Affordable Rental Housing: As Important Now As Ever

With over three decades of experience in rental services, the St. Ambrose Housing Aid Center provides 300 affordable rental units for low to moderate income individuals and families in Baltimore City and County. While few would question the basic value of this service, the true significance of such work is often far from obvious.

Amidst all the problems our nation currently faces—crippling unemployment, countless foreclosures, struggling schools, etc.—what is the relevance of providing rental housing?

To put it simply, why is affordable rental housing important?

The following special issue provides a brief answer to just this question. In doing so, we hope to give our readers more insight into the significance of our work here at St. Ambrose.

In the last few years, housing issues have catapulted to the forefront of public debate. And for good reason —as of last fall, one in eight mortgages in the US was either in foreclosure or default, according to the Congressional Oversight Panel (COP).

Indeed, the COP estimates that foreclosures could total 10 to 12 million before the current crisis is over. However, national housing concerns do not end with the present wave of foreclosures and one housing issue has been conspicuously absent from public debate: affordable rental housing.

Rental Housing Today

By Will Flagle

Through choice or circumstance, around one-third of all Americans rent and despite the large number of renters in the U.S., little mention is made of the hardships that many of them currently face—and have faced for years. The National Low Income Housing Coalition (NLIHC), in their recent report, Out of Reach 2010, provides stark data on the state of rental housing. "There is no county in the U.S.," they report, "where even a one-bedroom unit at the Fair Market Rent is affordable to someone working fulltime at the minimum wage." In the same report from 2009, the NLIHC explained that the Fair Market Rent on two-bedroom units in the U.S. "has increased 41% since the 2000 census." Adding to this dismal picture, a recent HUD working paper states that, in 2008, "8.7 million renter households paid 50% or more of their income on housing."

Faced with this dire situation and factoring in current trends, housing advocates are addressing the lack of affordable rental housing in an attempt to avert "The Next Housing Crisis." In the next few decades, the effects of the economic downturn and the aging of the "echo-boom" generation will dramatically increase demand for rental housing. "Over the next 30 years," writes Senator Merkley of Oregon, "we may need to add more than 50 million new housing units of all types to meet the demand." This increase will hit low income renters particularly hard, as competition swells for affordable units that are already scarce. Indeed, as things stand today, the shortage of affordable rental housing units already numbers in the millions.

How did we get here?

Experts point to slow wage growth coupled with growing income inequality-causing upward pressure on rents, while low-income wages lag far behind; housing supply constraints-caused by local regulations and land use policies; the geographic mismatch between jobs and housing opportunities; and the continuing loss of existing affordable properties, as all contributing to rental housing market failures, among other factors.

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In addition, national housing policy has long been focused on homeownership. Today the federal government spends about four times as much supporting homeownership as it does rental affordability, with most of that support subsidizing affluent homeowners through the mortgage interest deduction. The Western Regional Advocacy Project reports that "the U.S. government is now spending nearly 65 percent less on developing and maintaining affordable housing for poor people," compared to what it spent in 1978. In light of these trends and the factors mentioned above, it is safe to say that the rental housing market's issues are deeply rooted. As the National Low Income Housing Coalition reminds us, "extremely low income renters were in the midst of a housing crisis well before this wave of foreclosures captured America's attention."

Indeed, the recent housing boom only increased affordability problems—for homeowners and renters alike. In fact, the housing boom hit renters even harder as they were twice as likely as homeowners to have severe housing burdens -meaning they spent more than 50% of their income on rent and utilities.

The foreclosure and economic crisis has also exacerbated the problem of affordable rental housing. While we mostly think of foreclosure as a problem facing homeowners, approximately 40% of foreclosures displace renters-who will need affordable alternatives. After a foreclosure, many previous homeowners will have damaged credit ratings that will make homeownership unlikely in their future.

This will also increase demand for rental units. Meanwhile, the economy has shed millions of jobs in recent years and the resulting loss of income has a huge impact on housing affordability. Housing production has slowed as credit markets have tightened and the Low Income Housing Tax Credit—a major producer of affordable housing units—has declined in value dramatically. Thus, after years of neglect and dysfunction in the rental housing market, the foreclosure crisis has reduced affordability even more as demand increases, incomes decline, and production slows.

Looking Ahead

Thankfully, from the local to the national level, organizations and policy-makers are fighting to make affordable rental housing a reality. Through the support of donors like you, housing advocates are engaged in communities across Maryland. In Baltimore alone, St. Ambrose is one of numerous organizations that have been addressing housing issues for years, and who are working diligently to preserve and develop affordable rental housing.

At the federal level, Harvard's Joint Center for Housing Policy reported recently that, in light of the housing boom and consequent bust, now is "a good time to rethink federal affordable housing policy, which has until recently strongly favored homeownership programs." And government officials are responding.

One of the five goals outlined in the U.S. Department of Housing and Urban Development's (HUD) most recent budget, is "Meeting the Need for Quality Affordable Rental Homes." Addressing the current foreclosure crisis, HUD's Secretary, Shaun Donovan, recently stated that "to ensure this kind of crisis never happens again, we're putting the Federal government squarely back in the business of building and preserving affordable rental housing."

These words are comforting to hear, but they also demand strong action. After years of neglect and the devastation of the foreclosure crisis, affordable rental housing remains as important now, as ever.

Did You Know?

"Our nation builds approximately 100,000 affordable apartments each year. But for every new affordable apartment created, two are lost due to deterioration, abandonment or conversion to more expensive housing."

–National Housing Trust

We've all driven past rows and rows of vacant properties here in Baltimore.
Have you ever wondered why, given all these abandoned properties, there is still an affordable housing problem?

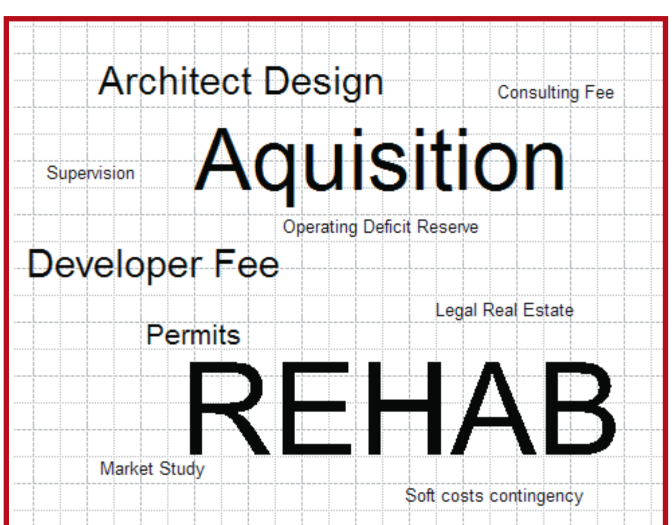
Why Can't We Just Turn This...

Into This...

Imagine that you're an affordable housing developer and that you would like to acquire some new property. To get a sense of the numbers, assume that you're running a new organization in a very difficult market, pretty much a worse-case scenario.

A Simplified Example

Development Costs...



= can easily equal
$200,000 dollars per unit

Financial Feasibility

With those costs in mind, you have to do a financial feasibility analysis. Given your rather difficult situation and after factoring in both income and expenses (see Figure 1), your debt service on your first mortgage would be about $33/month. Given that amount and a 30 year mortgage at 6%, a bank will likely loan you about $5,500 per unit.

But wait a minute, your development costs were $200,000 a unit! Where do you get the other $194,500 per unit? It's called gap financing. You have to scramble to get scarce funding from other sources like the Federal Home Loan Bank, the Federal HOME Project, or the Low Income Housing Tax Credit.

Gap financing is the "wild card" in affordable rental housing development, and it is a big reason (though not the only one) why turning vacant properties into quality, affordable units is harder than it first appears.

Figure 1: financial feasibility, a simplified example

Gross potential Income (for a family making 50% of AMI) =	$688/month
Less: rent loss or vacancy and bad debt, per unit (7%)	($48)
Adjusted Gross Income, per unit =	$640/month
Less: Operating Expenses, per unit	($600/month)
Net Operating Income (NOI), per unit =	$40/month
Net Operating Income ($40) / Debt Coverage Ratio (1.2) = ~$33 for debt service	
Less: First Mortgage, per unit	($33/month)
Cash Flow, per unit:	$7/month
Development Costs, per unit =	$200,000
Less: First Mortgage, per unit	($5,500)
Financing Gap Per Unit =	$194,500

Source: Alan Arthur, Affordable Housing Development 101

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Support St. Ambrose and Get A Tax Credit

Did you have to write a check to the State of Maryland for taxes this year?

Support St. Ambrose and give yourself a tax credit in 2010!

Effective January 1, 2010, the State of Maryland expanded the eligibility for community investment tax credits to individuals. Previously, only businesses could take advantage of this opportunity to invest in nonprofits and receive a tax credit for 50% of their donation.

For a minimum donation of $500 in support of our foreclosure prevention counseling, asset control area program or expansion of our rental portfolio, you will receive a tax credit for $250 that you can use to offset your Maryland tax liability at the end of this year.

These tax credits are in addition to the deductions on both Federal and State taxes as a result of the charitable contribution. Based on the income and tax structure of the individual tax payer or business, the net cost of the donation could be as low as $0.27 for every $1.00 contributed.

We could try to make it more complicated but why should we?
You can visit
http://www.neighborhoodrevitalization.org/Programs/CITC/CITC. aspx
for more information or contact
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