BEYOND THE NUMBERS

A Qualitative Exploration of *Affordability and Availability of Rental Housing in the Third Federal Reserve District: 2015*

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KEY DEFINITIONS

Extremely low income (ELI): households with incomes that are equal to or less than 30 percent of the median family income (MFI) in their region

Very low income (VLI): households with incomes that are 31–50 percent of the MFI in their region

Low income (LI): households with incomes that are 51–80 percent of the MFI in their region

Affordable: a unit for which gross rent (i.e., rent and utility costs) is no more than 30 percent of monthly household income

Affordable and available: an affordable unit that is either vacant or currently occupied by a household in the corresponding income level

Cost burden: gross rent exceeds 30 percent of monthly household income

Severe cost burden: gross rent that exceeds 50 percent of monthly household income

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INTRODUCTION

In February 2015, the Community Development Studies and Education (CDS&E) Department of the Federal Reserve Bank of Philadelphia released a quantitative report titled *Affordability and Availability of Rental Housing in the Third Federal Reserve District: 2015*.[1] This report showed that across the Third District, there were more than 274,000 extremely low-income (ELI) and very low-income (VLI) renter households for which affordable homes were not available in 2012. The report also noted that the problem had worsened in recent years: The number of affordable and available rental units per 100 ELI renter households declined from 41 to 33 in the Third District between 2007 and 2012. Nearly three-quarters of ELI renter households and almost one-third of VLI renter households in the Third District spent more than half of their incomes on housing in 2012.

Following the release of the report in February, the CDS&E Department interviewed a sample of key informants throughout the Third Federal Reserve District to further investigate the affordability challenges in the rental market. The goal of this qualitative research was to take a more in-depth look at the challenges and trends that were revealed in the quantitative analysis. This study presents the themes that emerged from interviews with experts from organizations including nonprofit and for-profit developers, housing authorities, community development corporations, and other housing professionals.

METHODS

Study Sample

To gain insights into the factors driving increased unaffordability, unit scarcity, and rising demand in the rental housing market, the CDS&E Department contacted housing stakeholders who would be representative of the Third Federal Reserve District. Purposive sampling was used by selecting participants (from a database of housing professionals) who had previously interacted with the CDS&E Department. Stakeholders were randomly selected from the database, although the selection process was iterative to ensure that the voices in the study represented the three states in the District — Pennsylvania, New Jersey, and Delaware — and could speak to the rural, urban, and suburban communities in those states. The sample also intentionally included key informants from the public, private, and nonprofit sectors who could provide a high-

[1] Eileen Divringi, "Affordability and Availability of Rental Housing in the Third Federal Reserve District: 2015." *Cascade Focus* (February 2015), Federal Reserve Bank of Philadelphia; available at www.philadelphiafed.org/community-development/publications/cascade-focus/cascade-focus_4.pdf.

level overview of trends observed in the supply, funding, and demand for affordable housing throughout the District. Sixteen one-on-one and small-group interviews were conducted throughout the course of this project; in total, the perspectives of 21 interviewees are included in this analysis.[2]

Analysis

Two interviewers separately conducted telephone interviews that were recorded, transcribed verbatim, checked for accuracy, and entered into MaxQDA qualitative data analysis software. Using the software, interviews were coded[3] to identify themes that emerged regarding the affordability and availability of rental housing in the Third Federal Reserve District. A priori codes were developed to correspond with interview question topics. Additional codes were developed after the initial transcripts were reviewed, and these were used to categorize comments regarding specific geography, household type, population segment, and actors. This process allowed for the analysis and synthesis of large amounts of qualitative data that otherwise would have been difficult to manage.

Twenty-five percent of the interviews were coded independently by two members of the study team and checked for intercoder reliability. After the intercoder agreement was reviewed, code memos were further developed to ensure that coding was done objectively by clarifying operational definitions. This rigorous and collaborative qualitative approach allowed the analysis to move beyond anecdotal insights. Code analysis through full and repeated immersion in the data led to the identification of several **meaningful themes**, which are explored herein. The views expressed in this report are the perceptions and opinions of the key informants who were interviewed and do not necessarily represent the views of the study team or empirically supported facts. Direct quotes from participants are shared whenever they help to support and illustrate summary statements.

REASONS FOR INCREASED HOUSING COST BURDENS

As previously mentioned, the original quantitative report found that lower-income renters in the Third District have become increasingly cost burdened. These findings did not surprise the key informants who were interviewed. The most prevalent explanation for this increased unaffordability was that **renter income levels have stagnated or fallen, while rents continue to rise**. Interviewees explained that accessible jobs are either part-time or at income levels that are too low to allow people to rent affordably. Further, many of the interviewees voiced concern that there is a skills mismatch between job seekers and employment opportunities and that available housing units are not located in areas where jobs are being created. Some stakeholders noted that there is insufficient transportation to access employment opportunities and that the cost burden on many renters would be even greater than the original study reported if it accounted for these high transportation costs.

> *"The extremely low-income have been underserved for quite some time … especially after the recession when so many people fell into lower-income jobs or found themselves unable to find any jobs at all."*

Informants agreed that **the Great Recession expanded the pool of lower-income households for which renting may now be the only feasible option**. Most interviewees mentioned that the declining homeownership rate because of foreclosures and the tightening of mortgage lending standards was also a major driver of the increased demand for rental units. These former or would-be homeowners exacerbated the continuously high demand from ELI and VLI renters, leaving many people with very limited choices for obtaining adequate housing.

> *"Pressure from would-be homebuyers … staying in the rental market puts pressure on housing demand. Housing demand meets that pressure with rising rates, and so that kind of influences the affordability all the way down to what maybe traditionally had been an affordable supply becoming less affordable and going to someone who might otherwise have been a first-time homebuyer."*

Some interviewees explained that, in urban areas, a compounding factor is that **members of the millennial generation are increasingly interested in living in cities**.[4] This movement increases competition for low-cost units. Informants based in more suburban and rural areas also shared

[2] One respondent submitted interview answers via writing. The full interview guide is available in the online appendix at https://www.philadelphiafed.org/beyond-the-numbers.

[3] The codebook is available in the online appendix at https://www.philadelphiafed.org/beyond-the-numbers.

[4] The millennial generation includes those born between the early 1980s and the early 2000s.

that **younger people are staying in the rental market longer** than in years past, contributing to the rising demand for rental housing throughout the District.

> *"The growth in this city … is primarily centered around young people who want to stay in an urban environment where they have ease of access to amenities and entertainment. In addition to that, those young people have much higher rates of renting well into their late 20s and early 30s than prior generations."*

While some interviewees felt that younger people were delaying homeownership because of student loan debt or other factors, others felt that these renters were not "waiting" to move into homeownership; rather, they were **choosing to rent** instead of transitioning to homeownership, which was the norm for many households with means in recent decades.

> *"So, if we're [going to] think about how rental markets should be developed and rehabbed in this city, we also have to look at … the trends from a social and economic stance. Rental housing may not just be what was formerly sort of bridge-housing into homeownership and then moving out to the suburbs. It may be sort of a permanent part of how we house people in the city in the future. So, what does that look like and how do we make sure that residents of all incomes have access to housing and to communities that have amenities and entertainment?"*

BARRIERS TO NEW DEVELOPMENT

The qualitative report noted that the number of affordable and available rental units per 100 ELI renter households declined from 41 to 33 in the Third District between 2007 and 2012. One informant explained the current conditions in his community by saying, "One of our best low- to moderate-income developers finally started construction on a 60-unit apartment complex targeted at workforce and low-income folks. And those 60 units hit one-third of 1 percent of the market share that needs to be built here." From both the quantitative analysis and qualitative data gathered through key informant interviews, it is apparent that growth in supply has lagged that of demand, but what are the barriers to increasing the supply of low-cost rental units?

A lack of funding in the form of public subsidies to keep costs low and units income restricted was the most frequently discussed barrier to new development. Developers expressed concern regarding the **increased cost of development along with shrinking subsidies**.

> *"The constraint is absolutely a funding constraint, and the fact that the multifamily industry has taken off to a degree on its own, that means that the construction industry is building … So, a building is a building from a contractor's standpoint. They're not terribly concerned about who the occupant is, and there's not a lot we can take out of a building to make it significantly less expensive. So, costs are up, the availability of funding is down … most significant is that dynamic — lack of low- or no-interest loans as soft funding and a steady increase in competitive construction costs."*

Expensive labor contracts were one type of cost frequently mentioned. Some interviewees believed **barriers to achieving scale** also contribute to higher costs.

> *"Affordable housing developments tend to be smaller than conventional … if you look at tax credit deals, for instance, approved in Pennsylvania, probably the largest one might be 100 apartments. One hundred is small in terms of scale on a conventional multifamily. So these things … exacerbate situations because there's no ability to achieve benefits and advantages of scale in doing many of these developments."*

Though the lack of funding was regarded as a major barrier to increased production, several developers mentioned that **program inefficiencies** have made them wary of pursuing available subsidies. Application processing speed, lengthy reporting requirements, and perceived competition (e.g., for Low Income Housing Tax Credits) were all listed as factors that have deterred several developers from applying. Affordability requirements were also discussed. Some stakeholders argued that shorter affordability periods would allow developers to realize revenue appreciation, thus incentivizing development, while other stakeholders were concerned about the preservation of affordability and quality after the affordability term concluded.

In many communities, affordable rental housing still evokes a **negative stigma** that makes neighbors opposed to new development. Local community opposition was not shared among all interviewed, but the majority of stakeholders did mention that a **lack of political will** — at the local, state, and federal level — was a major impediment.

"Just personally, it's very troubling that housing has slipped so far on the national agenda. There is seemingly little understanding as to the magnitude of the problems that are faced by families of very low- and extremely low-income in terms of acquiring shelter."

Other stakeholders noted that the lack of political will to prioritize affordable rental housing was rooted in the contrasting **goal of reviving homeownership**.

"Most cities have adopted a 'we don't want any more rental housing' attitude. They want homeownership to return. They want to get back above 50 percent owners as opposed to 60 percent renters in most communities where we do business. They're really trying to turn around that trend of moving to rental housing because a lot of that housing is controlled by people outside the community. And they want folks to have a stake in the community, and homeownership is one way to do that."

Stakeholders agreed that it is difficult to successfully produce new affordable housing units without the support of local municipalities. From providing gap financing through low-interest long-term loans to creating public-private partnerships aimed at reducing or eliminating the cost of land, some local municipalities were described as key actors in the development of affordable housing. However, local municipalities can also be a hindrance to development, and several **local regulatory burdens** were mentioned as obstacles to increasing the supply of affordable rental units. Hefty municipal fees, slow processing of licensing and permit requirements, difficult development approval processes, zoning impediments, and strict building codes were all provided as examples of regulatory burdens that can eat up project capacity and resources.

"Developers get discouraged because of the problems that come with trying to push through a development. Even if you had all your money in place, you still have to go through all these processes to get to the other side. And you have to talk to four different people, and you have to deal with all the various rules and regulations, and it's very time-consuming and expensive. And then everybody has [his/her] hand out for fees … So, there should be a way to streamline some of this when people are trying to do good for the city and provide affordable housing."

Lastly, both nonprofit and for-profit developers of subsidized housing cited **competition for land** as an impediment to new development.

"It comes down to the basic economics of, if there is a parcel of land available and you don't have municipal help getting it or you don't have an inside track to get it, well, the guys [who] are going to buy it and build on it are the market rate guys, and they're going to provide 'luxury housing' broadly defined, and they're going to charge $2,000 a unit for it a month."

HOUSING QUALITY

When discussing single-family market rate rental units, many interviewees mentioned that **absentee landlords** are failing to address quality issues, such as leaking roofs and pipes, mold, lead paint, and structural damage. Some stakeholders voiced concerns regarding the **impact of budget cuts on rental inspections**, while others confirmed that increased inspections have led to improved quality of rental units in their community.

"The city's budget cuts and the reduction in personnel in licenses and inspection really impacts the issue of quality and also having enough inspectors to adequately take a look at all the rental units coming on market, so that's a problem."

Informants also shared that many rental properties lack **energy-efficient upgrades**, and the resulting higher-than-necessary utility costs are typically passed along to the renter.

"The issue is the lower the income, usually the less knowledgeable the consumer is about housing issues and their rights as tenants. And so they tend to be taken advantage of, and they tend to be pushed into the lower-quality housing in the less desirable neighborhoods. And unfortunately, what you also have is [that] those units are not energy efficient, which then pushes the operating costs of that apartment up through the roof. And the landlords are pushing that cost on to the tenants. So, in addition to being burdened by higher leases for lesser-quality properties, they're also carrying the additional burden of outdated utilities and poorly insulated doors and windows."

The conversations were drastically different regarding the quality of income-restricted units. Unlike the situation that was described for most single-family units, interviewees suggested that state housing agencies and local housing authorities are, for the most part, ensuring that sites benefiting from federal subsidies are being kept up to code and generally in good condition. Exceptions do exist, however, in places where housing authorities lack the **capital necessary to meet basic maintenance and repair needs for the aging housing stock**. The issue of aging properties in need of rehabilitation was prevalent throughout all of the interviews and was repeatedly mentioned as the top perceived threat to the existing supply of affordable units.

> *"And then, there's the affordable housing stock that was produced over the last multiple decades — much of which has fallen into disrepair. Some of it has been maintained at an adequate level, but we have thousands of housing units that were originally financed by HUD [U.S. Department of Housing and Urban Development] that are in the market that are in deteriorating condition and need substantial rehab."*

Another quality concern expressed about multifamily units was **overcrowding**. Although primarily caused by shortages in the supply of affordable units, overcrowding, in some cases, was also attributed to renters' backgrounds that prevented them from obtaining suitable housing. A poor credit history, a foreclosure, or a record of incarceration can leave a prospective renter with very limited choices.

> *"We do a lot of income-restricted affordable housing, which has rules against overcrowding. When people break those rules they're violating the lease, and one of the most frequent lease violations we see is the presence of an extra household member that technically overcrowds the unit or introduces someone who wouldn't otherwise be on the lease. We see it among our senior housing units … when you watch carefully you find that there's a … son or daughter who visits [his/her] elderly parent often, and then you realize that [he/she] is actually staying there … coming late at night and leaving early in the morning and that's sort of an interesting method of overcrowding or a different access to housing that we see among the senior population. But that goes on within the non-senior housing population as well, which is often an adult sibling — a boyfriend or girlfriend or friend-friend, where there's just a lot of pressure for people who have found a place to live to extend that housing opportunity to others who may be in need — maybe to defray costs or maybe just to be helpful in a good sense and eventually leading to conflicts with some of our lease policies."*

THREATS TO THE EXISTING SUPPLY OF SUBSIDIZED UNITS

As mentioned previously, **insufficient capital for rehabilitation of the aging housing stock** was noted as the primary threat to the existing supply of subsidized units. Another perceived threat was the rising popularity of **investors buying up housing**, both affordable and market rate.

> *"There are a number of people [who] are buying affordable housing now who are not committed to it long term, and they're really yield buyers just looking for cash flow, and so the increasing demand of people to just buy affordable housing for the cash flow means that there could be challenges both in terms of preserving that and opting out of the program when they want — as well as just how they operate it and the level of quality."*

Several stakeholders also expressed **concern that housing assistance payment (HAP) contracts will not be renewed**. HAP contracts are used to keep units in some privately owned multifamily rental properties affordable, and expiration of these contracts would mean a further decrease in the supply of affordable units.

> *"The threats include the expiration of housing assistance payment contracts for a number of nonprofit organizations that have developed housing. And even some of the private developers had these 15-, 20-year, some 30-year housing assistance payment contracts, and a lot of them are expiring over the next five years. And so it's going to be a coin toss … in terms of getting these units reviewed, certified, and reissuing these HAP contracts. So, if you lose your HAP contract, you have no choice but to make the units market rate, which then is going to eliminate the people who need the affordability."*

POTENTIAL SOLUTIONS

Additional Funding Sources

Interviewees were asked to discuss successful programs or potential policy solutions to address today's rental housing affordability challenges. Many were concerned that available funding is being split between the competing needs for rehabilitation and new development. Given this difficult funding environment, several stakeholders focused on strategies to attract additional funding for affordable housing. One stakeholder suggested that an **increased real estate transfer tax** on homes being sold more than once in a short time could become a new source of funding.

While some focused on policy solutions to increase the amount of funding for affordable housing, others suggested that **private capital could be used to address these concerns**. One informant believed that social impact investment strategies targeting union pensions and local university endowments could attract local wealth that has a vested interest in neighborhood revitalization. A nonprofit real estate investment trust (REIT) was given as another example of an innovative strategy being used in other regions to attract private capital to support the availability and affordability of rental housing. A nonprofit REIT, such as the pilot led by the Housing Partnership Network,[5] could use private investments to acquire rental units and to keep them affordable as rents in the broader community rise.

Maximizing the Impact of Existing Funding

When discussing the use of available funding, some interviewees felt that, to see the most impact, municipalities should address rehab needs through a cluster approach that involves **targeting the work geographically**, block by block, versus one-off rehabs throughout a city. Several informants also voiced the need for more action to be taken to ensure that municipalities receiving HOME Investment Partnerships Program (HOME) funding or Community Development Block Grant Program (CDBG) funding are **held accountable for impediments to fair housing** addressed in their required Consolidated Plans.[6]

> *"That being said, there are very affirmative steps I believe HUD could take in terms of demanding that block grant communities, communities that secure HOME do, in fact, take concrete steps to reduce the cost of producing these regulatory burdens … HUD has … done virtually nothing to enforce and demand that municipalities who seek this kind of funding are held accountable for trying to improve opportunities to produce housing."*

Zoning

Inclusionary housing requirements, or municipal planning ordinances that require a percentage of units in new developments to be affordable for low- and moderate-income households, were a proposed solution for increasing the supply of affordable rental units. Several interviewees explained, however, that such requirements could be difficult to enforce and may lead to political contention. Other stakeholders felt that zoning should be less restrictive to promote **mixed-use, mixed-income development**.

> *"Just to sum it up here — mixed use, mixed income, and mixed housing type. What we call 'smart growth' quite frankly is what we're really trying to achieve because if you have those three things put together, all of a sudden now you can start chiseling away at that cost factor of what it costs to build and what it would cost to sell or rent."*

Homeownership

Some interviewees felt that, if done responsibly, **loosening mortgage lending standards** and increasing the availability of homeownership counseling to promote homeownership could play a role in reducing the demand for affordable rental housing.

> *"I think part of the answer has to be to look at banking regulations that are decreasing the number of people who can own homes. If some of that [were] loosened up, I don't mean things that are excessively loosening it up, but some of the requirements are quite onerous, and I think there has to be an increase in homeownership to have an impact."*

Other stakeholders felt that, at the federal level, there needs to be a **rebalancing of housing policy** and associated resources rather than policies and programs that favor homeownership over rental housing.

> *"We have these production programs, but the clear emphasis in this country has been on homeownership — incentivizing homeownership, financing homeownership … and if you want to address these kinds of*

[5] Source shared by interviewee: A. D. Pruitt and Dawn Wotapka, "Nonprofit Firms Form REIT," *Wall Street Journal*, April 28, 2013; available at http://online.wsj.com/article/SB10001424127887323528404578451023072622486.html (accessed April 5, 2015)

[6] See the HUD Exchange resources on the Consolidated Plan Process for more detail; available at www.hudexchange.info/consolidated-plan/consolidated-plan-process-grant-programs-and-related-hud-programs/.

issues, then we need a strong rental housing policy, and we need resources put [in]to rental housing like what's put into for-sale houses. If you look at the amount of money that's put into the mortgage interest deduction to help subsidize for-sale housing — the entire rental housing program is insignificant compared to that."

BEYOND HOUSING

Many interviewees believed that successfully tackling the rental housing affordability challenges addressed in this research requires a **holistic approach that extends beyond housing policy**. From education reform to increased wages to economic development centered on local job creation, there were suggestions for how policy could improve opportunity for lower-income populations.

"Somebody once said to me, there's no such thing as a housing problem. There's an income problem. That fundamentally the reason that we have a housing problem is because we have poor people. If we solved poverty, then we wouldn't need housing programs."

While key informants who were interviewed described a variety of potential solutions, they all agreed that the challenges faced in the current rental market are urgent. The need for collaboration, a unified voice, and an integrated approach to addressing these issues was shared. As one informant stated about the strategy in his city, "You're not going to solve a 40-year poverty crisis in this city overnight, but at a minimum, you can make better strides if we can figure out a comprehensive policy to address these high-need communities."

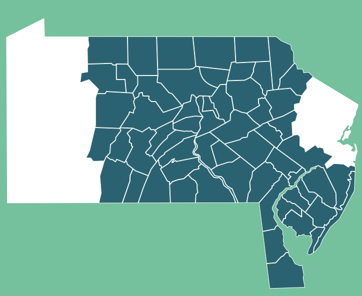
CONCLUSION

This report represents an effort to connect community development research produced by the CDS&E Department with the local knowledge and expertise embedded in community development practitioners working throughout the Third Federal Reserve District. The interviews on which this report was based validated some preconceived explanations for the challenges in the rental housing market but also presented some interesting insights from the field. For example, hearing about the impact of the foreclosure crisis on rental housing demand and supply was anticipated. However, learning about overcrowding, specifically in subsidized units, adds value to the quantitative analysis, which did not identify overcrowding as a common problem in the District's rental housing stock generally.

Areas for further exploration became apparent through the course of this analysis. Though interviewees provided important information regarding the quality of rental units in the markets they serve, there seems to be an opportunity and need for further qualitative research that directly engages tenants around the quality of their rental units. Additional research is also needed to fully understand the relationship between the types of owners and the quality of units. Likewise, the sample size for this analysis was too small to yield meaningful conclusions regarding the similarities and differences in rental housing challenges across rural, suburban, and urban communities, and more research would be required to draw out these nuances.

THE THIRD FEDERAL RESERVE DISTRICT

The Federal Reserve Bank of Philadelphia serves the Third District, which covers eastern Pennsylvania, southern New Jersey, and Delaware. The Bank's Community Development Studies and Education Department supports the Federal Reserve System's economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets.



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