



## Housing Crisis Extends To the Rental Market

By [LIZ PEEK](#) | December 20, 2007

**THE FEDERAL RESERVE MOVED TO SIGNIFICANTLY RESTRICT THE AVAILABILITY OF CREDIT TO** subprime borrowers on Tuesday, proposing legislation that would eliminate some of the mortgage industry's most toxic lending practices. That is, it firmly shut the barn door; the horse is long gone.

Meanwhile, the Fed and, more specifically, Alan Greenspan, are being excoriated for having allowed the subprime explosion to develop in the first place. In their Monday morning quarterbacking, the critics have forgotten that until very recently policy makers have encouraged wide-scale home ownership as crucial to fulfilling the American dream. But of course not everyone can afford to own a home.

These days, most observers conclude that those careless subprime borrowers indeed should never have bought homes in the first place, and should have been renters instead. But here's more bad news ♦ it turns out there is a serious and growing shortage of "affordable" rental housing.

The president of the Partnership for New York City, Kathryn Wylde, says there is "more pressure on the rental housing stock today than ever before. The biggest threat is conversion of rentals to condominiums. Also, all the initiatives of the 1960s and 1970s to support affordable housing are expiring simultaneously."

According to a report from the Harvard University Joint Center for Housing Studies, the stock of what is considered low-cost rentals in America fell by 1.2 million units between 1993 and 2003. For a variety of reasons, "affordable" rental units have been disappearing, causing prices for the remaining properties to rise. In 2005, according to the MacArthur Foundation, almost 9 million middle- and low-income Americans spent more than half of their income on housing, an all-time record.

For policymakers, this raises all kinds of issues. Some 37 million households, or about a third of Americans, live in rental homes. While new rules are (rightly) being imposed on all the different layers of the tottering subprime architecture, Americans still consider housing one of our nation's most important priorities. Not only do we want a chicken in every pot, but we assume that every pot has a stove and a home to go with it.

The MacArthur Foundation has taken the lead in drawing attention to the mounting shortage of rental housing, and has undertaken several initiatives to combat it. In November, President Jonathan Fanton announced that the foundation would invest "\$150 million to preserve and improve at least 300,000 units of affordable rental housing across the country."

Mr. Fanton is passionate about the crusade to maintain the existing stock of rental units. "Our initiative will put this issue on the national agenda," he says. "It costs half as much to preserve an existing unit as it does to build a new one. It is very much in the taxpayer's interest."

The program director, Debra Schwartz, points out that the old rent stabilization and subsidy programs of the 1980s have all but disappeared, and there has been little effort to replace them.

The foundation reports that three-quarters of rental buildings are more than 25 years old and in need of repair. Millions of the better-built and newer units have been converted to condominiums; many more have been allowed to decay and ultimately been razed or abandoned.

The MacArthur people argue that the quickest and most economic way to reverse this trend is to refurbish existing units. The cost of renewing rental homes in their existing programs has averaged \$81,000 a unit, or half the cost of new construction. This seems like an economic slam-dunk.

This is a national issue, and it is a serious concern in many urban centers, including New York. "A lack of low-cost rental units not only impacts neighborhoods but can have a dramatic impact on the work force," the program director of Local Initiatives Support Corp. in New York, Debra Schwartz, says. "That's why preserving affordable housing is now a key part of our mission."

Ms. Scott points out that in the 1970s it was easier to draw attention to the need to invest in rundown neighborhoods. "When the Bronx was burning, it was very visual," she says. These days a number of formerly decaying parts of the city have been revitalized; the problems lie more deeply beneath the surface.

According to a study by the Furman Center for Real Estate & Urban Policy, median rents in New York have risen considerably faster than incomes. It says the number of rental units "affordable to low and moderate income households in the city fell significantly" between 2002 and 2005. During that period, the report says, the total number of rental units in New York grew by only 0.4%, while the number of condos and other owned units grew by 3.5%. Adding to the problems of low-income citizens, the new housing stock shifted significantly upmarket, with higher-priced units growing by almost 25%. These trends are also in place across the country.

So, here's a thought: One way to at least temper the death spiral of foreclosures leading to dropping home prices leading to more foreclosures would be to have government or not-for-profit entities step in and buy up some of the properties coming onto the market, and shift those units to the rental market. According to the Center for Responsible Lending, more than 2 million families are likely to lose their homes in the next few years. Where are those people to go?

Ms. Schwartz indicates that sporadic measures of this sort are already taking place. For instance, Mr. Fanton indicates that the MacArthur Foundation early next year will initiate an effort to attack the problem of rising foreclosures in Chicago's minority neighborhoods, working both on the front end (to avoid foreclosure) and on the back end to steer empty units into the affordable housing stock.

As Brian Sullivan of HUD says: "Let's not give up on folks that are facing foreclosure. But, if there are community-based organizations with the capacity to rehabilitate and bring units back into the rental stock, God bless them."

Amen to that.

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