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

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 . . .

1. Tenants lose income & can't pay rent
2. Property owners / landlords can't cover operating costs & pay lenders, city services and taxes
3. 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 unstable in the intermediate term.

- **Owner/landlords**: Owners that spent down operating reserves and no longer qualify for mortgage forebearance 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

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