Foreclosure Crisis Presents Opportunity to Focus on Rentals, Panelists Say

by Ed Finkel, Staff Writer, ULI Chicago

This is a summary of the April 30, 2008, forum sponsored by ULI Chicago and The Preservation Compact, where members heard from a panel on the topic, "Rental Markets, Foreclosures and the Credit Crunch." The two Harvard researchers who presented findings from a new report and three other panelists who reacted to those findings agreed that public policies promoting affordable rental properties would make lemonade out of the lemons that the broader housing market is currently producing.

Featured Speakers:
Nicolas P. Retsinas, director, Harvard University Joint Center for Housing Studies
William C. Apgar, senior scholar, Harvard University Joint Center for Housing Studies
Bruce Katz, vice president, Metropolitan Policy Program, Brookings Institution
Ellen Sahli, commissioner, Department of Housing, City of Chicago
David Schwartz, managing member, Waterton Associates, LLC

Housing policy in the United States has focused too strongly on promoting homeownership, which helped lead to the foreclosure crisis and credit crunch the market currently faces -- circumstances that make even more urgent a refocus on creating affordable rentals, said speakers at the April 30, 2008 forum held at the Chase Bank Auditorium and co-sponsored by the Urban Land Institute's Chicago District Council and The Preservation Compact.

"A national policy that only rewards homeowners doesn't meet the needs of everyone," said Julia Stasch, vice president of human and community development at The John D. and Catherine T. MacArthur Foundation, which has committed $150 million to help preserve 300,000 affordable units and change the policy environment through its nationwide Window of Opportunity Initiative.

The collapse of the sub-prime market makes policy changes that much more needed, said Stasch, whose foundation on April 30 announced a $35 million expansion of the Window of Opportunity. She also mentioned "our hometown effort to contribute to this," a $15 million investment in the Preservation Compact, a year-old coalition of organizations working to preserve 75,000 affordable rental units between now and 2020 by "making it more attractive to own and maintain affordable rental housing."

As part of its "Window of Opportunity" initiative, MacArthur has supported a study by the Harvard University Joint Center on Housing Studies, "America's Rental Housing: The Key to a Balanced National Policy," which was released at the event. "MacArthur was for rental when rental wasn't cool," said Nicolas Retsinas, director of the Joint Center and a former U.S. assistant secretary for housing. "It's cool, and more importantly, it's critical that we understand this market."

The Harvard report documents the effects of the current "turbulent" housing market on renters and posits the notion that "maybe this is an opportunity to revisit what is an appropriate housing policy," Retsinas said. "This nation has genuflected at the altar of homeownership." Some of those who thought they had become homeowners during the past few years – especially holders of sub-prime mortgages that have defaulted – ended up, in fact, being renters in the long run, he said.

Policies that promote homeownership can be positive as long as they don't overdo it, said William Apgar, senior scholar at the Joint Center, who also has been a U.S. assistant secretary for housing.

“When it becomes, ‘Homeownership good, rentals bad,’ you’ve crossed the line,” he said. “There is lemonade to be made out of these lemons. We’re going to see the ‘great American home sale’ over the next couple of years,” which makes it a good time to invest in properties and convert them to rentals.

To determine the right policy directions, more data needs to be gathered, Apgar said. Researchers know that the “mortgage meltdown” is hurting affordability and escalating the pace of foreclosures. “News flash. You heard it hear first,” he said wryly. But beyond that, “We know scant little.”

Foreclosures have been rising in the Midwest for a decade and have now spread to the coasts, Apgar said, and sub-prime mortgages are 10 to 20 times more likely to end up with that result. This has heavily impacted smaller, multi-family apartment buildings, which represent one in five foreclosures nationwide, he said. “Tenants, of course, are left hanging.”

The broader economic situation for such low- to moderate-income people will be bleak in the near term, Apgar said, noting that half of renters pay more than 30 percent of their income for housing and one-quarter pay more than 50 percent; and since full-time employment does not guarantee housing affordability, people must cut back on other household budget items like groceries or health bills.

For people in that situation, Apgar said, the lack of housing affordability “is not a statistic. It’s a lower food bill.” And when their car breaks down or an unexpected health bill hits, their “real safety net” is a credit card. “You charge that [expense], and hope for better times ahead,” he said.

Complicating the current situation is that rental buildings in foreclosure are off the market for a period of time, which now represents “one of the biggest buildups,” Apgar said. “The people are there all the time. The units are tied up in a lengthy foreclosure process.”

And it could get worse: Communities with concentrated foreclosures could see accelerated disinvestment, which could, in turn, lead to more affordable units coming off the market exactly when they’re most needed, he said. Plus, rental construction is two-thirds below its 1985 peak of 500,000 -- with mostly higher-end units being built while lower-end ones are lost -- while tightening credit standards are further undermining the prospects of renters in debt.

With all this in mind, Apgar said, national housing policy must work to preserve rental units, eliminate land-use restrictions in suburban areas that prevent the construction of multi-family buildings, and wherever possible provide funding to purchase distressed buildings and convert them to rentals.

The three-person panel chosen to react to the Harvard report’s conclusions seemed to share the sense of alarm over – and urgency to seize the opportunities provided by – the picture the researchers painted. The City of Chicago alone saw 14,000 foreclosures in 2007, said Ellen Sahli, commissioner of the Department of Housing. “The stability of our neighborhoods and the gains we have made through strategic investments is now threatened,” she said.

The city has put four housing-related bills before the state legislature, all of which have been well received, Sahli said. One of them would protect renters from displacement due to foreclosures on their buildings, which often happen with little or no notice, no security deposit returned, and the black mark of an eviction notice on their record when they have done nothing wrong, she said.

Although one might think that the foreclosure crisis would be a boon for apartment owners, by creating additional demand for rental properties due to former homeowners flooding the market, that hasn't proved to be true, said David Schwartz, managing member of Waterton Associates, LLC and a Full member of ULI. "There is some misconception out there that this is great for apartments," he said. "We're not seeing that." In fact, the rental market is softer in areas with the most foreclosures.

That could be a sign that in areas like Florida, Las Vegas and Phoenix, the economy overall is in greater trouble, Schwartz said. "Some of that is attributable to a recession," he said. "These areas are losing jobs. Every job loss is the loss of a household." Some whose homes have been foreclosed upon might be temporarily doubling up with family or friends, he added. "There could be a timing lag."

The housing market would be buoyed if the federal government did more to ensure overall middle-class economic stability through a "sensible work policy," greater investment in education and training, and wage subsidies, said Bruce Katz, vice president of the Metropolitan Policy Program at the Washington-based Brookings Institution. Major federal legislation on taxes, transportation, climate change and financial restructuring all provide opportunities to impact housing affordability, he said.

"We have an opportunity to connect the dots," Katz said. "There is a near term prospect of legislative remedies to mitigate the impact on borrowers. Beyond that, we need to lift our sights and think about structural remedies."

During the question-and-answer session that followed, Gail Schecter, executive director of the Winnetka-based Interfaith Housing Center of the Northern Suburbs, asked how to move municipalities that won't change their zoning codes to allow multi-family buildings because they say they want the additional tax revenues brought by higher-value properties.

"That's just a mask for, 'We don't like poor people.' We have to pierce through that," Apgar said, by asking whether teachers, police or firefighters can afford to live in a community, either. "Do we want to have a community that's whole? … You need a good moral argument."

Federal housing policy traditionally has focused on cities, Katz said, but cities typically have the infrastructure to work with as well as intermediaries with whom to partner – and a majority of poverty is in the suburbs. "This is not the United States, circa 1975," he said. "It's a completely different place in terms of who lives here and where they live."

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