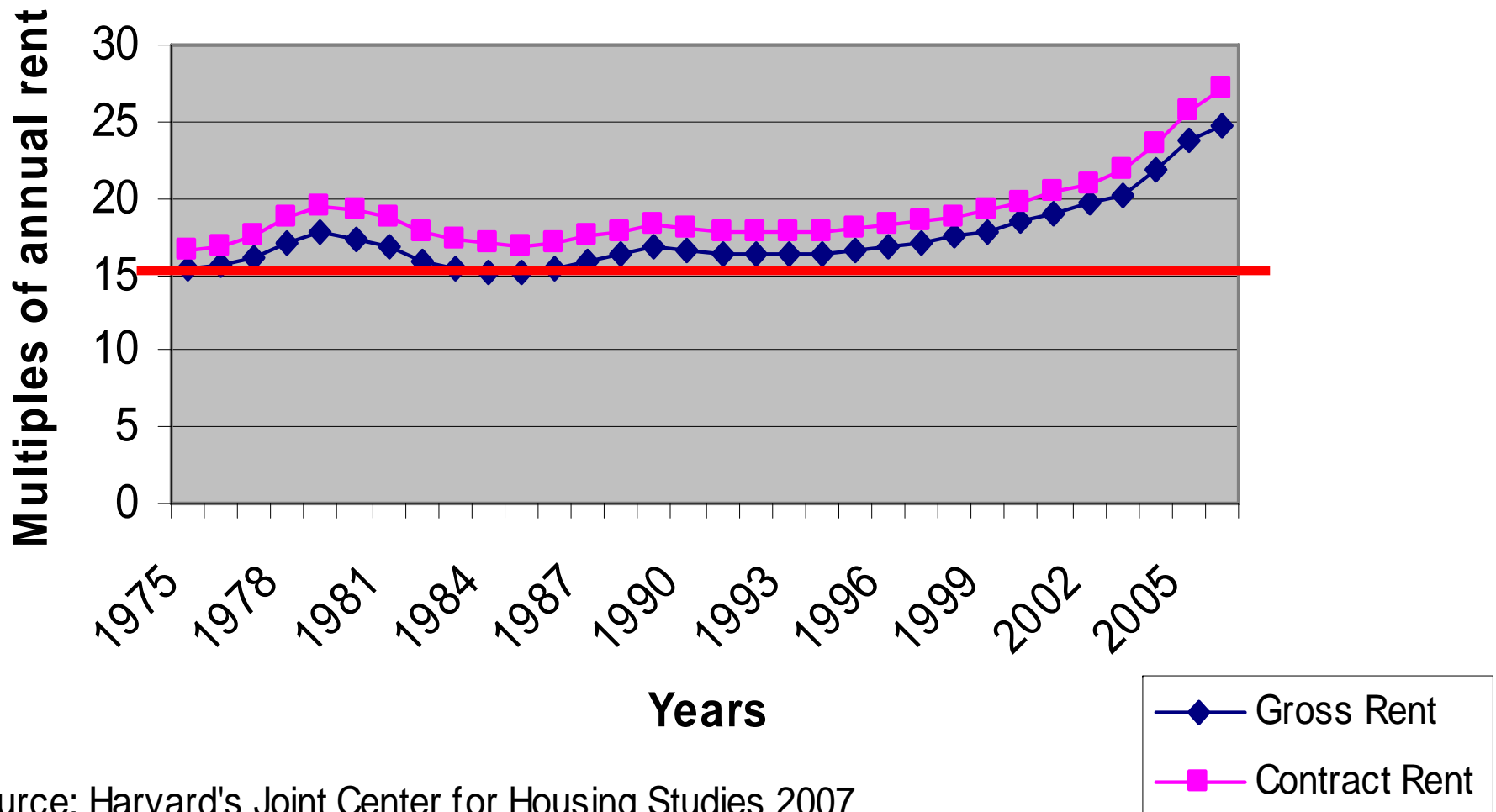
Source: Harvard's Joint Center for Housing Studies 2007

# **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)
- Empirically, 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

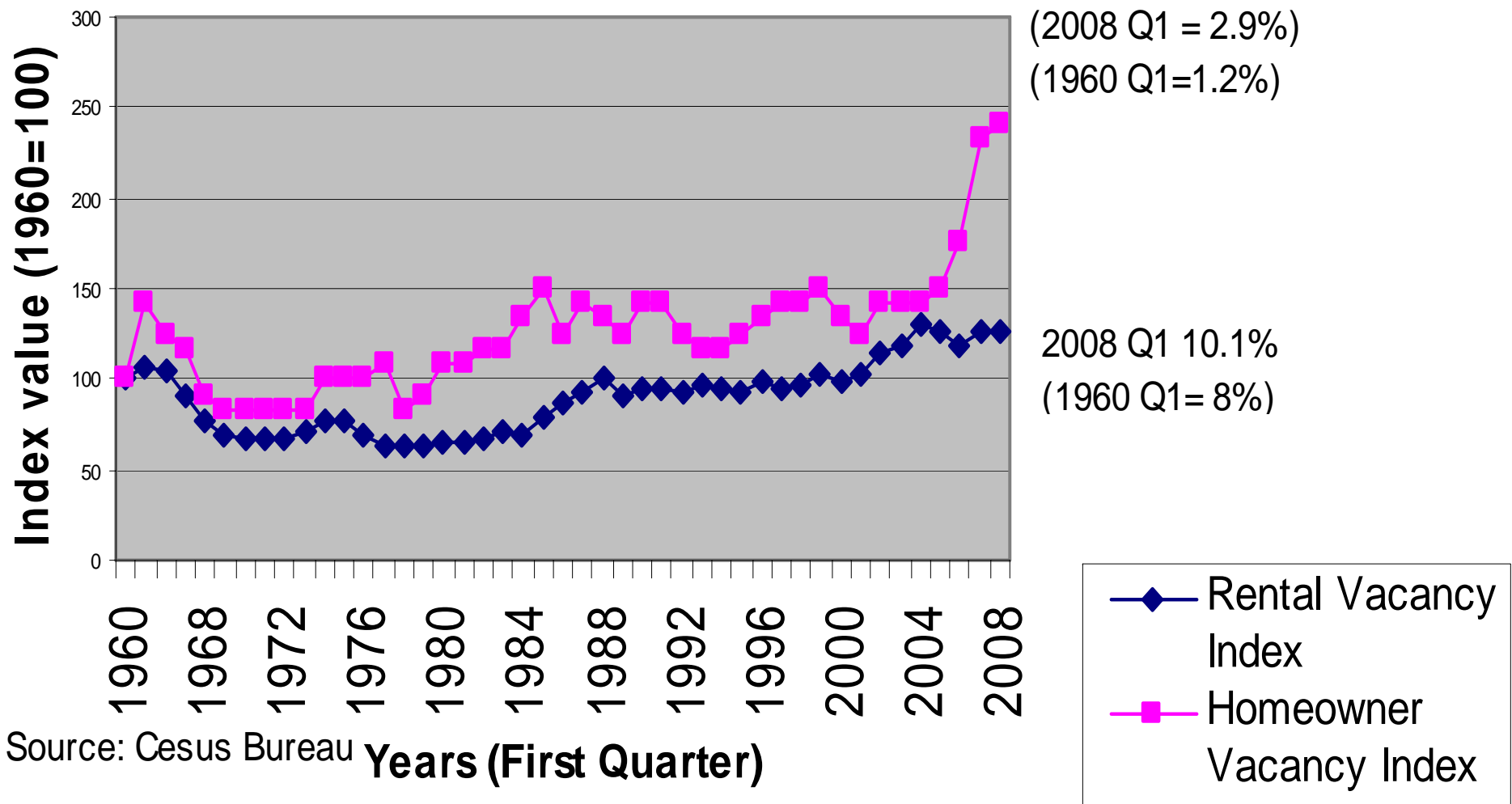
## US Median Home Price Divided by Median Annual Rent (2006 Constant Dollars)



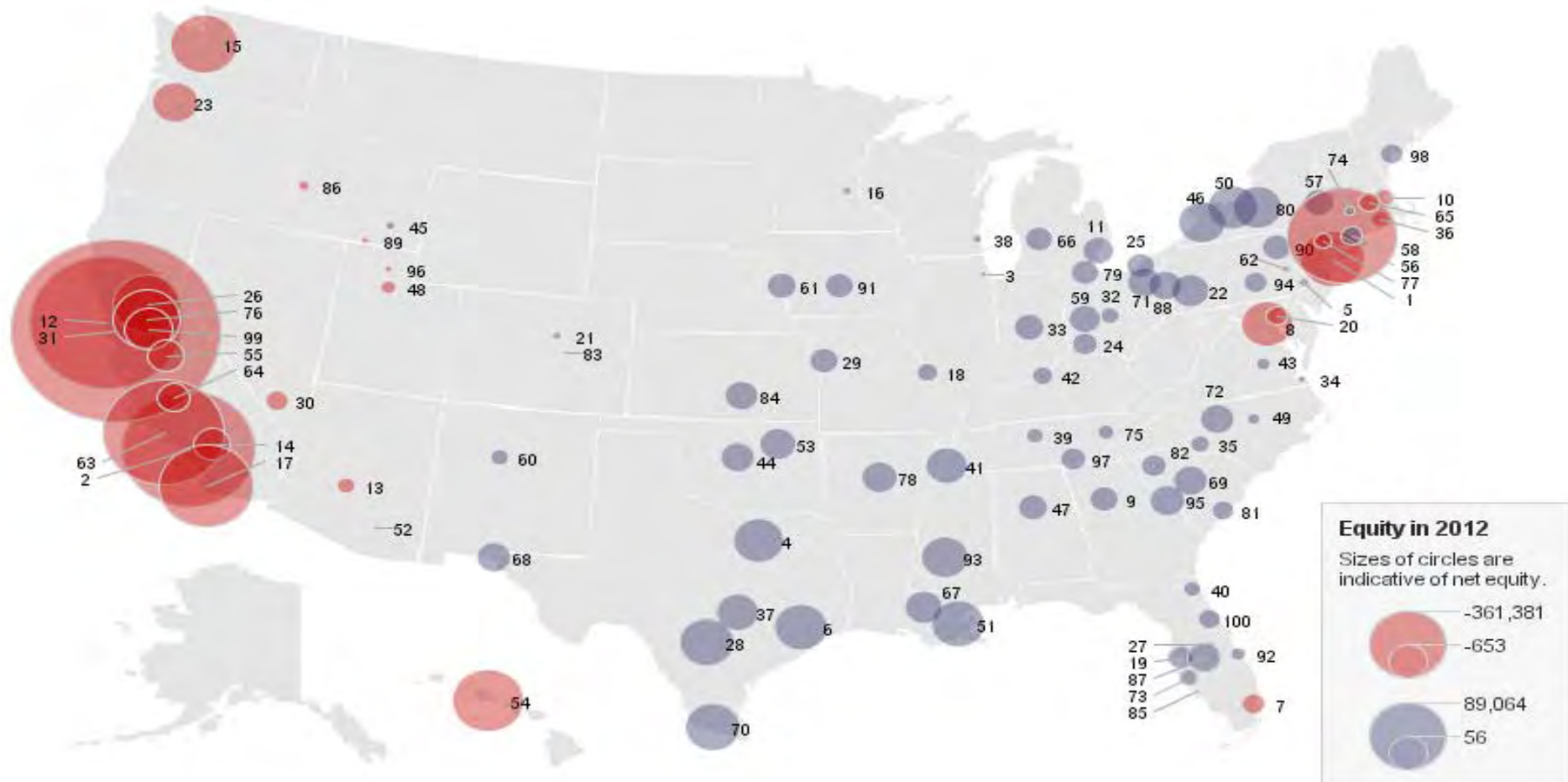
Source: Harvard's Joint Center for Housing Studies 2007

# Unprecedented homeowner vacancy

## Vacancy Rate Indexes 1960-2008



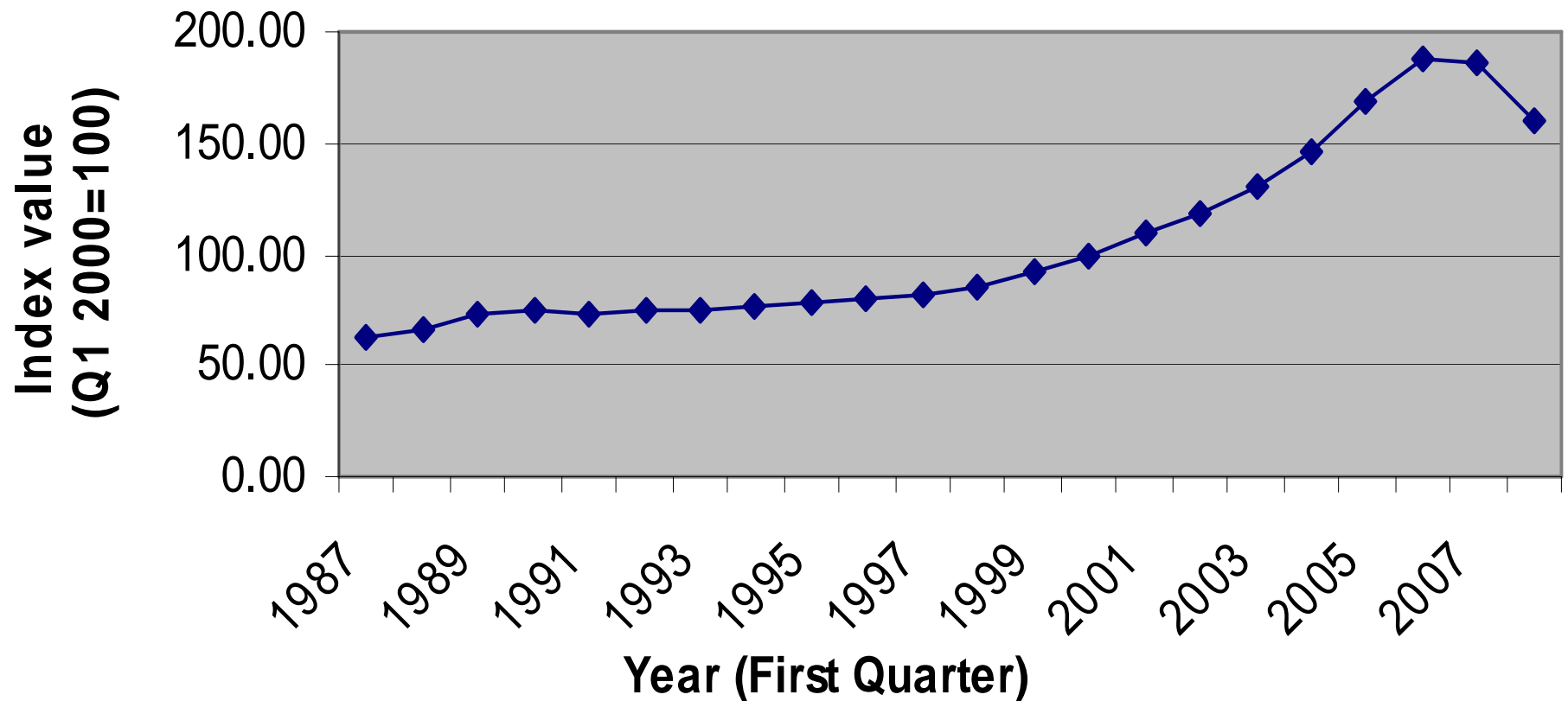
# A return to historical price/rent ratios means some areas will see significant price declines and equity loss



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.

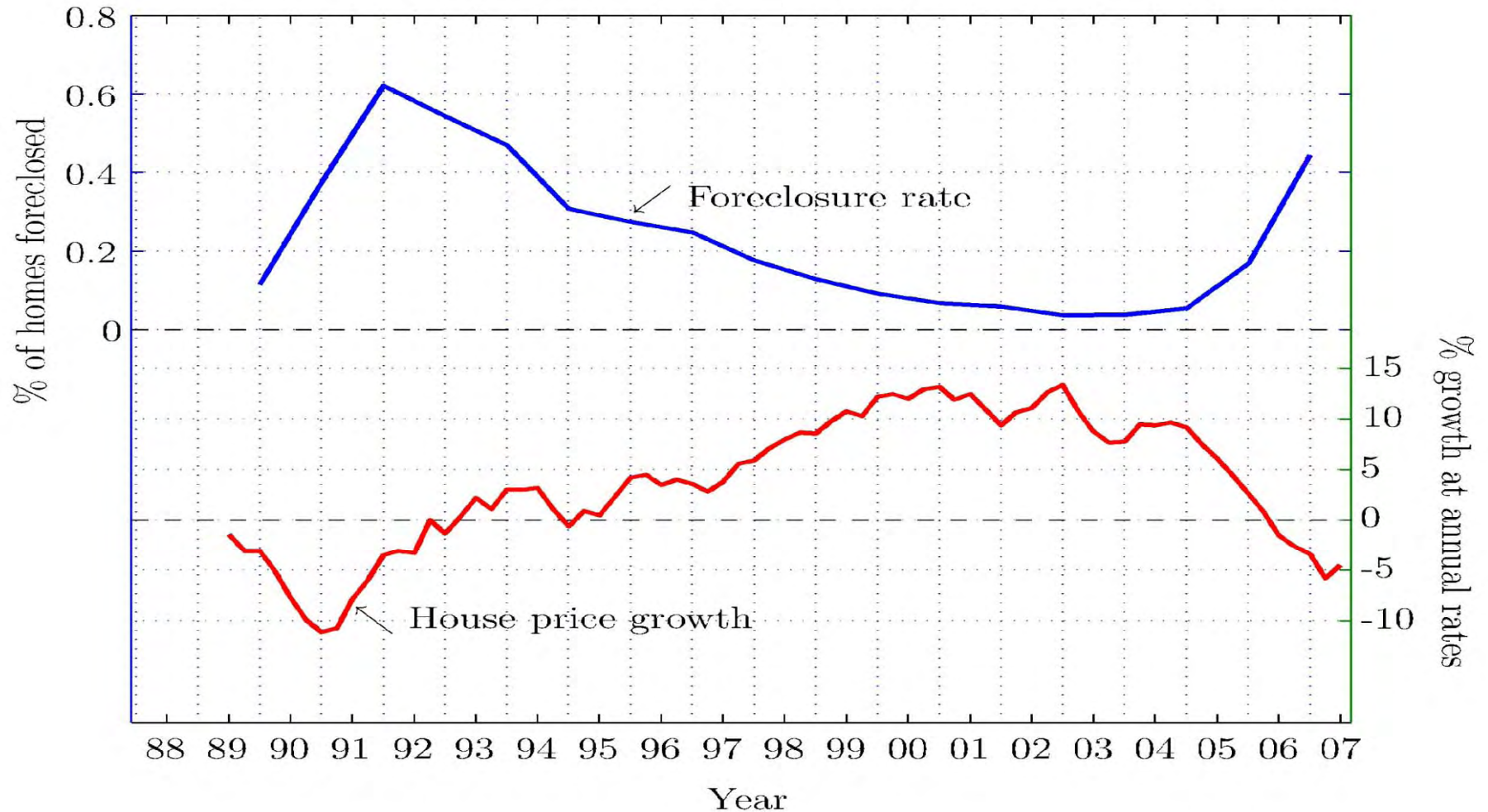
# Unprecedented price declines

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)

## Where we are today

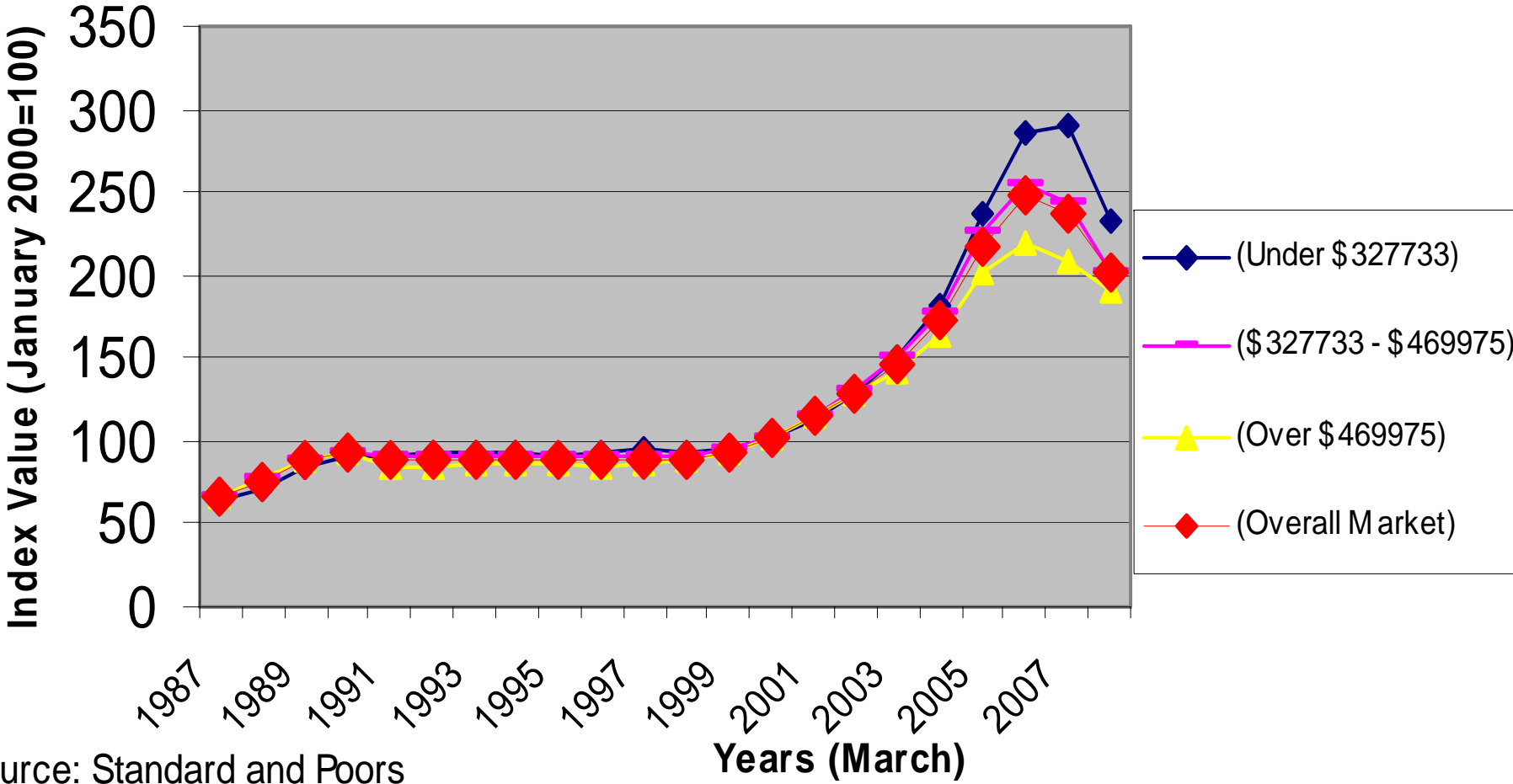
- Prices built on unrealistic appreciation expectations are now falling in line with fundamentals
  - Making homes more affordable (affordable again) for many moderate income households, *but also*
  - Endangering equity
  - Increasing demand for rental housing
  - Endangering employment, wages, and the economy
- Price declines are the necessary condition for elevated foreclosure rates
  - Loss of income, and subprime terms may be the proximate triggers of foreclosure
  - Introducing even more churn and displacement due to foreclosure
  - Limiting household credit, ability to secure tenure
  - Removing units from the stock at least temporarily

## **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

# Lowest tier prices rose & may fall fastest

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



Source: Standard and Poors

# Multi-unit/rentals in foreclosure: New England Evidence (CT,MA,NH, RI)

	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%

- Study of foreclosure auctions and REO properties in 2007 and Q12008

- We can say with relative certainty: 1/3 of properties in second stage of foreclosure are multi-unit, accounting for 56% of units

- Estimating the share of rental properties is sensitive to the assumptions, but the significance of the sector is clear: 40-60% of foreclosures are likely rentals

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%

# Poverty is defining neighborhood foreclosure rates: More evidence from New England

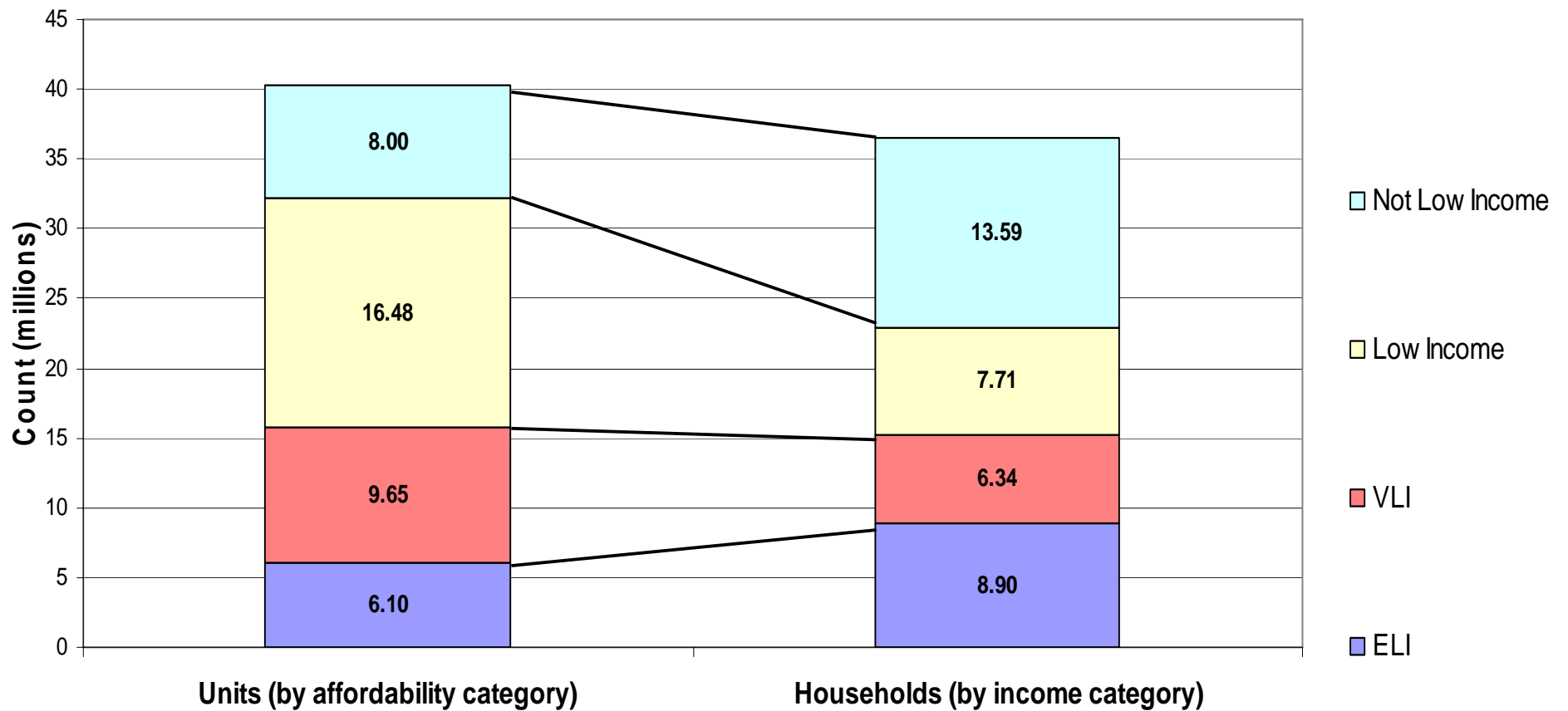
Foreclosure Rate by Neighborhood Typology

		Percent Renter			
		Low	Average	High	Total
Poverty Rate	Low	0.24%	0.21%	0.27%	<b>0.23%</b>
	Average	0.33%	0.35%	0.28%	<b>0.33%</b>
	High	0.26%	0.75%	1.06%	<b>0.99%</b>
	Total	<b>0.26%</b>	<b>0.38%</b>	<b>0.88%</b>	<b>0.50%</b>



# The fundamental supply mismatch persists

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



Source: NLIHC Tabulations of 2006 ACS PUMS data

# **Summarizing: The hole we have dug**

- We have too much housing
- Too little of what we have is affordable, appropriate, well located, and available for the lowest income households
- Rental housing is still getting more expensive even as house prices are falling and uncertain
- Financial “innovation” can explain how we got here but fixing individuals’ financing problems will not correct the fundamental market imbalance

# How good people helped dig the hole

- The myths we told ourselves and others
  - “It always pays to buy”
  - “Once a homeowner always a homeowner”
  - “It is the only way to build wealth”
  - “They aren’t making any new land”
  - “This time it is different”
- By overstating the case for homeownership, well meaning organizations gave cover to bad actors, speculation, and negligent regulation

# How we stop digging

- Do not maintain ownership at any cost
  - Maintaining unaffordable prices is not a reasonable public policy goal and it will be costly
  - Facilitating an orderly transition to rentals (temporary or permanent ) along with more appropriate homeownership and home prices is the long term solution

## **How we stop digging (cont.)**

- Do not exacerbate the transition of the market; and
- Address the fundamental and persistent affordability mismatch
  - Every region in the country has (or will shortly have) enough moderate income housing
  - Build new housing only for those who truly do not have other options

## **How we stop digging (cont.)**

- Stabilize neighborhoods
  - Focus on all foreclosures not just owner-occupied units
  - Focus on providing secure tenure and maintaining and improving communities
  - Return foreclosed properties to occupancy ASAP
  - Enforce codes on foreclosed properties
    - Any program must be sensitive to residents and compel action from lenders on REOs

## **(You don't have to trust me on this one)**

“Cities, working together and with community organizations and state officials, will need to find ways to make sure these low- and moderate-income neighborhoods do not regress as a result of the current wave of foreclosures. One promising tactic is rigorous municipal-code enforcement that ensures foreclosed properties are maintained. Furthermore, servicers must have a process for maintaining foreclosed properties and they must do more to ensure that these properties do not remain vacant for long periods of time.”

Eric S. Rosengren, President and CEO of the Federal Reserve Bank of Boston May 30, 2008

## **Specific actions**

Use Home and CDBG to:

- Acquire and redevelop foreclosures
  - Develop own-to-rent scheme for properties in foreclosure to keep households in their homes
  - Provide ELI rental and VLI ownership housing
- Construct more multifamily rental housing
  - The nation has seen a larger increase in renters this year (over 1 million) than the first part of the decade combined.
- Use HOME for tenant-based rental assistance.

## **Specific actions**

- Support funding for additional vouchers
- Support the National Housing Trust Fund
- Support targeted funds for neighborhood stabilization
- [www.nlihc.org](http://www.nlihc.org)