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OPTIONS FOR JOBS LEGISLATION: PROVIDING $1 BILLION TO PREVENT HOMELESSNESS

Measure Would Be Economically Beneficial and Serve An Important Social Purpose

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Summary

As part of the economic recovery act signed into law in February, Congress approved $1.5 billion in temporary housing assistance for families that are homeless or at risk of losing their homes due to job loss or other financial hardship. These resources, which the Department of Housing and Urban Development (HUD) distributed to local agencies through the Homelessness Prevention and Rapid Re-Housing Program (HPRP), are now being used to help hard-pressed families pay rent and other housing costs, and to provide them with housing-related services such as landlord-tenant mediation. The HPRP funding allocated thus far will enable local agencies to protect approximately 300,000 vulnerable families from the harshest consequences of the economic downturn.

Unfortunately, the employment outlook has worsened considerably since February, and the number of people falling into poverty appears to be rising sharply, based on enrollment data from the food stamp program. Concurrently, reports from various agencies administering HPRP assistance indicate that requests for housing aid are far exceeding the available resources. In Winston-Salem, North Carolina, for example, city officials project that they will be able to assist less than half of the families that need help, while officials in Memphis, Tennessee report that their HPRP budget enabled them to provide financial assistance to only a small fraction of the 880 eligible families that sought aid during the program's first two months. Similar reports have come from California, Michigan, Nebraska, Florida, Massachusetts, New York, Utah, and South Carolina.

To address this unmet need, Congress should consider providing an additional $1 billion in funding for HPRP as part of a forthcoming "jobs bill." These funds would enable local agencies to help 200,000 families experiencing financial hardship to avert the loss of their homes or to move out of homeless shelters and into stable housing.[1]

A further infusion of funds into HPRP would also contribute a modest boost to the economy. During an economic downturn, one of the most effective ways to help the economy — and thereby to create and preserve jobs — is to target financial assistance on low- and moderate-income households, since they are more likely to spend rather than save any increase in income. This is why numerous experts, including economists Peter Orszag (when he was director of CBO) and Mark Zandi of Moody's Economy.com, have argued that expanding food stamp and unemployment

benefits provides a lot of "bang for the buck" in stimulating economic growth. The same point holds true for expansions of rental assistance that relieves the financial stress on very poor families that are having severe difficulty making ends meet.

In addition, HPRP assistance would help to strengthen the rental housing market, the continuing weakness of which threatens the nascent economic recovery. Many owners of residential rental property — large numbers of whom are individuals with low or moderate incomes themselves who operate on very thin margins — are under unprecedented financial stress due to record high vacancy rates, falling property values, and tightening credit markets. In recent months, the number of foreclosures of rental properties has risen sharply, increasing financial risks for banks and other lenders, including Fannie Mae and Freddie Mac.

Because HPRP provides rental assistance to families that are not currently occupying housing of their own (because they are homeless) or that are at risk of losing their housing due to a decline in their income or other financial hardship, it is one of the few policy measures that actually *increases net demand for rental housing and reduces vacancies*. Indeed, a rough estimate suggests that for every additional 200,000 families that use rental assistance to secure (or avoid eviction from) rental housing, the national rental vacancy rate could fall by up to 0.5 percent, a significant improvement. And by helping to reduce vacancies, HPRP assistance also helps small property owners maintain their properties in decent condition and remain current on their mortgages.

Amid Evidence of Growing Hardship, an Additional $1 Billion for HPRP Is Needed to Expand Assistance to 200,000 More Families

During the last three recessions, the number of Americans living in poverty — and the number living below *half* of the poverty line — has risen markedly, with the largest increases occurring in the recessions with the highest unemployment.[2] Families with incomes below half of the poverty line face the greatest risk of becoming homeless, as they have the most difficulty paying rent. A family of four with income below half of the poverty line has a monthly income of less than $919 — less than the $928 average market cost of a modest two-bedroom apartment.[3] Yet such a family must use its meager income not just for housing, but to meet its other needs as well.

To alleviate an expected spike in homelessness during the current recession, Congress approved $1.5 billion for HPRP as part of the American Recovery and Reinvestment Act (ARRA). HPRP funds are used by local agencies to provide temporary rental assistance, financial assistance to cover security deposits and other housing-related costs, and services such as landlord-tenant mediation and housing search assistance. With the resources provided under ARRA, local agencies will be able to assist approximately 300,000 low-income families that are homeless or at risk of losing their homes, according to preliminary estimates.[4]

Unfortunately, the job market is much worse than was anticipated when ARRA was enacted in February. At the time, the unemployment rate was 8.1 percent, and the Blue Chip consensus of economic forecasters was expecting it to peak at 9.2 percent in the first quarter of 2010.[5] Yet the unemployment rate was 10 percent in November 2009, and is expected to go higher. The number of unemployed or underemployed Americans has risen by 3.5 million, or 17 percent, since February.

There is also clear evidence that a rising number of families are falling into poverty and are at risk of losing their homes. Historically, changes in food stamp enrollment have closely tracked changes in poverty.[6] Since February, the number of people receiving food stamps has risen by 4.6 million, or 14 percent. In 30 states, at least one-fourth of children are now enrolled in the food stamp program.

Consistent with these trends, anecdotal reports from local agencies indicate that the need for HPRP assistance in 2010 will far exceed the available resources. In Winston-Salem, North Carolina, for example, the city projects that its current allocation of HPRP funds will be sufficient to assist approximately 220 families, less than half the number the city anticipates will need assistance. City officials in Memphis had budgeted HPRP funds to assist nearly 60 families every month, but developed housing assistance plans for 880 families during the first two months of operation. Similar reports have come from California, Michigan, Nebraska, Massachusetts, Florida, New York, Utah, and South Carolina.[7]

If Congress provides $1 billion for HPRP in forthcoming legislation, local agencies will be able to help an additional 200,000 hard-pressed families avoid losing their homes or move from shelters into stable housing, thereby alleviating the growing hardship caused by the recession.

HPRP Assistance a Cost-Effective Way to Create and Preserve Jobs

When the economy is weak, generating more demand for goods and services will create and preserve jobs and stimulate economic growth. This is because retailers respond to the increased demand for their products by retaining their employees and hiring more, and by maintaining or increasing their orders from suppliers — who are themselves then more likely to hire or retain employees. The initial rise in spending thus is multiplied throughout the economy.

One of the most effective ways to boost demand is to target financial assistance on low- and moderate-income households, since they are more likely to spend rather than to save any additional income they receive. As the Congressional Budget Office (CBO) explains, because "lower-income households are … more likely to be among those with the highest propensity to spend … policies aimed at lower-income households tend to have greater stimulative effects."[8] Numerous experts, including then-CBO director Peter Orszag and economist Mark Zandi of Moody's Economy.com, have concluded that expanding food stamp and unemployment benefits is, dollar for dollar, among the most effective ways to spur demand in the face of economic weakness.[9]

In much the same way, rental assistance — including assistance provided through the new Homelessness Prevention and Rapid Re-Housing Program (HPRP) — provides considerable "bang for the buck" in producing jobs and stimulating economic growth during a downturn. Like food stamps, HPRP assistance is targeted to the most hard-pressed families: to qualify, families must have very low incomes (below 50 percent of the area median income) and be homeless or at risk of becoming homeless.[10] When families use HPRP assistance to rent housing, this provides a boost to the rental market (as described below), and can free up budgetary resources the families themselves will spend quickly on other essentials, such as food, clothing, transportation, and medical care.[11] The benefits of this increased spending then ripple through the economy. Indeed, every additional $1 spent on rental assistance will likely generate between $1.50 and $2 in additional economic demand, on a par with the powerful effect of expanded food stamp and unemployment benefits.[12]

HPRP Also Strengthens Rental Housing Sector, Aiding Economic Recovery

Rental assistance also strengthens the rental housing market, whose continuing weakness threatens the nascent economic recovery, as economists have warned:

> Nothing works well in the economy when house prices are falling; as household wealth erodes, consumers lose the ability and willingness to spend, and the financial system loses the ability and willingness to extend credit. The recovery will not gain traction until the foreclosure crisis ends and house prices fully stabilize.[13]

Rental housing — which makes up one third of the residential housing market — is a major part of this problem. Owners of residential rental property are under unprecedented stress: rents have begun to fall as the rental vacancy rate has risen to a record 11.1 percent, property values are dropping as sales volumes have declined for 15 of the last 16 quarters, and credit markets have tightened considerably.[14] While the softening of the rental housing markets has made rents more affordable, the severe weakness experienced in recent months can have considerable negative consequences. These include:

- **Inadequate income for property owners, many of whom have low or moderate incomes and operate on thin margins.** Three-fifths of all rental properties are owned by individuals with incomes of less than $100,000; one-fifth are owned by individuals with incomes of less than $30,000.[15] Many of these owners cannot afford a sharp decline in rent collections due to high vacancy rates and falling rents, especially if they have also experienced job loss or seen the value of their retirement accounts and home equity dwindle.

- **Increased financial risks from high foreclosure rates for banks and other lenders, including Fannie Mae and Freddie Mac.** Although the default rate for rental properties has remained below that for owner-occupied homes, one-fifth of all foreclosed properties in 2008 were for rentals.[16] More recently, the delinquency rate for commercial real estate loans (which include loans for multifamily residential properties) has increased sharply, rising from 0.5 percent to more than 4 percent in just the past year. The steep rise in delinquencies creates substantial financial risks for banks — which now hold approximately $150 billion in multifamily loans — as well as for Fannie Mae and Freddie Mac, which increased their purchases of multifamily loans significantly in 2008 and 2009.[17]

- **Deteriorating conditions or displacement for tenants.** Owners who are struggling to make ends meet may be unable to maintain their properties in decent condition or pay utility bills. As a result, even tenants who pay their rent faithfully each month may find themselves facing utility cutoffs, broken elevators, vermin infestations, and other substandard conditions as a result of the overall decline in rent collections. Tenants may also face displacement if a property becomes uninhabitable or the owner experiences foreclosure.

- **General neighborhood deterioration and other spillover effects.** When rental income is inadequate to maintain properties in good condition, or properties remain vacant for extended periods due to weak demand or foreclosure, this increases the risk that rental housing will be lost due to deterioration. This, in turn, can contribute to neighborhood blight, which is linked to problems such as increased crime and can drive surrounding property values down further.

High rates of foreclosure also increase the pressure on lenders to further tighten credit requirements. In other words, ongoing weakness in the rental (and other housing) markets can contribute to a downward spiral driven by falling asset values and tight credit markets.

HPRP Assistance Can Help to Reduce Vacancies and Stabilize Rents

Providing rental assistance to families that are not currently occupying housing of their own — or that risk losing their housing due to a decline in their income or other financial hardship — is one of the few policy measures that actually increases net demand for rental housing and reduces vacancies. Rental assistance can therefore help to stabilize rents and increase rental income for property owners, thereby reducing the risks of foreclosure, the deterioration of rental properties, and the resulting negative consequences for surrounding neighborhoods and the broader economy.

The positive effects on the rental housing market are particularly strong if rental assistance is targeted on low-income families that cannot afford housing of their own. Some 1.6 million people were homeless and living in shelters during the course of a year even before job losses accelerated in late 2008 and 2009, according to HUD. An additional 550,000 children in families had no home of their own and were living in temporary motels or "doubled up" with other families, according to the Department of Education.[18] These numbers have undoubtedly increased in 2009 due to the deep recession. Moreover, they do not include thousands of low-income individuals and families who are living on the street or who are currently housed but are at risk of eviction because of job losses or a foreclosure on the building in which they live.

For low-income families that are unable to afford housing of their own, HPRP assistance helps them to move into vacant apartments at an affordable cost. (For families that have fallen behind on rent and are at risk of being evicted, HPRP assistance helps them to retain their housing, thereby preventing a vacancy from being added to the market.) The effect on rental vacancy rates can be significant: a rough estimate suggests that for every 200,000 families that use rental assistance to secure (or avoid eviction from) rental housing, the national rental vacancy rate could fall by up to 0.5 percent.[19] This would mark a substantial improvement, as the current vacancy rate is only about 3 percentage points above the historical norm.

For the reasons outlined above, a considerable portion of the benefits would likely flow to property owners with low or moderate incomes. HPRP assistance therefore indirectly allows small property owners to maintain their properties in good condition and remain current on their mortgages and property taxes.

Finally, increasing demand in the rental market can reduce the oversupply of homes in the for-sale market and potentially bolster home prices. Hundreds of thousands of units shift back and forth between the rental and homeownership markets each year, so supply-and-demand trends in one market can affect the dynamics of the other. A homeowner (or a bank that has foreclosed on a homeowner) who is able to find a renter for a house or condominium may decide to take the unit off the market — thereby reducing the glut of for-sale homes and easing the downward pressure on home prices.

Notes

[1] Because HPRP funds may be used to provide a range of types of housing assistance, the number of additional families served could be significantly higher or lower, depending on how local agencies choose to distribute the assistance.

[2] Sharon Parrott, "Recession Could Cause Large Increases in Poverty and Push Millions into Deep Poverty," Center on Budget and Policy Priorities, November 24, 2008; http://www.cbpp.org/cms/index.cfm?fa=view&id=1290.

[3] The 2009 poverty line for a family of four in the continental United States is $22,050. The $928 average cost figure was calculated by the National Low Income Housing Coalition using HUD's "Fair Market Rent" (FMR) estimates for 2009, weighted by the number of renter households in each county in 2000. FMRs are "gross" housing cost estimates that include rent and basic utilities; for most metropolitan areas and all non-metropolitan areas, HUD sets the FMR at the 40th percentile of the rent charged for recently rented non-luxury dwellings. See Keith E. Wardrip, Danilo Pelletiere, and Sheila Crowley, "Out of Reach 2008-2009," National Low Income Housing Coalition, April 2009.

[4] This rough estimate, which represents the number of families that would be served over the three-year period in which HPRP funds are available, is from the National Alliance to End Homelessness.

[5] *Blue Chip Economic Indicators Top Analysts' Forecasts of the U.S. Economic Outlook for the Year Ahead*, Vol. 34, No. 3 March 10, 2009. The most pessimistic 10 forecasters in the Blue Chip expected the rate would be just under 10 percent through 2010.

[6] Food stamp participation data are from FNS program data as of September 2009, available at http://www.fns.usda.gov/pd/29SNAPcurrPP.htm. On the historical relationship between food stamp enrollment and poverty, see "Policy Basics: Introduction to the Food Stamp Program," Center on Budget and Policy Priorities, April 3, 2009; available at http://www.cbpp.org/cms/index.cfm?fa=view&id=2226.

[7] As reported by the National Alliance to End Homelessness; see http://www.endhomelessness.org/content/article/detail/2604.

[8] CBO, "Options for Responding to Short-Term Economic Weakness," January 2008.

[9] Mark M. Zandi, "Assessing the Macro Economic Impact of the Fiscal Stimulus 2008," January 2008; Peter Orszag, "State of the U.S. Economy and Implications for the Federal Budget," hearing before the House Committee on the Budget, December 5, 2007.

[10] The specific income threshold for HPRP eligibility differs significantly across communities, due to local variations in median incomes. On average, however, 50 percent of area median income is $32,000 for a family of four, according to HUD, which is roughly equivalent to 150 percent of the federal poverty line.

[11] The increase in non-housing expenditures will be greatest for families that are housed but at risk of becoming homeless. For families that are already homeless, HPRP assistance will primarily increase their consumption of housing, e.g., by enabling them to move from a shelter into an apartment of their own.

[12] The economic multipliers cited here are consistent with Zandi (2008), and the President's Council of Economic Advisors, "Estimates of Job Creation from the American Recovery and Reinvestment Act of 2009," May 2009. While an additional $1 billion in rental assistance could provide a lot of "bang for the buck" in stimulating economic growth, the aggregate impact on economic growth is likely to be modest. This is because $1 billion is small in comparison to the overall size of the economy, even if the multiplier effect is relatively large.

[13] Mark Zandi, testimony before the Joint Economic Committee on "The Impact of the Recovery Act on Economic Growth," October 29, 2009.

[14] Bureau of the Census, Current Population Survey/Housing Vacancy Survey, released October 29, 2009. The sales volume figures are from National Multi Housing Council, "Quarterly Survey of Apartment Market Conditions," October 2009; while this survey largely reflects market conditions for larger multifamily properties, the market for smaller properties has experienced similar weakness.

[15] Joint Center for Housing Studies of Harvard University, "State of the Nation's Housing, 2009" (President and Fellows of Harvard College, 2009), Table W-8. This report also notes a 1995 survey revealing that more than half of resident owners, and nearly half of non-resident owners, of small properties (less than 10 units) reported losing money or barely breaking even.

[16] Danilo Pelletiere, "Recognizing Renters in the Foreclosure Crisis," National Low Income Housing Coalition.

[17] Joint Center for Housing Studies (2009), supra note 10; and Richard Parkus, "The Outlook for CRE and Its Impact on Banks," Deutsche Bank CMBS Research, July 30, 2009.

[18] Office of Community Planning and Development, *The 2008 Annual Homeless Assessment Report to Congress* (HUD, 2009); and National Center for Homeless Education, "Education for Homeless Children and Youth Program: Analysis of Data from the 2007-2008 Federally Required State Data Collection," (NCHE, 2009).

[19] The estimate is based on Census data for the third quarter of 2009 showing 4.6 million vacant and 36.1 million occupied rental units. A shift of 200,000 units from the vacant to occupied categories would result in a decline in the vacancy rate of approximately 0.5 percent. This estimate of the effect of rental assistance on vacancies assumes, of course, that none of the 200,000 hypothetical families could have retained housing without rental assistance.