

June 25, 2020

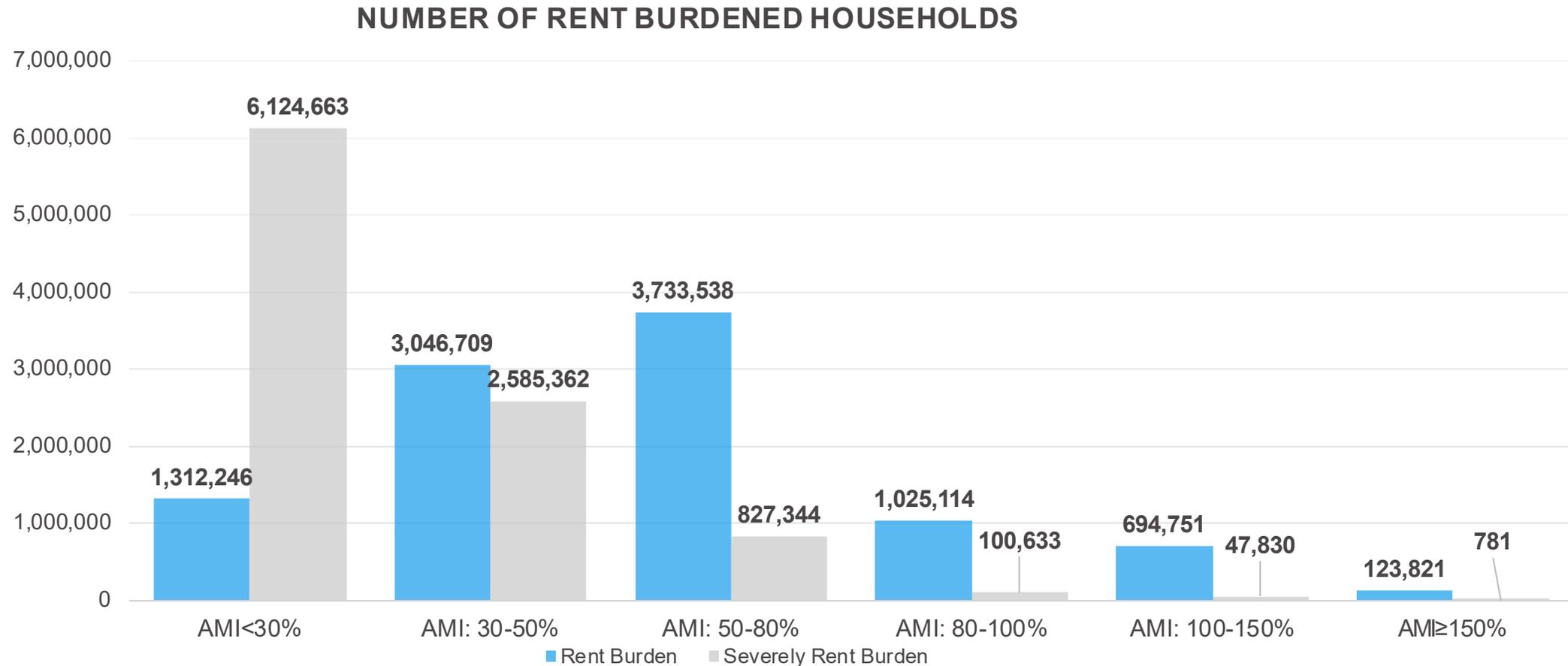
The Waterfall Framework: Understanding Key Inequities and Principles of Solutions within the Housing Market

Economic Inequality Policy Series: An Update from the Experts on COVID-19's Impact on Housing



Visual Communications Team

Even before COVID-19, low-income households faced immense rent burdens



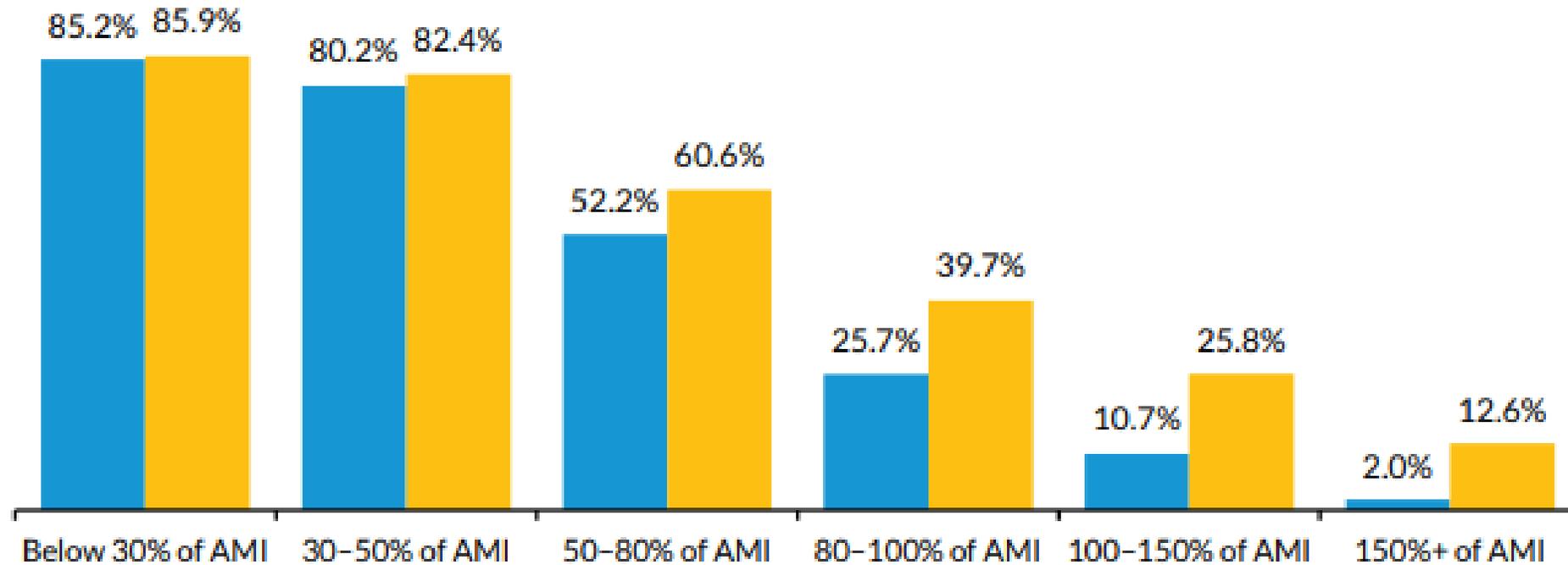
Source: ACS 2018

Note: Rent Burden - Gross Rent/Income is between 30% and 50%,
Severely Rent Burden - Gross Rent/Income is 50% or above

Job losses have increased rent burden for every income group

How Job Losses Affect Rent Burden

- Share of households rent burdened before unemployment shock
- Share of households rent burdened after unemployment shock (not factoring in unemployment insurance)



Source: Strochak et al, [“How Much Assistance Is Needed to Support Renters through the COVID-19 Crisis?”](#)

Unemployment insurance, plus eviction moratoria, have prevented the worst outcomes for renters

- Approximately 8.9 million renter households (20% of all renter households) had at least one member of the household experience a job loss between February and April
- Combined federal and state unemployment have enabled many renter households to maintain their prior rent burden, but much of the combined assistance goes to higher-income renters
- What happens to renter households once unemployment assistance expires?

The COVID crisis has a waterfall of effects . . .

Tenants lose income & can't pay rent



Property owners / landlords can't cover operating costs & pay lenders, city services and taxes



Capital markets tighten credit and lenders can't or won't lend

These effects will be felt during and across several timeframes

Immediate

- Now - Fall 2020

Intermediate

- Fall 2020 - Fall 2021

Long-Term

- After Fall 2021

Over the next several months the immediate challenges are . . .

- **Renters:** Individuals who were previously housing insecure and for whom CARES Act UI payments don't replace income that could be used for rent are at risk.
- **Owner/Landlords:** Owners for whom mortgage forbearance does not apply, face potential financial insolvency as tenants are unable to make full or partial rent payments.

These problems will likely persist into 2021

- **Renters:** Notwithstanding federal stimulus income supports, low and moderate income renters that have lost income and face unsustainable financial burdens, may become housing instable in the intermediate term.
- **Owner/landlords:** Owners that spent down operating reserves and no longer qualify for mortgage forbearance could face financial insolvency.
- **Capital markets:** Multifamily servicers will continue to need assistance to meet financial obligations.

Depending on the longevity of the crisis, this could create long-term problems in the rental market

- **Renters:** Without appropriate policy interventions, long-term unemployment coupled with reductions in the affordable housing stock could lead to increases in homelessness and housing instability.
- **Owner/landlords:** With the loss of mom and pop owners, larger commercial companies may buy smaller rental properties. Commercial owners may not keep rents affordable. Other rental property owners may face foreclosure.
- **Capital markets:** If capital markets take a hit, and lending standards tighten, funding for the development and rehabilitation of rental housing declines, leading to an even tighter housing market and more long-term housing instable families (could be even worse with losses of existing affordable housing).

In the short-term, renters face a cliff and Congress faces a choice

How to support?

- **Income Assistance:** replacing lost income to return to previous rent burden or alleviate existing rent burden
- **Rental Assistance:** supplementing rental payments to return to previous rent burden or alleviate existing rent burden

Who to support?

- **Households with job loss:** only focus on household that experienced an income shock from job loss, regardless of pre-existing rent burden or unemployment
- **All rent burdened renter households:** assisting all households, regardless of recent job loss

Estimates of monthly cost of assistance options

Option	Estimated of households served	With no benefits	With state UI	With state UI + CARES Act \$600 per week
Income assistance for all households that experienced a job loss back to their prior level of rent burden, with a cap of 30 percent	8.9 million	\$21.3 billion	\$8.7 billion	\$4.6 billion
Rental assistance for all households that experienced a job loss back to their prior level of rent burden, with a cap of 30 percent	8.9 million	\$5.5 billion	\$3.6 billion	\$1.8 billion
Rental assistance to alleviate rent burden for all renters, regardless of recent job loss	43.2 million	\$15.5 billion	\$14.0 billion	\$11.9 billion

A portfolio approach is needed

- There may be relief that is not possible to provide directly to tenants and for which an intervention through owners is needed to supplement
- Each delivery mechanism has limitations; several mechanisms will cover more renters in need
- In addition to allocating resources, tenant protections are also needed
- Problems in the rental market will shift over time and new policy interventions may be needed at different points