Notes from the Community: Housing

by: Steven Howland

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Loss of rental assistance funds was a top concern in keeping LMI households in their homes. Meanwhile housing providers reported struggling with rising insurance and financing costs.

This report expands on the findings published in the September Beige Book, using information collected by the Kansas City Fed's community development team. The Beige Book is a summary of commentary on economic conditions. The Federal Reserve System publishes the Beige Book eight times a year, about two weeks before the Federal Open Market Committee meets to discuss monetary policy decisions. The Beige Book offers anecdotal information on economic conditions over the previous two months, gathered through interviews with business, market experts, and community contacts at each regional Bank.

The Beige Book published September 6, 2023, noted that economic growth across the U.S. was modest in July and August. Consumer spending on tourism was stronger than expected while retail spending slowed, particularly on non-essential goods. The supply of single-family housing for sale remained constrained, but construction activity was up. Availability of affordable housing was further held back, however, by higher financing costs and rising insurance premiums. Since September, new data has shown construction starts for both single and multi-family housing has declined substantially.

For the September Beige Book, the Kansas City Fed community development team reached out to organizations which provide housing services to low- and moderate-income (LMI) populations. Contacts reported:

- Construction and maintenance of affordable housing was increasingly difficult because of increased financing and property insurance costs.
- Housing stability for LMI households appeared to be declining as most contacts reported increased calls for housing assistance, declining availability of assistance, and increased rates of evictions and foreclosures.

On affordable housing production, contacts noted that the long lead times associated with financing and permitting have been substantially affected by material and labor inflation over the last couple years. Low-Income Housing Tax Credit (LIHTC) projects, in particular, have been hard hit by inflationary pressures.

One contact noted that they're seeing LIHTC projects face multi-million-dollar gaps in financing by the time they can start construction. The contact noted that some state governments have been responsive by approving LIHTC funds to cover the gap, but those funds come at the expense of future LIHTC projects.

An Oklahoma affordable housing developer estimated their construction costs have increased between 35-45% over the last two years, pushing selling prices out of reach of LMI households. Another developer in Colorado reported they have been further affected more recently with insurance premiums that have increased 30-50% over the last year. The National Multifamily Housing Council found insurance premiums nationwide increased 26%.[i]

What we heard from the Tenth District

"For us on the surface it looks like cost of concrete nearly doubled over the course of one year and is nearly two times higher than our last building project, two years before (2020-2021). Lumber looks to be more than 30% higher as well as the cost of labor. Based on a quick-and-dirty estimation it looks as though our overall cost increased about 35% to 45%, when comparing our current cost to our cost in 2020 and early projections in 2022."

– **Oklahoma housing developer**

"Maintaining the housing (maintenance, utilities, property taxes, etc.) represents additional operational costs that affect affordability. These costs need to be kept low to maintain the affordability of the housing units. Also, the available funding for government-supported housing development does not align with the high demand and need."

– **Oklahoma affordable housing provider**

"We did assist with the condemnation of [an apartment building] and can share that the lack of available housing made it very difficult for tenants to find new housing. We spoke with 20 or so landlords and property managers in the surrounding area, and many did not have any available units. What happened [there] is far from unique and is not the only occurrence in the last year of an out-of-state entity buying a property and failing to make any repairs, while putting tenants through a continuous loop of online portals and rotating property managers."

– **Oklahoma housing assistance organization**

"Because [we have] a large single family for sale pipeline, one strategy we have taken to keep production moving is to seek lower cost capital for construction and to be prepared to roll construction finance into permanent or mini-perm (5-7 year) debt instruments. This is to offset the risk that rising interest rates will prevent our target buyers from being able to afford to purchase outright; our financing is increasingly structured to allow for lease purchase."

- **Kansas City affordable housing developer**

"Regardless of the dynamics of the end of the ERA [emergency rental assistance] program, low-income renters continue to struggle to remain current on their rent and utilities. This is in large part because wages are not keeping pace with the cost of housing. And, because the inventory of "naturally occurring affordable housing" (NOAH), as well as HUD-assisted affordable housing for individuals who are not elderly or disabled, is shrinking."

– **Kansas City assistance organization**

Builders look to government funding, tax credits to close financing gaps

Affordable housing developers said they have tried multiple methods to counter the cost pressures. A couple of contacts noted they were specifically looking at different materials, designs, and practices to save costs either up front or long-term. They noted the use of modular or pre-fabrication, precast foundations, or insulated concrete forms have been used to save on upfront costs while materials such as metal roofs are being used for more long-term savings.

Nearly all builder contacts said they were looking more to federal or other government funds such as LIHTC, new markets tax credits, or other types of tax credit equity to try to close financing gaps. On the buyer side, many contacts said they were facilitating sales through down payment assistance and interest rate buy downs.

Housing stability for LMI households was getting more precarious, contacts said. Households have faced increased housing costs on top of slowing wage gains and increased inflation across everyday items like food, utilities, and transportation. As such, contacts reported seeing a higher number of evictions and foreclosures as well as calls seeking assistance. A non-profit in Kansas City reported a 21% increase in calls for housing assistance over the previous six months. Organizations are having a harder time helping because pandemic-era rental assistance funds have been depleted and there are limited philanthropic funds to fill the gap.

Foreclosures have increased but mostly remain below pre-pandemic levels. A Kansas City-area contact reported they have seen foreclosures primarily among families who lack access to technology or awareness of means to avoid foreclosure. They said they were seeing many more families get mortgage modifications or partial claims. Where the situation was very difficult, families have chosen to sell their properties and clear their debt due to a strong demand for housing.

Evictions and poor housing conditions are connected

Evictions, on the other hand, have increased beyond pre-pandemic levels in many places. While part of that could be attributed to financial strain, some contacts reported many evictions have occurred because of tenants withholding rent due to poor housing conditions. An Oklahoma City area contact reported they have seen many tenants evicted from properties that lack proper plumbing fixtures, have holes in exterior walls and ceilings, or are overrun with mold or pests.

Poor quality housing has also led to condemnation of properties, which has made the housing market even tighter. As the Oklahoma City contact noted, after the condemnation of one apartment building, they spoke with more than 20 landlords and property managers. Most did not have any units available for tenants needing to relocate.

The poor quality of housing has also come up in trying to find families new housing after being evicted. A contact in St. Joseph, Missouri noted that much of their rental housing stock was built prior to 1965 and has not been well maintained. It has, therefore, been increasingly difficult to find housing units that are both safe and affordable.

Do you work for an organization that provides services to low- to moderate-income households? If so, sign up here to participate in future surveys. The survey is conducted twice each year and takes approximately 20 minutes to complete.

Endnotes

[1] https://www.multifamilydive.com/news/nmhc-multifamily-insurance-costs-up-26-property-insurance-risk/652305/

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Steven Howland is senior researcher in the community development department of the Federal Reserve Bank of Kansas City.Howland performs analyses on various surveys, such as the Community Conditions Survey, and those at the System level to provide insight on the conditions of LMI communities in the Kansas City District. He also conducts independent research that gives more insight into issues affecting LMI communities.Howland joined the Kansas City Fed in August 2020 after a career as a college instructor and researcher.Howland has undergraduate and graduate degrees in urban and environmental planning from Arizona State University and has a doctorate in urban studies from Portland State University.Howland enjoys reading both academic works and sci-fi/fantasy novels as well as playing video and board games.Highlights of his work include:"'I should have moved somewhere else': The impacts of gentrification on transportation and social support for Black working-poor families in Portland, Oregon""Evictions and the pandemic economy in the Tenth District"To learn more about Steven:Howland researches issues facing disadvantaged populations - Federal Reserve Bank of Kansas City**About the Federal Reserve Bank of Kansas City**The Federal Reserve Bank of Kansas City is one of 12 regional Reserve Banks that, along with the Board of Governors in Washington, D.C., make up our nation's central bank. We work in the public's interest by supporting economic and financial stability. The Kansas City Fed's territory includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. Our headquarters is in Kansas City, with branch offices in Denver, Omaha and Oklahoma City.The Kansas City Fed Community Development Department promotes economic development and public understanding that leads to progress for lower-income individuals and communities. Our focus areas include community development investments, digital inclusion, small business / entrepreneurism, and workforce development.