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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

# Rental Housing: A National Problem That Needs Immediate Attention

Millions of Americans cannot afford homeownership and cannot find affordable rental housing. Immediate national attention is necessary if an adequate supply of affordable rental housing is to be available. The Department of Housing and Urban Development is the principal Federal agency responsible for providing assistance for rental housing. The Congress and the Administration should take steps to mitigate this nationwide crisis.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the crisis situation existing in the Nation's rental housing market and the particularly bleak prospects facing lower income renters. The rental housing crisis requires action by both the Congress and the Executive Branch, therefore, the report contains recommendations to the Congress and to the Office of Management and Budget.

This review was made because of increasing indications that the health of the Nation's rental housing market, an important source of shelter for a large segment of the American population, is rapidly deteriorating.

We are sending copies of this report to the President; the Director, Office of Management and Budget; the Secretary of Housing and Urban Development; the Chairman, Senate Committee on Banking, Housing and Urban Affairs; and the Chairman, House Committee on Banking, Finance and Urban Affairs.

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

# RENTAL HOUSING: A NATIONAL PROBLEM THAT NEEDS IMMEDIATE ATTENTION


## D I G E S T

Although about 35 percent of American families live in rental housing, they are faced today with the Nation's lowest recorded rental housing vacancy rate and are finding it increasingly difficult to locate affordable rental units. Hardest hit are the millions of renters with annual incomes of less than $10,000.

The rental housing problem is so severe that it requires the immediate attention of and action by the Congress and the Administration.

Primary factors responsible for this crisis are

--low levels of moderately priced new private construction and

--losses of existing units through abandonments and conversions to condominiums.

Other factors such as rapidly escalating operating costs and the increasing age of the existing rental stock also are having a detrimental effect. This report discusses the impact of each of the above factors on the rental housing market.

The Department of Housing and Urban Development (HUD) is the principal Federal agency responsible for administering programs designed to encourage the production or maintenance of multifamily rental housing. It administers 14 programs which affect the rental housing market. The Federal role has primarily been twofold:

--To provide funds for, or to facilitate through mortgage insurance, the financing of construction, purchase, or rehabilitation of multifamily housing.

--To assist lower income families, through rent subsidies, to obtain decent, safe, and sanitary housing. (See p. 21.)

The proportion of multifamily rental construction starts which have been federally subsidized has increased steadily from 22 percent in 1972 to about 44 percent in 1978. HUD estimates that federally subsidized and/or insured units will account for about 75 percent of multifamily construction starts in 1979. If the current rental market conditions continue, there will be even greater reliance on Federal programs to deal with the rental housing market crisis, particularly as it relates to lower income households.

Despite the increased dependence on the Federal Government to provide multifamily rental housing, the number of households in need of and qualified to obtain assistance far exceeds the number of subsidized units the Government is able to provide. For example, HUD estimated that 10.1 million lower income renter households were in need of housing assistance this year either because they were living in substandard or overcrowded housing or because they were paying more than 25 percent of their income for rent. HUD estimates that only about 250,000 assisted units will be made available for occupancy in fiscal year 1979. (See p. 25.)

HUD has acknowledged that today's rental vacancy rate of 5 percent is dangerously low because it interferes with the Nation's mobility possibilities. Families needing larger rental units are finding it especially difficult to find affordable units with the national vacancy rate for housing units with 5 rooms being 3.8 percent and those with 6 or more rooms being 2.8 percent. (See p. 5.)

Renters have lower average incomes than homeowners. For example, in 1977 the median family income for renters was $8,800 compared to $16,000 for homeowners. Many renters are now paying more than 25 percent of their incomes for rent. For example, Bureau of the Census data shows that over 48 percent (11.9 million) of all renters are paying more than 25 percent of their income for rent with 7.4 million renters paying 35 percent or more. There is limited potential for most of these renters to become homeowners considering the rapidly rising cost of buying and maintaining a house. (See pp. 7 to 10.)

Various reasons were cited by officials for the declining private rental housing market, including high costs of construction, land, and financing and insufficient rents. Most officials agreed that at current market rent levels, newly constructed privately financed rental units were not profitable. It was suggested that a 20- to 25-percent increase in market rents would be necessary to stimulate new investment in the private multifamily rental market. (See pp. 11 to 14.)

Rapid increases in the cost to operate and maintain existing rental housing, particularly utility costs, has also become a major concern. According to the Institute of Real Estate Management, during the period 1973-76, heating fuel costs rose 69 percent and maintenance and repair costs increased 29 percent. A HUD Task Force reported that increases in such costs are primarily responsible for rising trends in apartment abandonments, foreclosures, and conversions. (See pp. 14 to 16.)

The age of the Nation's rental housing stock is also a significant factor since a significant portion of lower income renters live in rental units located in structures that are at least 40 years old. During 1977, about 11 million rental units, or 41 percent of all occupied rental units, were located in structures built in 1939 or earlier. (See pp. 16 to 18.)

The conversion of rental units to condominiums is increasing--130,000 conversions are predicted during 1979 compared to 50,000 during 1977. Low rates of return from rental ownership is considered a primary cause of the growing trend of conversions. (See pp. 18 to 20.)

## RECOMMENDATION TO THE CONGRESS

The Congress should establish a commission consisting of officials from Federal (both executive and legislative), State, and private organizations to

--develop alternative strategies to minimize the impact of the crisis which recognize, among other things, the preservation of existing stock as well as new construction of rental housing and identify incentives necessary for private industry to enlarge its role in the rental market, and

--propose a national rental housing policy and plan of action to foster the availability and affordability of rental housing.

## RECOMMENDATION TO THE OFFICE OF MANAGEMENT AND BUDGET

The Director, Office of Management and Budget, should take the lead in developing executive branch alternatives and strategies which focus attention on the rental housing crisis. These alternatives and strategies should be presented to the commission for use in formulating a national rental housing policy.

## AGENCY COMMENTS

GAO requested comments from the Department of Housing and Urban Development and the Office of Management and Budget but the comments were not received in time to be included in this report.

# Contents

## ABBREVIATIONS

| | |
|---|---|
| GAO | General Accounting Office |
| HUD | Department of Housing and Urban Development |
| SMSA | standard metropolitan statistical areas |

# CHAPTER 1

# INTRODUCTION

## THE RENTAL HOUSING MARKET

Rental housing is an important source of shelter for many Americans. About 26 million families--35 percent of all families--depend on rental housing as a source of shelter. In 1960 about 38 percent of all families depended on rental housing. The National Association of Home Builders estimates that renter-occupied housing units will increase only 0.4 million from 1976-79 and that by 1980 renters will live in only 33 percent of all occupied housing units. The National Association of Home Builders also estimates that by the year 2000, renters will occupy about 30.5 million housing units or only 26 percent of all occupied units.

Today's rental housing market is typified by the production of few units affordable by a large segment of the renter population, the increasing number of condominium conversions, and the steady decline of vacancy rates. Some housing officials have characterized the rental housing market as being an "endangered species." Although they may be exaggerating the situation, the term indicates the seriousness of the situation. This situation is particularly acute for the approximately 10.1 million lower income renters 1/ who the Department of Housing and Urban Development (HUD) estimates are living in overcrowded or substandard housing or paying excessive (more than 25 percent) portions of their incomes for rent. According to "U.S. Housing Markets," 2/ starts of unsubsidized rental units during 1978 were the second lowest in 20 years and they are expected to be even lower in 1979.

## RENTAL HOUSING CHARACTERISTICS

### Location

In 1977, about 75 percent of all occupied rental units (20 million) were located inside standard metropolitan

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1/Those families whose incomes do not exceed 80 percent of the median family income of an area.

2/A quarterly survey of trends published by Citicorp Real Estate, Inc. and Advance Mortgage Corp.

statistical areas (SMSA). 1/ Of these, about 59 percent were located inside central cities. The following table shows the location of rental housing units in 1970 and 1977 by geographic regions.

| Region | Number of renter occupied units 1970 | Percent | 1977 | Percent |
|---|---|---|---|---|
| | (000) | | (000) | |
| Northeast | 6,566 | 27.9 | 6,778 | 25.5 |
| North Central | 5,613 | 23.8 | 6,092 | 23.0 |
| South | 6,801 | 28.9 | 8,081 | 30.5 |
| West | 4,579 | 19.4 | 5,564 | 21.0 |
| Total | 23,559 | 100.0 | 26,515 | 100.0 |

As shown, although all regions experienced increases in the stock of rental units, the South and West increased their respective shares of the total stock to where they now account for more than one-half of the Nation's rental stock.

Structure size

Single-family housing units make up almost one-third of all renter-occupied units while multifamily structures (5 or more units) account for approximately 39 percent. The following table compares the number of units in the various types of structures for 1970 and 1977.

| Structure type | Number of rental units 1970 | 1977 | Percent change |
|---|---|---|---|
| | -----000----- | | |
| 1 unit | 8,530 | 8,243 | - 3.4 |
| 2 to 4 units | 6,218 | 7,326 | + 17.8 |
| 5 or more units | 8,490 | 10,289 | + 21.2 |
| Mobile home or trailer | 321 | 657 | +104.7 |
| Total | 23,559 | 26,515 | |

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1/A standard metropolitan statistical area is a county or group of contiguous counties which contains at least one city or twin cities with 50,000 or more inhabitants. Contiguous counties are included if they are socially and economically integrated with the central city. The Office of Management and Budget designates standard metropolitan statistical area boundaries and adjusts them as population and conditions change.

According to the table, the number of units in the multifamily structures has increased over 21 percent since 1970, while the number of rental single-family unit structures has decreased slightly.

### Age of the rental housing inventory

The Nation's rental housing inventory is relatively old. According to the 1977 Annual Housing Survey, about 41 percent of all renter-occupied housing units are in structures built in 1939 or earlier, as shown below:

| Year structure built | Renter-occupied units | Percent |
|---|---|---|
| | (000) | |
| 1939 or earlier | 10,996 | 41 |
| 1940 to 1949 | 2,582 | 10 |
| 1950 to 1959 | 3,192 | 12 |
| 1960 to 1964 | 2,366 | 9 |
| 1965 to March 1970 | 3,087 | 12 |
| April 1970 or later | 4,292 | 16 |
| Total | 26,515 | 100 |

## FEDERAL ROLE IN RENTAL HOUSING

HUD is the primary Federal agency responsible for administering programs designed to encourage production or maintenance of rental housing. In 1949 the Congress established a national goal of providing as soon as feasible a decent home and a suitable living environment for every American family. HUD's role in the rental housing market has been to (1) provide funds for, or to facilitate through mortgage insurance, the financing of construction, purchase, or rehabilitation of multifamily housing and/or (2) assist lower income families, through rent subsidies, to obtain decent, safe, and sanitary housing.

## SCOPE OF REVIEW

The objective of our review was to assess the condition of the rental housing market, both private and subsidized, and determine the major factors responsible for the current situation and the effect on lower income households.

Our review was conducted at HUD headquarters in AGC 791 Washington, D.C., and HUD field offices in Atlanta, Georgia; Seattle, Washington; and Minneapolis and St. Paul, Minnesota. DLG 1302

+ AGC 1099

We interviewed HUD and local housing officials; bankers, developers, and owners of rental property; officials representing tenant associations; and representatives of other organizations involved in rental housing. We also reviewed pertinent records, reports, studies, and other data concerning rental housing.

In the report we have relied on data from the 1977 Annual Housing Survey because it is the latest data available as of August 1979.

# CHAPTER 2

## LOWER INCOME FAMILIES

## SEVERELY AFFECTED BY LACK OF AFFORDABLE

## RENTAL UNITS

Lower income families are finding it increasingly difficult to locate affordable rental housing. The national rental vacancy rate has been declining since 1974. The March 31, 1979, rental vacancy rate of 4.8 percent was the lowest rate since the Bureau of the Census began collecting the information. Families needing larger units are finding it more difficult to locate suitable housing because the national vacancy rate is 3.8 percent for housing units with 5 rooms and 2.8 percent for those with 6 or more rooms. In addition to the low vacancy rates, many renters are paying excessive portions of their incomes for rents. For example, in 1977, 7.4 million renters were paying more than 35 percent of their income for rent. About 86 percent of these renters had annual incomes of less than $7,000.

A number of factors have combined to adversely affect renters in general and lower income renters in particular. For a number of years, renter incomes have not kept pace with rent increases; operating costs for rental housing have increased significantly in recent years; fewer new private rental units have been built in recent years; and abandonments and conversions of rental units to condominiums have further limited the number of affordable rental units. At the same time, rapidly increasing cost of homeownership has meant that more families must depend on rental housing in the future. Each of these factors will be addressed in this report.

### LOW VACANCY RATE IN RENTAL HOUSING

National rental housing vacancy rates during 1978 were about 5 percent and declined to 4.8 percent during the first quarter of 1979, according to the Bureau of the Census. The rate has been declining since 1974, and the 1978 rate is the lowest annual rate since the Census began the vacancy survey in 1956. HUD has acknowledged that the vacancy rate of 5 percent is dangerously low because it interferes with the Nation's mobility possibilities.

The March 31, 1979, national rental housing vacancy rate was 4.8 percent but varied from region to region as shown on the following page.

| Region | Percentage vacancy rate |
|---|---|
| Northeast | 4.0 |
| West | 4.5 |
| North Central | 5.0 |
| South | 5.5 |

As shown above, renters in the Northeast and West are likely to have more difficulty finding suitable rental units.

At the time of our review, the rental market in metropolitan Minneapolis-St. Paul was said by HUD officials to be quite tight with a vacancy rate of about 3 percent. The shortage of units affordable by lower income renters was particularly acute, however, with vacancy rates estimated to be about 1 percent. Metropolitan Atlanta was also experiencing a low rental vacancy rate of about 2.3 percent.

The vacancy rate in the Seattle metropolitan area dipped below 2 percent in 1977 and remained near the 2-percent level during 1978. We were informed by several knowledgeable officials that lower income families are most adversely affected by the area's tight rental market.

Another indication of the tight supply is the rate at which newly constructed rental units are rented. According to Bureau of the Census statistics, 80 percent of the privately financed apartments completed during 1977 were rented within 3 months. Apartments on the market for 6 months were 94 percent rented.

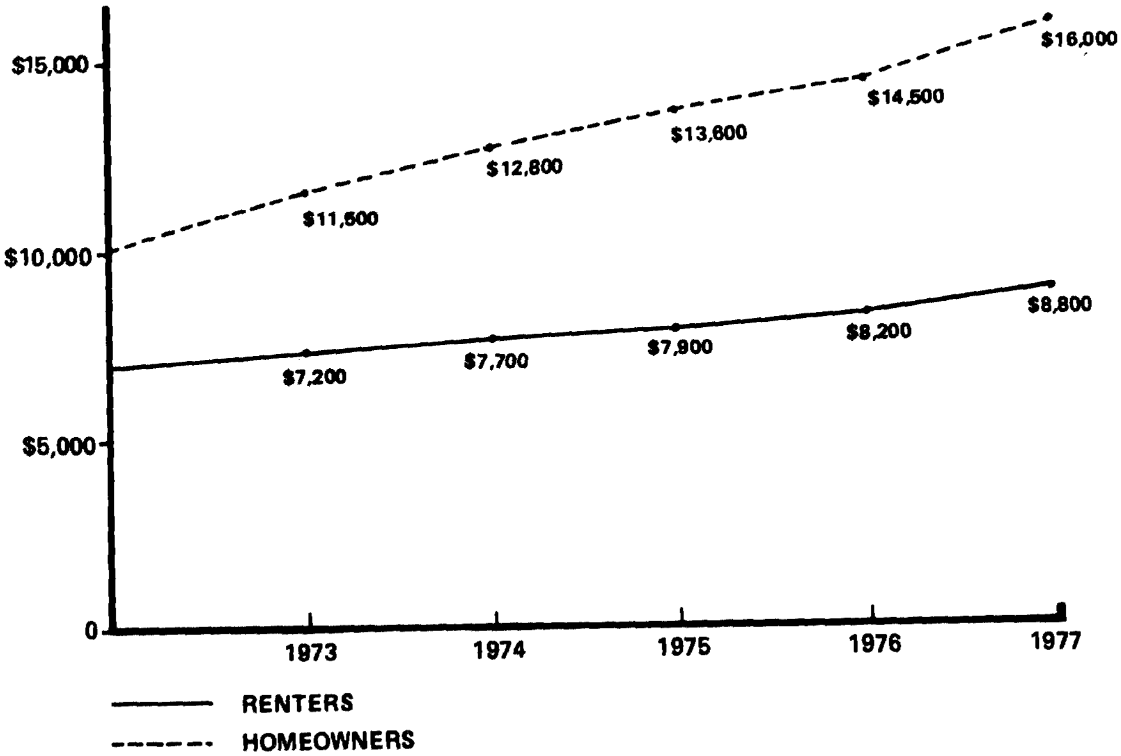
The 3- and 6- month rented rates tended to be higher for lower rent units than for higher rent units. This indicates that the supply of units affordable by lower income households is extremely tight and, consequently, they are rented more quickly.

## LOWER INCOME FAMILIES ARE MOST AFFECTED BY CURRENT RENTAL SITUATION

Lower income households are finding it increasingly difficult to locate affordable rental units. A combination of factors is rapidly creating a crisis situation for lower income households. First, the rapidly increasing cost of homeownership means that fewer lower income families will become homeowners and thus must depend on rental housing. Second, while median rents have increased by an average of 9.6 percent annually (1973-77), renter income has only increased 5.6 percent annually.

Limited potential for many renters to be homeowners

Renters, by and large, have lower incomes than homeowners. Although the annual median incomes of all housing occupants have increased since 1973, the increase for renters has been much less than the increase for homeowners. The following graph, based on Annual Housing Survey data, illustrates this trend.




As shown, while the median income of renters rose from $7,200 to $8,800 (an average annual increase of 5.6 percent), the median income of homeowners increased from $11,500 to $16,000 (an average increase of 9.8 percent per year). More significantly, the median income of renters in 1977 ($8,800) was 55 percent that of homeowners ($16,000).

According to Annual Housing Survey data for Atlanta, Minneapolis-St. Paul, and Seattle, annual median incomes of renters were $9,000 (versus $17,500 for homeowners), $7,900 (versus $16,100 for homeowners), and $9,100 (versus $18,000 for homeowners), respectively.

The lower income characteristic of renters is further reflected by the table on the following page.

| Annual income | Number of homeowners | Percent | Number of renters | Percent |
|---|---|---|---|---|
| | (000 omitted) | | (000 omitted) | |
| Less than $7,000 | 9,469 | 19.4 | 10,723 | 40.4 |
| $7,000 to $9,999 | 4,797 | 9.8 | 4,232 | 16.0 |
| $10,000 to $14,999 | 8,571 | 17.6 | 5,328 | 20.1 |
| $15,000 or more | 25,929 | 53.2 | 6,232 | 23.5 |
| Total | 48,766 | 100.0 | 26,515 | 100.0 |

According to the table, about 30 percent of the homeowners in 1977 had annual incomes of less than $10,000, while approximately 56 percent of renters had similar incomes. Further analysis of related data showed that of the homeowners with annual incomes of less than $10,000, about 64 percent owned their homes free and clear and thus were relieved of mortgage payments.

Given their low incomes, renters are also negatively affected by the rising cost of homeownership, which forces them to rely primarily on the rental market for housing. For example, homeownership costs by 1976 had reached the point that a monthly expenditure of $465 was required to amortize the mortgage principal and pay the mortgage interest, insurance premiums, property taxes, utility costs, and repair and maintenance expenses on a median price new house which sold for about $44,300. The annual median income for the homebuyers was $21,600 compared to the annual median income for renters of $8,800. In 1976 families with incomes of less than $10,000 accounted for only 4 percent of the single-family housing purchases. Renters' opportunity to become homeowners has been reduced even more since the median sales price of new houses rose to $62,900 in May 1979--a 42-percent increase since 1976. Likewise, the median sales price of existing homes has increased rapidly to $57,400 in April 1979--a 13.5-percent increase since April 1978.

The dramatic rise in the selling price and related homeownership costs is putting an increasing number of American families out of the new housing market. Second-and third-time buyers can afford substantial downpayments and prefer large houses with many amenities but new houses are less affordable for younger, middle-income families and first-time buyers. For more informtion on the cost of housing and homeownership see our report, "Why Are New House Prices So High, How Are They Influenced By Government Regulations, and Can Prices Be Reduced?" (CED-78-101, May 11, 1978).

The increasing burden of rents

In 1977 about 49 percent of all renters paid 25 percent or more of their income for rent. About 30 percent of all the renters paid 35 percent or more of their income for rent. Since 1970, renters' rent to income ratio has steadily increased. During the period 1970-77, median gross rent as a percentage of income has increased from 20 to 25 percent. The generally accepted rule of thumb is that rent should not be more than 25 percent of a family's income. The following schedule shows the increased number of renters paying 25 percent of their annual income for rent in 1977 compared to 1973.

| | 1973 | | 1977 | |
|---|---|---|---|---|
| Number of renters for which data was computed | 22,438,000 | | 24,365,000 | |
| Gross rent as percentage of income | Number of renters (millions) | Percent | Number of renters (millions) | Percent |
| 25 to 34 percent | 3.7 | 16.5 | 4.5 | 18.4 |
| 35 percent or more | 5.5 | 24.4 | 7.4 | 30.3 |
| Total | 9.2 | 40.9 | 11.9 | 48.7 |

As shown above, the number of renters paying 35 percent or more of their income for rent has increased by about 1.9 million (or 35 percent) during the 1973-77 period. Of the 7.4 million renters paying 35 percent or more of their income for rent, 4.2 million (or about 57 percent) paid more than 50 percent of their income for rent. Of the 7.4 million renters paying 35 percent or more, about 86 percent had annual incomes of less than $7,000.

The latest data available for Atlanta, Minneapolis-St. Paul, and Seattle indicates rent-to-income ratios similar to the national statistics. In terms of the percentage of renters paying 25 percent or more of income for rent, 42 percent (1975 data) of Atlanta renters, 50 percent (1974 data) of Minneapolis-St. Paul renters, and 44 percent (1976 data) of Seattle renters fall into this category.

According to HUD, these statistics are clear indications of the increasing burden of rents on renter households. Also, although homeownership costs are also increasing, they are partially offset by favorable tax provisions and by equity appreciation from inflation. With none of these benefits, renters are faced with allocating more of their income for rents.

During our field work, we obtained various reports and other documentation attesting to the severe effect of the rental housing situation on lower income renters.

The Seattle Emergency Housing Service's March 1978 report entitled "Survey of Affordable Rental Housing for Low Income Families" disclosed the following:

--There are virtually no suitable private market apartment units for low- and moderate-income families in Seattle.

--Low-income families are forced to reside in substandard, neglected dwellings. Unable to compete in the standard rental and homeowner market, this is all that is available to them.

In its May 1978 report entitled "Emergency Housing in King County" (Seattle), the Emergency Housing Task Force stated that:

--Both low-income working families and public assistance families face increasing difficulty renting in the commercial market due to the disparity between their income and rental rates and the increasing bias against renting to families with children.

--The severe shortage of low-cost housing makes it extremely difficult for a low-income person or family to locate affordable housing.

In Minneapolis, a Rental Housing Task Force concluded in its July 1976 report, "The Crisis in Rental Housing," that "the average tenant in Minneapolis is already paying too much for rental housing and cannot afford any increases, even if justified, and the situation is worsening." In March 1978, HUD's Minneapolis-St. Paul area office estimated that 57,459 lower income renter households needed housing assistance.

The city of Atlanta estimated in January 1979 that 63,376 renter households were in need of housing assistance. Of these households, 62 percent were spending more than a quarter of their income for rent, 29 percent were living in substandard housing, and 9 percent were living in overcrowded conditions.

A large number of American families are facing serious problems in finding affordable rental housing. We believe that the rental housing situation, particularly in terms of low vacancy rates and escalating operating costs, will grow more severe and will create problems for a growing number of American families.

# CHAPTER 3

# FEWER AFFORDABLE RENTAL UNITS

# FOR LOWER INCOME FAMILIES

There is little privately financed, multifamily rental housing being constructed nationwide for lower income families. According to an official of Citicorp Real Estate, Inc., starts of unsubsidized rental units during 1978 were the second lowest (1975 was lower) in 20 years. At the same time, increased operating and maintenance costs in rental housing contributed to a rising trend toward abandonment, foreclosure, and conversions to condominiums. According to HUD's Tenth Annual Report on the National Housing Goals (February 1979), during the period 1973-76, about 1.1 million renter-occupied housing units were removed from the inventory.

Various reasons are cited for the declining private rental housing market, including high costs of construction, land, financing, and insufficient rents. When discussing the situation, nearly every official contacted told us that at the current market rent level, privately financed rental units were not profitable. HUD's Task Force on Housing Costs commented on the problem in its May 1978 final report, stating that "* * * in many areas both new and rehabilitated rental housing are becoming commercially infeasible without subsidies."

## FEW UNSUBSIDIZED RENTAL UNITS ARE BEING CONSTRUCTED FOR THE LOWER INCOME

Officials we contacted unanimously stated that costs have increased dramatically during the past few years, particularly in the areas of financing, building materials, labor, and land. These cost increases, coupled with lagging rents and rapidly escalating operating costs, have created a situation where privately financed, multifamily rental housing is no longer considered a viable investment. Although rents have increased, the increases have not kept pace with the increased cost of constructing, financing, and operating rental housing. Most officials told us that they had diverted their efforts to more profitable ventures, such as condominiums, single-family homes, commercial properties, and warehouses. According to a Joint Economic Committee report of November 1978 entitled "Multifamily Housing Demand: 1975-2000,"

> "* * * sophisticated investors view the multifamily structure, except under unique circumstances and unique locations, as a relatively riskful, noninflation proof investment."

The lagging rents were mostly attributed to the overbuilding of rental units that occurred in the early 1970s, which resulted in high vacancy rates and owner's reluctance to raise rents because of the risk of losing tenants. The Brookings Institution's 1978 report entitled "Public Policy and the Rising Cost of Housing" stated that "rents have not gone up fast enough to keep up with the cost of ownership." The study also concluded that rental housing owners have been precluded from raising rents, despite soaring operating costs, because of the significant number of rental units on the market from 1970-73.

According to a January 1979 HUD analysis of the Minneapolis-St. Paul housing market, the striking decline in multifamily production is due to a number of factors and that "current high interest rates and costs of production and management also make many rental projects economically unfeasible."

Our discussions with knowledgeable officials disclosed that the majority of the multifamily housing units currently being built are either (1) subsidized (2) high-rent, or (3) condominiums.

The high-rent characteristic of the new units is supported by the following Bureau of the Census table showing the units completed by rent levels during the period 1970-77.

Unfurnished Units Completed
by Rent Class: 1970-77 (note a)

| | | Units by monthly rent | | | |
|---|---|---|---|---|---|
| Year | Units completed | Less than $200 | $200 to $249 | $250 or more | Median rent |
| 1970 | 322,700 | 199,300 | 78,700 | 44,700 | $188 |
| 1971 | 333,200 | 211,900 | 82,900 | 38,400 | 187 |
| 1972 | 498,000 | 293,000 | 133,500 | 71,500 | 191 |
| 1973 | 531,700 | 313,100 | 138,800 | 79,800 | 191 |
| 1974 | 405,700 | 216,900 | 111,400 | 77,400 | 197 |
| 1975 | 222,900 | 97,000 | 63,800 | 62,100 | 211 |
| 1976 | 157,000 | 56,200 | 56,900 | 43,900 | 219 |
| 1977 | 194,400 | 51,100 | 72,000 | 71,300 | 232 |
| 1978 | 227,900 | 42,000 | 71,400 | 114,500 | 250 |

a/Units are located in buildings with 5 units or more and are privately financed and unsubsidized.

As shown the median monthly rent for units completed in 1970 was $188 compared to $250 for 1978. In 1978, only 42,000 units (or 18 percent of the total completed) were at rent levels of $199 per month or less. Given the accepted rent to income ratio of 25 percent, these units would be affordable by families with annual incomes of about $9,500. As mentioned earlier, median renter income in 1977 was $8,800, and about 56 percent of all renters earned less than $10,000.

A comparison of the Department of Labor's Bureau of Labor Statistics Consumer Price Index for 1973-77 supports the housing officials' concern over lagging rents. During that period, housing costs (shelter, household furnishings and operation, and fuel and utilities) increased an average of 8 percent per year, while rent increases averaged only 4.7 percent.

We measured the trend of rents in the Seattle area by comparing the area's residential rent index with the construction cost index and the market value index of a single-family home for the periods 1970-78. The results are presented in the graph on page 14.

According to various officials, market rents would have to increase about 25 percent above current levels in order to stimulate new investment in the private multifamily rental market. Research by Goldman-Sachs (an investment banking firm) concluded that before it considered multifamily housing an appropriate investment for its clients, a 20- to 25-percent increase in rents would need to be established. Several officials cautioned, however, that such an increase in rents could result in a loss of tenants (and income) and the potential imposition of rent controls. From a tenant's point of view, such an increase in rents would act as an additional hardship on those households that are already paying an excessive portion of their income for rent.

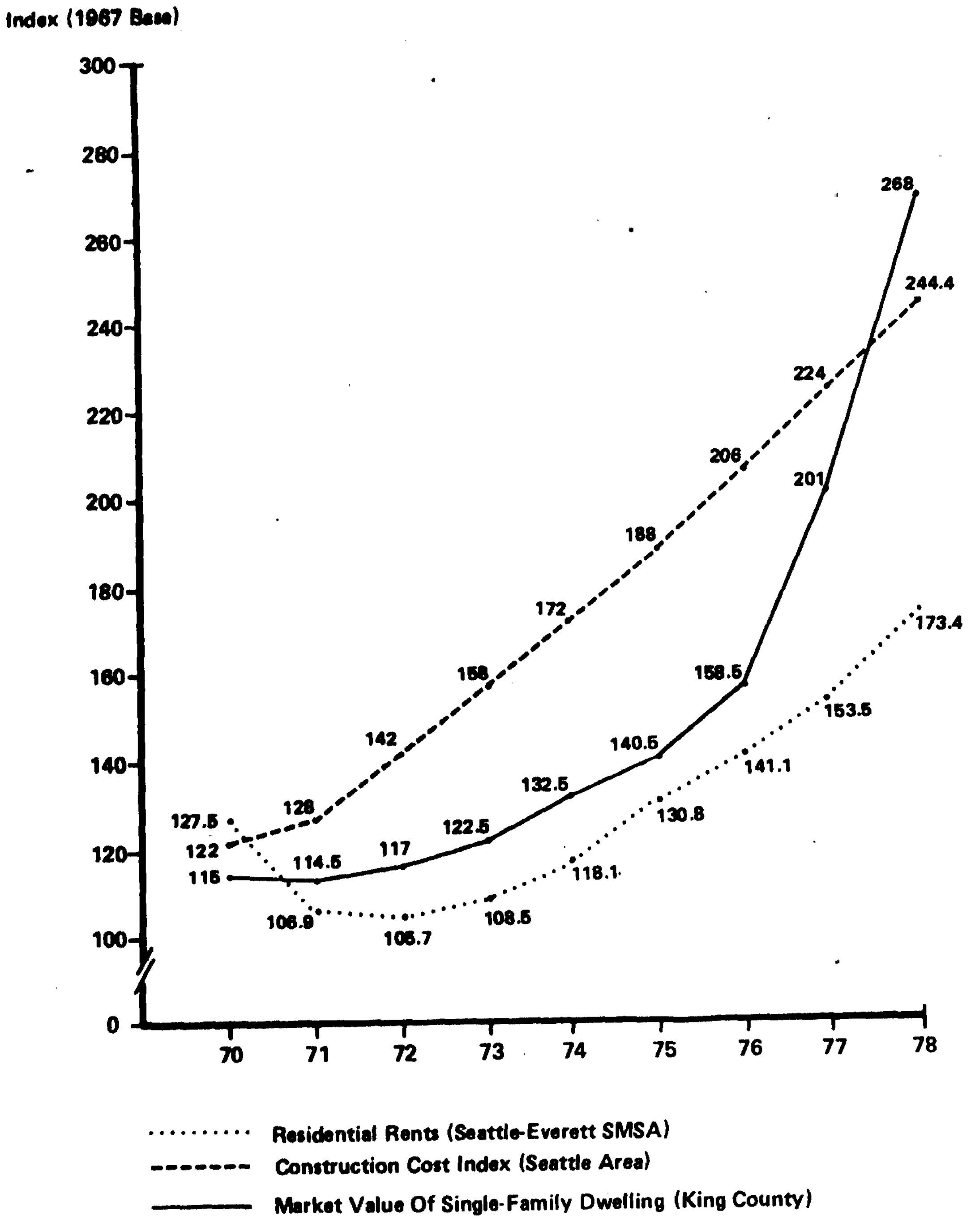
We found that apartment owners in Atlanta are taking advantage of the tight rental occupancy conditions to boost rents between 10 and 20 percent annually and/or transfer utilities from owner-paid to tenant-paid. Rents in Minneapolis-St. Paul have risen about 8 to 10 percent per year since 1976. According to the local HUD area offices, landlords are being cautious about raising rents significantly; however, the current shortage of units has enabled landlords to become increasingly more selective in renting. For example, many landlords are renting only to adult households with no children.

Officials mentioned other factors that discouraged construction of new rental units, such as (1) the threat of future rent controls, (2) tenant and community activism, (3) increasing land costs and real estate taxes, (4) new and costly codes and regulations, and (5) the existence of other, more profitable investment opportunities.

## INCREASING OPERATING COSTS FOR RENTAL UNITS

Discussions with knowledgeable rental housing officials disclosed that increasing costs to operate and maintain rental

RESIDENTIAL RENTS, MARKET VALUE OF SINGLE-FAMILY DWELLING, AND CONSTRUCTION COSTS IN THE SEATTLE-EVERETT AREA




As shown, although rents have steadily increased since 1973, they have not kept pace with other indexes.

housing has become a major concern. According to the Joint Economic Committee report of November 1978,

> "* * * there is evidence that operating cost rises are challenging the financial integrity of multi-family structures as manifested by the HUD and private market mortgage delinquency and foreclosure rates."

Institute of Real Estate Management income and expense data from member apartments shows that during the period 1973-1976, heating fuel costs rose 69 percent, other utility bills rose 42 percent, payroll costs increased 13 percent, and maintenance and repair costs increased 29 percent.

In its May 1978 report, HUD's Task Force on Housing Costs also recognized the impact of increasing operating costs. According to the Task Force,

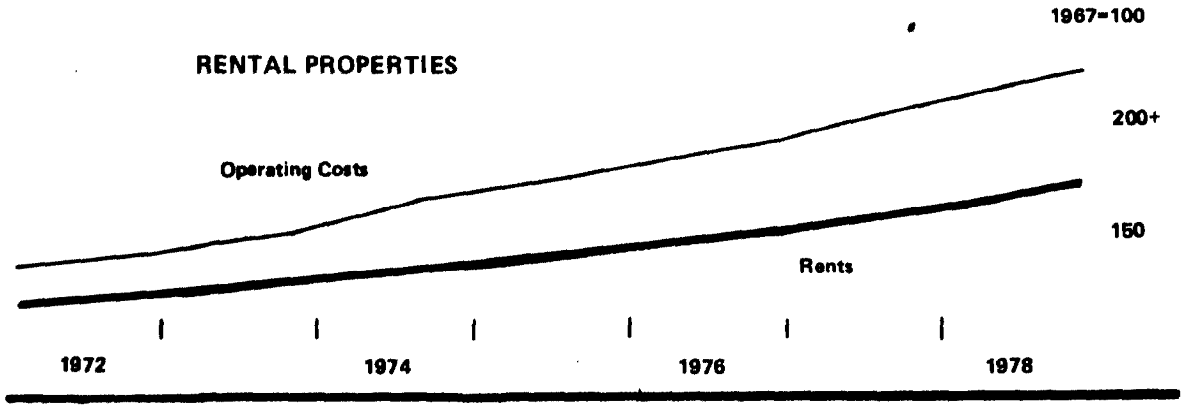
> "* * * rising trends in abandonment, foreclosure, and apartment conversion are in large part the result of burdensome increases in operating and maintenance costs."

A HUD Multifamily Property Utilization Task Force evaluated information on 338 insured, subsidized multifamily rental housing projects in 13 field offices, visited 83 properties, and conducted extensive interviews with field staff and outside experts. The task force's May 1978 report identified rising operating costs (utilities, maintenance, taxes, and insurance) as being one of the severest problems affecting financial viability of the projects surveyed. In nearly 40 percent of the 338 projects, increasing utility costs were cited as a severe problem now and in the near future. For example, a HUD area office reported that "utility costs are expected to rise 30 to 50 percent over the next 4 years because of higher rates and increasingly severe winters." The Department of Labor's Consumer Price Index series show the cost of fuel and utilities has increased 59 percent during the period 1973-77--an annual rate of 12 percent. The Deputy Secretary of the Department of Energy predicted in January 1979 that residential heating costs would rise sharply in late 1979 due to steep increases in the price of crude oil, thus causing severe hardship for low-income persons. Since January 1979, adverse energy developments worldwide will probably increase heating costs more than predicted.

In the 83 projects visited during HUD's evaluation, operating expenses increased 12 percent annually, while tenant incomes increased only 6 percent. HUD expects that a gap between expenses and income will continue to exist during the next 5 years. The HUD Task Force rejected the possibility of raising rents to cover increased costs in troubled projects because rents already averaged 31 percent of tenant incomes.

HUD performed a similar study in 1978 which focused on the problems facing insured, unsubsidized, multifamily housing projects which are experiencing financial problems. The study identified escalating power utility costs as the single most severe problem facing such projects. Further, expenses in many projects were increasing much more rapidly than project incomes, particularly in the areas of utilities (15.3 percent annually), maintenance (18.4 percent per year), insurance, and taxes. The increased costs are reflected in the fact that of 59 projects surveyed, almost two-thirds had negative cash flows in 1976.

According to the March 1977 and March 1979 "Federal Reserve Bulletin," many owners of rental housing have been caught in a prolonged cost-revenue squeeze, and repayment problems on outstanding long-term multifamily mortgages have resulted. The average expense of operating rental projects, according to the Federal Reserve, had risen at a considerably faster pace than rents. This trend is reflected in the following graph.




Source: Federal Reserve Bulletin

The greatest increases have been in the costs of fuel and utilities, although all major cost components have increased significantly. Meanwhile, rent controls (or the threat of them) have limited rent increases in some areas. The Federal Reserve concluded that prospective returns on multifamily rental projects have, particularly under these conditions, frequently been too low and/or uncertain to warrant new investment.

## <u>AGE OF THE RENTAL HOUSING INVENTORY</u>

The Nation's rental housing inventory is relatively old. According to the 1977 Annual Housing Survey, about 41 percent of all renter-occupied housing units are in structures built in 1939 or earlier as shown on the following page.

| Year structure built | Renter-occupied units | Percent |
|---|---|---|
| | (millions) | |
| 1939 or earlier | 11.0 | 41 |
| 1940 to 1949 | 2.6 | 10 |
| 1950 to 1959 | 3.1 | 12 |
| 1960 to 1964 | 2.4 | 9 |
| 1965 to March 1970 | 3.1 | 12 |
| April 1970 or later | 4.3 | 16 |
| Total | 26.5 | 100 |

The age of the inventory in Minneapolis-St. Paul and Seattle is close to the national average. In these two locations, about 39 and 32 percent, respectively, of the rental units were in structures built in 1939 or earlier. In Atlanta only 16 percent of the rental inventory was built in 1939 or earlier.

Although housing does not necessarily deteriorate with age, older housing typically costs more to operate and maintain than newer housing. For example, items such as boilers and energy distribution systems wear out or become inefficient to operate and need to be upgraded or replaced. The following schedule shows that for buildings constructed after 1921 the operating expenses (as a percentage of revenue) decrease for newer buildings.

| Type of building | Percentage--operating expenses to revenue 1921-1930 | 1931-1945 | 1946-1960 | 1961-1967 | 1968-1977 |
|---|---|---|---|---|---|
| Elevator | 70 | 64 | 59 | 54 | 51 |
| Low-rise (12-24 units) | 68 | 61 | 55 | 50 | 42 |
| Low-rise (25 or more units) | 67 | 63 | 56 | 50 | 47 |
| Garden | 60 | 60 | 58 | 52 | 48 |

Source: Institute of Real Estate Management.

The age-cost relationship is significant relative to renter affordability because 64 percent (or 7 million) of the rental units in structures built in 1939 or earlier are occupied by households earning less than $10,000 annually. Also, the median income of households occupying such units was $7,500 compared to the overall renter median income of $8,800. These statistics imply that to increase rents to cover increasing operating costs would add to the excessive burden of renters whose rent-to-income ratios are already at unreasonably high levels. Conversely, without rent increases, owners may not be financially able or willing to adequately operate and maintain older projects, which could lead to their deterioration and possible loss from the rental stock.

Given the importance of the older rental units in terms of being a significant portion of the existing stock and of housing primarily lower income tenants, it is imperative that such units are preserved and remain affordable to lower income tenants.

## CONDOMINIUM CONVERSIONS

We found few sources of national data regarding the extent of apartments being converted to condominiums. Unlike other national housing indicators which are followed closely, condominium conversions have not been adequately measured. During 1978 about 100,000 rental units were estimated to be converted to condominiums and for 1979 another 130,000 units are expected to be converted.

Condominium conversion has become popular in Minneapolis-St. Paul since 1976, with about 5,000 rental units already converted and up to an estimated 3,000 units in the process of being converted as of December 1978. HUD's Minneapolis-St. Paul area office attributes the area's shortage of rental units to limited rental construction and to condominium conversions. HUD also recognized that condominium apartments may continue to be initiated as rental apartments because of the greater availability of government financing under existing market rental rate programs. HUD realizes that many of these rental apartments are intended for conversion to condominium units shortly upon completion of construction. Further, if this trend continues, HUD believes that annual losses of rental units through conversions will outstrip units being added through private construction.

One developer in Minneapolis told us that he has stopped building new rental housing and is now purchasing apartment buildings to be converted into condominiums. At the time of our review, he had already converted 844 units and was in the process of converting an additional 250 units.

During 1977 and 1978, the metropolitan Seattle area experienced a significant increase in the number of rental units being converted to condominium units--about 6,574 rental units were converted. Although these lost units represented only a small portion of the rental housing inventory, many of them had previously served lower income families. To determine the effect of condominium conversions on low-and moderate-income households, the city of Seattle studied all condominium conversions that had taken place in the city up to July 1, 1978. The study showed that condominium conversions were beginning to affect the housing supply available to low-and moderate-income households in Seattle. This finding was based on the fact that of 672 units converted in 1977-78 with prior rent data, a minimum of 56 percent had been rental units affordable by low-and moderate-income households. After conversion, about 88 percent of the units were no longer affordable for such households.

Although no reliable quantitative data regarding condominium conversions was obtained concerning metropolitan Atlanta, indications were that conversions have not been extensive in the past.

An April 1979 special release of "U.S. Housing Markets" discussed the trend of conversions. The number of conversions in 1977 and 1978 was estimated to be 50,000 and 100,000, respectively, with 130,000 projected for 1979. Although three-quarters of the conversions occurred in seven major housing markets, the trend is supposedly broadening and becoming more significant elsewhere.

U.S. Housing Markets attributes the trend to (1) the increasing demand for homeownership, with its tax benefits and inflation hedge and (2) the fact that returns from rental ownership have been low--rent increases have not been able to keep pace with costs of operation--even in markets with very high occupancy. Also, the low return is even more evident in markets with rent control or the fear of it. It is reported that most apartment buildings are worth twice as much after conversion compared to continuing as rentals. The low return on rentals and the strength of the conversion market are seen as responsible for the fact that

> "* * * many, perhaps most, new rentals are designed--and some even financed--as condos, with the goal of converting as soon as they have used up their tax shelter."

Low rates of return and rent control (or the threat thereof) were the primary reasons behind B.F. Saul Real Estate Investment Trust's recent decision to begin selling and converting its approximately 6,400 middle-income rental apartments to condominiums. We were told by a Trust official that annual rent increases of 20 to 25 percent for 3 consecutive years and annual pass-throughs of inreased operating costs thereafter would be necessary to make the apartments attractive investments. Given the current rental market, however, such rent increases would be unreasonable and uncompetitive and would have resulted in tenant turnovers. The Trust official believes that their situation is not atypical and that other real estate investment trusts with apartment holdings are experiencing similar low returns. An Atlanta developer told us that as long as rents are held back, apartment owners would find conversions to be more lucrative.

The Joint Economic Committee report of November 1978 views the increasing trend of conversions as an indication that private rental operators are reluctant to continue operations despite preferential tax legislation.

## ABANDONMENTS AND DEMOLITIONS

We found that accurate and reliable information regarding the extent and impact of abandonments and demolitions was not generally available. We cited this information in our report on housing abandonment (CED-78-126, Aug. 10, 1978) after sending questionnaires to the 201 largest U.S. cities to assess the significance of the abandonment problem. The report noted that available evidence indicates that housing abandonment is becoming a more serious problem across the Nation. According to the the report, 113 of the 149 cities responding to the questionnaire reported having housing abandonment problems to some degree. Of the cities included in our review, St. Paul considered the problem to be substantial, while Minneapolis considered the problem to be small. Atlanta and Seattle did not respond to our questionnaire.

A January 1979 report on a HUD-commissioned survey of abandonment in 230 declining U.S. cities reported observable levels of abandonment in 150 of the cities during 1978. A total of 259,505 dwelling units were reported to be abandoned in the 150 cities of which about 186,000 (or 71.7 percent) were multifamily units. Of these areas included in our review, HUD's survey found that 3,600 multifamily units were abandoned in Atlanta, 631 in Minneapolis-St. Paul, and 100 in Seattle.

Information gathered in Minneapolis-St. Paul and Seattle did not indicate that abandonment or demolitions were significant problems. During the period 1974-78, the city of Atlanta, however, lost about 6,600 housing units--about 2,030 through abandonment and approximately 4,570 through demolition. In addition, a city-sponsored study found that about 38,700 (or 32 percent) of Atlanta's renter-occupied housing units in 1977 were in some form of deterioration with about 4,100 of the units actually in a dilapidated condition.

# CHAPTER 4

# FEDERAL PROGRAMS INSUFFICIENT TO MEET NEED FOR LOWER INCOME RENTAL HOUSING

The Congress established in 1949, and reaffirmed in 1968, a national housing goal of "a decent home and a suitable living environment for every American family." Despite this goal, HUD estimated in April 1979 that about 10.1 million lower income renter households were in need of but not receiving housing assistance in order to live in decent, safe, and sanitary housing within their financial means. At the same time, about 2 million families were receiving assistance through Federal housing programs, and HUD estimated an additional 523,000 units of assisted housing will be made available through September 1980.

Historically, the private sector and the Federal Government have shared the burden of providing multifamily rental housing with the private sector dominating the market. As discussed previously, however, the many factors adversely affecting rental housing have resulted in increasing reliance on the Federal Government to provide rental housing to the point where, in 1979, about 75 percent of multifamily rental starts are expected to be federally subsidized and/or insured. If the current situation continues, there will be even greater reliance on Federal programs to deal with the rental housing market crisis particularly as it relates to lower income households.

## FEDERAL EFFORTS IN THE RENTAL HOUSING MARKET

The role of the Federal Government in the rental housing market has primarily been twofold: (1) to provide funds for, or to facilitate through mortgage insurance, the financing of construction, purchase, or rehabilitation of multifamily housing and/or (2) to assist lower income families, through rent subsidies, to obtain decent, safe, and sanitary housing.

HUD, the primary agency responsible for administering programs designed to encourage the production or maintenance of multifamily rental housing, administers 14 programs which affect the rental housing market. These programs include the Section 8 Lower Income Rental Assistance Program, the Low-Rent Public Housing Program, and seven mortgage insurance programs established for a variety of purposes, such as providing housing for the elderly and purchasing or refinancing existing apartment projects. Through these programs, about 2 million families receive housing assistance.

Federal credit agencies also play a substantial role in the multifamily housing market. Agencies such as the Government National Mortgage Association and the Federal National Mortgage Association assist the multifamily market through the buying and selling of multifamily mortgages in the secondary mortgage markets. To encourage new construction of subsidized housing, the Government National Mortgage Association, through the Tandem Plan, issues commitments to purchase low-interest rate loans from private lenders, thus assuring the availability of mortgage credit for developers.

## Major rental-related programs

The Section 8 Lower Income Housing Assistance Program is currently the major Federal program for providing additional rental housing or rental housing assistance. The program makes units available through new construction or substantial rehabilitation and also utilizes the existing rental housing stock. Recently, the program was expanded to include moderately rehabilitated units.

Under Section 8, eligible lower income families pay between 15 and 25 percent of their income toward the rent, with the Government subsidizing the remainder. To be eligible for assistance, a family's income generally must not exceed 80 percent of the median income for the geographic area in which the family lives.

From enactment of the program in 1974 through March 31, 1979, HUD has reserved funds 1/ to provide assistance for almost 1.2 million units--686,000 existing units and about 494,000 newly constructed or substantially rehabilitated units. As of March 31, 1979, over 500,000 of the existing units and over 115,000 of the new or substantially rehabilitated units were occupied and receiving rental assistance. At the time of our review, there was no activity in the moderate rehabilitation portion of the program.

Program activity in HUD's Atlanta area office, as of March 31, 1979, has consisted of fund reservations for about 30,000 units--21,000 existing and 9,000 new or substantially rehabilitated. Occupancy levels reached approximately 18,000 units, almost 17,000 in the existing portion of the program and about 1,100 in new or substantially rehabilitated units. Activity levels were similar in HUD's Minneapolis area office, which also had fund reservations as of March 31, 1979, for

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1/Because of the length of time involved in processing section 8 projects, HUD reserves funds early in the processing cycle to assure that sufficient funds are available to make assistance payments when units are occupied.

about 30,000 units--almost 15,000 existing and about 15,000 new or substantially rehabilitated units. At that time, about 16,000 units were occupied, over 15,000 of which were existing housing units. Section 8 activity was somewhat less in HUD's Seattle area office; it had about 15,000 unit reservations at the end of March 1979, of which over 10,000 were for existing units. Occupancy levels were also lower with almost 7,800 existing units and about 2,600 new or substantially rehabilitated units receiving assistance.

The Low-Rent Public Housing Program is also an important source of assisted housing for lower income families. Under this program, local public housing agencies (PHAs) develop, own, and operate low-income public housing, financing the housing through the sale of tax-exempt obligations. PHAs may also acquire existing housing, with or without rehabilitation, from the private market. The PHAs provide housing to lower income families with the families paying no more than 25 percent of their income for rent. HUD provides financial aid to PHAs in the form of loans, contributions toward the debt service on PHAs' obligations, operating subsidies, and modernization funds.

Although new production of public housing units has been limited since the early 1970s, as of December 31, 1977, the program has made about 1.2 million units available for occupancy since its inception in 1937. The following table shows public housing unit reservations and construction starts for the period 1975-80.

| Fiscal year | Unit reservations | Construction starts |
|---|---|---|
| 1975 | 36,479 | 22,362 |
| 1976 & transition quarter | 19,252 | 17,380 |
| 1977 | 49,371 | 8,115 |
| 1978 | 63,651 | 6,749 |
| a/1979 | 50,000 | 20,000 |
| a/1980 | 46,000 | 45,000 |

a/Estimate.

Several other rent subsidy programs have also been available from HUD for the purpose of providing housing to lower income families. Among these are the Section 236 Rental Assistance Program, the Rent Supplement Program, and the Section 221(d)(3) Program available with below-market interest rates. While variations in eligibility and terms exist among these programs, each was designed to provide assistance to lower income families in the form of reduced rents. Although new activity under these programs was suspended in 1973, program activity amounted to about 911,000 units as of June 30, 1977. A brief description of these and other rental programs is included in appendix I.

Increasing role of the Federal Government in the multifamily market

The importance of the Federal Government in the multifamily housing market has increased steadily over the past several years. As evidenced by the following table, the proportion of federally subsidized starts has increased from 22 percent in 1972 to about 44 percent in 1978.

| Year | Multifamily starts | Federally subsidized | Percent |
|---|---|---|---|
| | -------(000) | ------- | |
| 1972 | a/906.2 | 199.3 | 22 |
| 1973 | 656.0 | 156.1 | 24 |
| 1974 | 277.6 | 78.3 | 28 |
| 1975 | 178.3 | 53.4 | 30 |
| 1976 | 251.2 | 82.8 | 33 |
| 1977 | 357.4 | 127.2 | 36 |
| 1978 (est.) | 371.2 | 164.6 | 44 |

a/Includes condominium units.

In a statement before the Senate Committee on Banking, Housing, and Urban Affairs, the Secretary of HUD estimated that federally subsidized and/or insured units will account for about 75 percent of all multifamily construction starts in 1979. These statistics confirm a conclusion of the November 1978 Joint Economic Committee report on multifamily housing that

> "* * * the increased trend toward government financing of multifamily housing indicates a weakness in their market viability--an inadequate balance between construction costs, financing, operating costs and rents."

The former Secretary of HUD expressed concern over the growing dependence of the multifamily construction market on federally subsidized or insured construction. In a March 23, 1979, memorandum to the Assistant Secretary for Housing-Federal Housing Administration Commissioner, the Secretary stated that she had received indications that the Nation is facing a serious and growing crisis in the multifamily rental housing market which could result in a serious shortage of available and affordable rental units for low-, moderate-, and middle-income Americans if HUD does not take action. Among the indicators cited by the Secretary are recent estimates that in 1980 as much as 60 percent of the multifamily rental starts may be HUD-subsidized and more than 75 percent may be subsidized or insured. Other indicators of concern to the Secretary included the increased construction and operating expenses of multifamily rental housing, the loss of middle income renters to homeownership, the loss of rental units through condominium conversions, the decline in rental unit vacancy rates, the abandonment of large numbers of rental units in declining urban areas, and the shortage of rental housing in rural areas.

The Secretary requested that the Assistant Secretary convene an interdepartmental working group to explore innovative approaches to production assistance. The group completed its study in July 1979 and made recommendations for use in formulating HUD's fiscal year 1981 budget justification. Since this information was part of HUD's budget process, it was not made available to us.

The Secretary also commented on the inadequate supply of multifamily rental housing for low-and moderate-income families and for middle-income families in remarks before the National Housing Conference in March 1979. At that time, the Secretary pointed out that HUD is a substantial contributor to the multifamily rental market and estimated that section 8 and public housing activity will be responsible for a significant portion of the total multifamily construction starts in fiscal year 1979. Among the steps she said must be taken to minimize problems resulting from the shortage of multifamily rental units is the need to stimulate the interest of the private sector in providing rental housing for certain groups, among them moderate- and middle-income families. She stated that private sector involvement in nonsubsidized rental housing is the key to providing middle-income stock.

## INABILITY OF FEDERAL PROGRAMS TO MEET HOUSING NEEDS

Although a major portion of multifamily construction starts are currently federally subsidized, the number of households in need of and qualified to receive subsidies far exceeds the number of subsidized housing units the Government is able to provide. In April 1979, the former Secretary of HUD estimated that 14.8 million lower income households were in need of housing assistance. Of these, 10.1 million were renter households. According to HUD estimates, in fiscal year 1979 and 1980 about 250,000 and 275,000 families, respectively, will receive rental housing assistance in addition to the 2 million families already receiving such assistance. HUD also estimates that $19.4 billion annually (about 3 percent of the total 1980 Federal budget) would be needed to meet the housing needs of the 14.8 million lower income households.

Despite the recognized need, HUD's ability to assist families through its Section 8 Program has been declining. As shown in the following table, there has been a decreasing trend in recent years in both the number of units HUD estimated it could provide each year and the number of unit reservations actually made.

Section 8 Contract Reservation

| Fiscal year | Original budget request | Revised budget request | Actual reservations |
|---|---|---|---|
| 1976 | 400,000 | 320,000 | a/490,581 |
| 1977 | 400,000 | 353,275 | 330,977 |
| 1978 | 344,000 | 313,870 | 257,517 |
| 1979 | 344,000 | 304,362 | 265,822 |
| 1980 | 250,000 | (b) | (b) |

a/Actual 1976 plus transition quarter.

b/Not available.

HUD has provided several explanations for the decreasing number of unit reservations. One reason has been a shift in the distribution of unit mix from existing units to new construction or substantially rehabilitated units based on requirements indicated in local housing assistance plans. Because the unit costs of new construction are higher and the contract term is longer than for existing housing, the change in emphasis significantly reduces the number of units which can be assisted. Also affecting the number of units which can be assisted is the increase in average unit costs associated with the Section 8 Program--e.g., average annual unit cost for privately developed new construction units for fiscal year 1976 and the transition quarter was $3,584 per unit versus estimated 1980 average annual unit costs of $4,440 per unit. In view of the current budgetary limitations, these increased costs would necessarily reduce the number of units which HUD can assist.

The problem of need exceeding the amount of assistance available was also evident in the metropolitan areas we visited. In its 1978 Housing Opportunity Plan, the Puget Sound Council of Governments estimated that about 68,000 households in the Seattle-Everett SMSA, almost 60,000 of which were renters, were in need of housing assistance. However, HUD programs in 1978 produced only about 1,000 new or substantially rehabilitated units for low- and moderate-income households and provided rent subsidy payments to only about 2,300 households. HUD assistance therefore could satisfy only about 5 percent of the estimated need.

Other reports from the Seattle area also indicated the serious discrepancy between amount of assistance available and the number of families in need. For example, in a March 1978 report entitled "Survey of Affordable Rental Housing for Low Income Families," the Seattle Emergency Housing Service stated:

--Public housing projects satisfy some of the need but the Seattle Housing Authority has a waiting list of over 1,000 families hoping to be placed in a project. A wait of 6 months to a year for these families is not uncommon. Meanwhile, most are forced to live in substandard, overcrowded conditions.

Also, in a May 1978 report entitled "Emergency Housing in King County" (Seattle), the Emergency Housing Task Force stated that

> " * * * The supply of publicly subsidized housing is very far below the current need--it is not succeeding in assisting large numbers of people. For example, the Seattle Housing Authority has a waiting list of 3,900 applicants for public housing, and the King County Housing Authority has 1,480 applicants on its waiting list."

> " * * * In the 1978 Housing Assistance Plan for the city of Seattle, it is estimated that 43,076 elderly and family households needed housing assistance in 1977, but the city's realistic annual goal for section 8-assisted units was to provide assistance for 585."

Housing assistance in the Minneapolis-St. Paul SMSA likewise was able to reach only about 5 percent of the estimated need. The Metropolitan Council of the Minneapolis-St. Paul area estimated in its 1978 Areawide Housing Opportunity Plan that over 57,000 rental households needed assistance. These included lower income households that lived in either overcrowded conditions or substandard housing or who were were paying more than 25 percent of their income for rent.

During 1978, however, Federal assistance through the Section 8 Program was made available to only about 3,000 households--about 1,900 units of new or substantially rehabilitated housing was completed, and about 1,100 families were certified for assistance under the existing housing portion of the program.

Housing needs in the Atlanta area are also not being met. HUD estimates that in 1979, rental housing assistance needs total over 51,000 units for the area--over 12,000 elderly units, almost 31,000 small family units, and about 8,000 large family units. However, based on the level of funding available, HUD estimates that it can provide only about 1,000 units in fiscal year 1979--or about 2 percent of the units needed.

We learned also that in February 1979, 3,237 households had active applications for housing assistance on file with the Atlanta Housing Authority. It generally takes the authority 8 to 12 months to provide a family with a housing unit consisting of two or more bedrooms, although this period could extend to 15 months.

# CHAPTER 5

# CONCLUSIONS, RECOMMENDATIONS,

# AND AGENCY COMMENTS

## CONCLUSIONS

Our Nation's rental housing market has reached a crisis stage creating particularly bleak prospects for lower income renters. The primary factors responsible for this crisis are low levels of moderately priced new private construction, and losses of existing units through abandonments and conversions to condominiums. Other factors such as rapidly escalating operating costs and the increasing age of the existing rental stock are also having a detrimental effect.

Although the Government is subsidizing a significant number of rental units, the need for additional assistance far exceeds the Government's present ability to provide it. The situation is further exacerbated by the private sector's retreat from the multifamily rental market, which is partially reflected by the Nation's current rental housing vacancy rate of 4.8 percent--the lowest rate on record.

The rental situation is particularly gloomy for the approximately 15 million renters with annual incomes of less than $10,000 and for the 11.9 million renters paying 25 percent or more of their income for rent. These people are finding that their mobility and opportunities to improve their housing circumstances are becoming severely limited.

The rapidly rising cost of homeownership will keep increasing numbers of renters from becoming homeowners. Therefore, rental housing will continue to be the sole source of shelter for millions of American households.

The private sector is expected to provide only about 25 percent of the new rental units started in 1979. These few rental units to be started will be built for the higher income group. The Congress and HUD are faced with quite a challenge--how to encourage private investment in rental housing which is affordable to the majority of the renter population. Without private involvement, our Nation will be further away from achieving its 1949 goal of providing a home in a suitable living environment for all American families within their financial means.

While much attention is being given to ways of stimulating new construction, less emphasis has been directed toward preserving the stock of existing rental housing, particularly the aging portion. Given the preponderance of lower income tenants occupying such housing, the Congress and the Administration must place a high priority on assuring that the existing stock remains viable and continues to be available and affordable to lower income tenants.

Although new construction plays an important role in the rental housing market, rental housing problems cannot be solved solely through this mechanism--the public and private sectors' ability to preserve the existing stock, both physically and financially, must also be improved.

## RECOMMENDATION TO THE CONGRESS

The rental housing problem is so severe it requires the immediate attention of and action by the Congress and the Administration. Therefore, we recommend that the Congress establish a commission consisting of officials from Federal (both executive and legislative), State, and private organizations to (1) develop alternative strategies to minimize the impact of the crisis which recognize, among other things, the preservation of existing stock as well as new construction of rental housing and identify incentives necessary for private industry to enlarge its role in the rental market and (2) propose a national rental housing policy and plan of action to foster the availability and affordability of rental housing.

## RECOMMENDATION TO THE OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director, Office of Management and Budget, take the lead in developing executive branch alternatives and strategies which focus attention on the rental housing crisis. These alternatives and strategies should be presented to the commission for use in formulating a national rental housing policy.

## AGENCY COMMENTS

We requested comments from HUD and the Office of Management and Budget but the comments were not received in time to be included in this report.

## SELECTED MULTIFAMILY

## RENTAL HOUSING PROGRAMS

### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

#### Subsidized

Direct Loans for Housing for the Elderly or Handicapped (Section 202, Housing Act of 1959). Long-term direct loans to finance rental or cooperative housing facilities for elderly or handicapped persons. The interest rate is based on the average rate paid on Federal obligations during the preceding fiscal year. Since 1974, participation in the Section 8 Rental Housing Program is required for a minimum of 20 percent of the units.

Multifamily Rental Housing for Low and Moderate Income Families (Section 221(d) (3), National Housing Act (1934), as added by Housing Act of 1954). Mortgage insurance to facilitate construction or substantial rehabilitation of multifamily rental or cooperative housing for low- and moderate-income or displaced families. Originally, projects could qualify for a below-market interest rate (as low as 3 percent) and for rent supplements. These subsidies are no longer available for new projects; however, units may qualify for assistance under the Section 8 Program if occupied by eligible low-income families.

Rental and Cooperative Housing Assistance for Lower Income Families (Section 236, National Housing Act (1934), as added by Section 201, Housing and Urban Development Act of 1968). Mortgage insurance and interest subsidies (to as low as 1 percent) to produce new or substantially rehabilitated rental or cooperative units for low-income households. The program was suspended by the housing moratorium of 1973; current authority consists of funding commitments issued before the moratorium and amending existing contracts. Beginning in 1974, HUD paid additional subsidies to projects to cover the difference between the tenant's contribution (25 percent of adjusted income) and the actual cost of operating the project.

Rent Supplements (Section 101, Housing and Urban Development Act of 1965). Federal payments to reduce rents for eligible tenants in multifamily projects insured under sections 221(d) (3), 231, 236, and 202. The payment makes up the difference between 25 percent of a tenant's adjusted income and the fair market rent determined by HUD. The program was suspended by the housing moratorium of 1973, and new rent supplements contracts are no longer available.

Nonsubsidized

Multifamily Rental Housing (Section 207, National Housing Act (1934), as amended. Mortgage insurance to facilitate the construction or rehabilation of multifamily rental housing by private or public developers. The projects must contain at least eight dwelling units and should be able to accommodate families at reasonable rents.

Multifamily Rental Housing for Low- and Moderate-Income Families (Section 221(d)(4), National Housing Act (1934), as added by Housing Act of 1954). Mortgage insurance to finance construction or substantial rehabilitation of multifamily rental or cooperative housing for low- and moderate-income or displaced families. The insured mortgage amounts are controlled by statutory dollar limits per unit which are intended to assure moderate construction costs. Units may qualify for section 8 assistance if occupied by eligible low-income families.

Existing Multifamily Rental Housing (Section 223(f), National Housing Act (1934), as added by Section 311, Housing and Community Development Act of 1974). Mortgage insurance to purchase or refinance existing multifamily projects originally financed with or without Federal mortgage insurance. Projects must contain eight or more units, must be at least 3 years old, and must not require substantial rehabilitation.

Farmers Home Administration

Rental and Cooperative Housing Loans (Section 515, Housing Act of 1949, as amended). Direct loans to finance rental housing and related facilities for low- and moderate-income families and persons 62 years of age or older. Profit-oriented borrowers must pay maximum interest rate, while nonprofit sponsors can qualify for interest credit. Units may qualify for assistance under the Section 8 Program.

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