



My View

KIM HERMAN, EXECUTIVE DIRECTOR

OWNING VS. RENTING • OCTOBER 2011



A unique, "inside" perspective on housing and community development from the executive director of the Washington State Housing Finance Commission.



Inside this Issue

- By the numbers 3
- Observations of a busy mortgage broker 6
- The opportunity to get into the mainstream 7
- Keeping the dream alive..... 8
- Everett, WA's Housing Hope families 9
- In Walla Walla, affordable homeownership remains tough 10
- Spokane's innovative credit counseling program 11
- Dale Banks: Persistence, patience and hard work 12
- The renting side of the equation: Declining rental housing production 13
- Aging portfolios— and limited public dollars 14
- Declining production of subsidized affordable housing 15
- Challenges in financing in the for-profit sector, too..... 16
- Downpayment distortions— and our growing population 17
- Homeownership and Renting 19

Owning vs. Renting: Where do we stand in Washington State?

What's the future of homeownership in our state? How does renting currently stack up against owning a home for the people who live here? Are we seeing a sea change in attitudes and values? Most importantly, whatever choice an individual or family makes, is it within reach?

It's a subject on everyone's mind. The timing seems right to get a perspective on what's happening here in Washington—what can be known amid all the uncertainties in the current economy. To get perspectives, I spoke with people all over the state: Realtors, developers and managers of rental housing, developers of affordable homeownership housing, mortgage brokers, rental property owners and credit counselors.

PICTURED ABOVE:

The Washington School Homes project, developed by Walla Walla Housing Authority, includes rental housing targeted to seniors in a renovated historical school building, as well as new single-family homes for both market buyers and families at 80% of area median income.

We've all heard the chatter in the media: Young people in particular are making the choice to rent. People are hovering on the sidelines, wary of buying a home in the current housing market. The "dream"—and the benefits—of homeownership are continually under the microscope. There's a barrage of commentary about the ongoing impact of our national foreclosure crisis, and how many people have lost the desire to own a home as a direct result.

But on the flip side, national polling numbers by Realtors and others indicate that, while the percentage may be down slightly, the majority of Americans still want to own their own home. Here at the Commission, we haven't seen any slackening in the number of people applying to participate in our affordable homeownership programs.

What emerges in my interviews, not surprisingly, is that the housing picture is quite different for various parts of the state. Yet some general trends, including increased affordability in terms of homeownership, are shared by all. As you'll read in the following pages, tighter lending standards are presenting significant barriers to low-income and immigrant households pursuing the dream of homeownership. These more stringent lending standards, as well as our state's budgetary constraints, are also translating into fewer units of new affordable rental housing.

By the numbers

To get a big-picture look at where we are historically in terms of homebuying affordability, the Washington State Center for Real Estate Research's (WCRER) "Housing Affordability Index" (HAI) is a great place to start. Glenn Crellin, WCRER's Director, has been producing this index since he first arrived at WSU 18 years ago.

Produced every quarter with statistics for every county in the state, the index measures the ability of a middle-income family to carry the mortgage payments on a median-priced home in that county. A measure of 100 indicates a balance between a family's ability to pay and the home's cost. The *higher the number* produced by the index, the more *affordable* the average-priced home is.

WCRER also produces an index for first-time homebuyers that assumes the purchaser's income is 70% of area median income (AMI), and the house is 85% of the area's median price. Both indices assume that 25% of income can be used towards making monthly mortgage payments.

So what do the numbers tell us?

"The Affordability Index as calculated here in the state of Washington is currently at a record high for both all buyers and for first-time homebuyers," says Glenn. Lowering home

prices, mortgage rates at record low levels, "and the fact that incomes, despite the persistent problems of unemployment, haven't fallen much," are the drivers, he explains.

Here are some examples. In King County, the HAI was at 77.8 for the first quarter of 2008. For the second quarter of 2011 (the most recent figures we have), that number had risen to 124.0. For the same periods, Spokane County posted an affordability of 133 and is now at about 187. For first-time buyers, however, those numbers are much lower. For the second quarter of this year, King County was at 66.4; Spokane was significantly more affordable to first-timers at 95.9.

For all Washington State counties, the first-time buyer index average was 85.0. "Any time that index can manage to get to 80," says Glenn, "this offers an opportunity for first-time buyers to participate in the marketplace." I asked Glenn if he meant that

"The Affordability Index as calculated here in the state of Washington is currently at a record high."



GLENN CRELLIN
Director, Washington State Center for Real Estate Research

even for these first-time buyers, conditions in our state are still better than they have been since he first created this index some 18 years ago? "Absolutely," Glenn says. "No question about it." But, Glenn warns, that 66.4 number for King County gives him pause.

As defined at 70% of AMI, the first-time buyer index is already set up "at a very restrictive income level. That's basically 2/3

of the income required for a typical starter home." What complicates the picture, according to Glenn, is where along the price spectrum housing prices may be bottoming out. "In the aggregate," he says, "the median price may continue to decline." But, he adds, he expects those price declines to be driven by decreasing prices at the top of the price distribution. "The lower price ranges are much closer to stabilization. The inventory available for sale in these lower price ranges is already pretty much normal in terms of a month's supply."

In other words, for a first-time buyer looking for the best price opportunity to buy an affordable home in Seattle, things may be about as good as they're going to get.

So many moving parts

Glenn is concerned about the impact to housing markets from Fed Chairman Ben Bernanke's announcement that interest rates will stay low until mid-2013. What consumers are seeing in the media is an environment where housing prices are continuing to decline—at least in the aggregate. They're not seeing the detail about the segmentation of the market. As a result, there is much less

pressure on the would-be homebuyer to jump into the market sooner rather than later. And if there's one thing the housing market needs in order to achieve recovery, it needs buyers.

"And those buyers of course need jobs," he adds ruefully. "Everything is interconnected. There are so many moving parts."

And the Rental Market?

How about numbers on the rental market here in the state? "Rents are on the rise pretty much across the board," he says. WCRER conducts surveys of apartment vacancies and rents in 17 Washington counties, and combines that with data from Dupre + Scott for the five counties in the central Puget Sound region. "And almost without exception, rents are increasing and vacancies are declining," he says. "Most of those who have moved into the state in recent years have chosen to rent rather than buy." He also points to a limited construction pipeline in terms of multi-family rental housing.

I ask Glenn for his take on whether he's seen a notable shift in attitudes toward homeownership and renting. "That's probably one of the most interesting questions out there," he replies. "I keep reading in the

popular press about the emergence of a generation of renters, those young people who have seen their parents perhaps lose a home to foreclosure—or friends lose a home—and who say, 'That's not going to happen to me! I'm not going to buy a house.'"

Glenn is in the beginning phases of a project for the National Association of Realtors that's looking at generational attitudes toward homeownership. As part of his initial research he's been conducting informal polls of his students at WSU. Though he protests that this information is anecdotal and represents just one segment of the population, he says he's been surprised by the expectations of these students. "Maybe they're going to wait a year or two longer than they would have been waiting earlier. And there's certainly far less interest in 'flipping' houses than five years ago. But by the time they're five to eight years out of college, they're expecting they will have purchased a home—at about the same time the previous group of students would have been saying that.

"Perhaps," he concludes, "some of the pundits who talk about the so-called *Era of Rentership* may be overstating their case."

Observations of a busy mortgage broker

Kim Toskey has a great vantage point on current homebuying trends. She's a North Seattle-based mortgage broker with Guild Mortgage who has successfully worked with many first-time homebuyers who participate in the Commission's House Key programs. "My observation from my business and my friends who are also first-time homebuyer specialists is that we are all as busy or busier than we ever have been," she says.

Here's what Kim and her colleagues are seeing, in her own words:

"Housing prices are still dropping in the outlying counties, but in King County I definitely have seen price increases this summer. We're seeing big wars on the right houses and we're seeing houses selling in a quick fashion. And for closer to list price."

"Probably the biggest change in the market over the last few years has been a very overt and deliberate conversation about longevity of homeownership. Most people are saying, 'I'm not planning to sell,' or, 'I'm going to live there for 40 years.' It's really a return to housing as shelter, as home, as family roots."

"At one point we all said, 'Oh, the tax credit is over, everyone who could buy a house has already bought and we're not going to have anything to do in 2011.' But the reality is that people are still getting married, they are still having babies, they

are still graduating, getting that first job. It may take a little longer. But all of those life benchmarks that drove homeownership traditionally are still out there and they're still driving homeownership."

"We're also hearing a lot less of, 'I'm willing to live anywhere,' and a lot more of, 'This is the neighborhood where my support is,' or, 'This is where my job is.' The economy over the last few years has definitely impacted people's thoughts about commuting and quality of life in terms of where they live. Of course the prices have also helped."

A final and interesting comment from Kim has to do with financial literacy. Despite all the public efforts statewide and nationally going into education about mortgages and homebuying in particular and debt burdens in general, many of the people she works with still have misconceptions about what drives the costs of buying a home. Potential homebuyers are very aware that home prices will ultimately stabilize and start rising, she says, and are cognizant of that looming uptick in cost.

"But a 2% appreciation in housing prices—you won't even notice that in your mortgage payment," she points out. "But if your mortgage interest rate goes up even a quarter of a point, it shaves off purchasing power. People seem to be worried about prices going up more than they are worried about the interest rates going up. That tells me we need more financial literacy in this country."



KIM TOSKEY
Broker, Guild Mortgage

"We're also hearing a lot less of, 'I'm willing to live anywhere,' and a lot more of, 'This is the neighborhood where my support is,' or, 'This is where my job is.'"

The opportunity to get into the mainstream

"The reason we do homeownership is to provide opportunity," says HomeSight Executive Director Tony To. "We use housing as a means to provide opportunity for people that otherwise don't have that chance to get into the mainstream of America."

"I would say homeownership was a big part of the creation of the American middle class," he continues. "I don't think anyone would dispute that." In Tony's experience, the aspiration to own their own home is still a powerful drive for many low-to-moderate-income families. He sees this particularly with the many immigrant families that work with his organization. HomeSight is a Seattle-based nonprofit that develops affordable housing for homeownership in central and south Seattle. HomeSight also works with lower-income people to help them improve their financial options through programs that include credit counseling, homeownership education, and FHA/VA mortgage brokerage services.

Like many of those I spoke with who work with people who face significant challenges in achieving homeownership, Tony is concerned about the new reality of strictly defined lending standards. No one of course is sorry to see the so-called 'liar loan' standards done away with, but in the process, many families with unique financial situations are getting boxed out.

"The fact is that if you can stay in your home for, say, 10 years or more and you want to build a family, homeownership is still the way to go. And now is one of the best times.



TONY TO
Executive Director, HomeSight

"The downside is that a lot of people are being marginalized that would do okay—so we're not creating enough opportunities."

The upside of this tough credit thing is that if you qualify, you probably stand a very good chance of holding onto your home. The downside is that a lot of people are being marginalized that would do okay—so we're not creating enough opportunities."

About 70% of the families HomeSight works with to buy a home are in the median-income range. "There's a lot of diversity in background and also in the way the income's approached. We have extended families with multiple incomes, so how can you document all of them? And when you include someone's income, then you have to include their credit score. But what if they don't have credit?"

One of the barriers he often runs into is the requirement of two years in a place of employment for any income to be included. "Right now, credit histories are important, along with documentation of income. Now that sounds very good—what's wrong with that, right?" Tony poses. "The reality, though, is that a lot of low-income people work multiple jobs. They can't survive on one job because their main job isn't well paying enough to buy a house. So in a lot of cases, you have people who have a full-time job that pays minimum wage. Then they have a side job—but with moonlighting jobs, you go from job to job. So now you need two years of that same job for that income to be qualified."

This is particularly common with immigrant households, he says. "In many cases, they're the ones who really want to own. Many of them sacrifice a lot to come to this country just so they can achieve this. "This doesn't necessarily mean that a family won't get a loan," Tony concludes, "but it may mean that they have to pay more for their mortgage in terms of adding points or increasing the interest rate. And that makes it less affordable."

Keeping the dream alive

North of Seattle, in Snohomish County and Camano Island, Ed Petersen, Director of the nonprofit Housing Hope, has a broad perspective on the housing needs—and dreams—of the people his organization works with. “We were created to serve the low and very low income residents of the community,” says Ed. In its 24 years of existence, Housing Hope has created some 55 housing development projects, from emergency shelter and transitional housing for the homeless, to affordable rental apartments and homeownership.

Snohomish County, which includes the City of Everett, has seen its unemployment rate hovering between 9% and 10%. “Stable, affordable rental housing is desperately needed, and there isn’t enough of it,” Ed describes. “We have long waiting lists and it’s the place that all our families need to start. But the carrot is the dream—keeping the hope alive that they can also have an opportunity to be homeowners. This is an important part of the psychology for our community, for our residents. It helps them tackle some of the difficult barriers, obstacles and challenges that they face: By knowing that they have something as wonderful as a homeownership opportunity down the line.”

To ensure that homeownership remains affordable to low-income families, Housing Hope offers a self-help model with a strong emphasis on the families themselves building their own homes. “We have helped 233 families become homeowners,” says Ed. “We call it Team Home Building; 65% of the work must be performed by the homeowners themselves.” The sweet spot for the program is eight



ED PETERSEN
Director, Housing Hope

“But I think the dream is still there, and it’s very real.”

families at a time, and they build these homes together. “The families have loans where they buy their land and they collectively select vendors to buy material and they collectively can hire 35% of the house to be built by others. That’s largely the electrical, plumbing, dry wall. They all get to move in after all the houses are built.”

This program offers an affordable mortgage through the USDA: It’s structured so that families pay 30% of their income. That’s achieved by reducing the interest rate to as low as 1%—and extending the term to as long as 38 years. “The really appealing part of this is that it’s for those who can’t buy a house any other way since families must earn less than 80% of AMI and many earn less than 50% AMI,” says Ed. “Because of their ability to get an affordable mortgage tailored to their incomes, these families are not quite at risk financially in the way that many others are,” Ed says.

However, Housing Hope is first and foremost a safety net program, Ed emphasizes. Much of their focus is on the homeless and those who are struggling economically. There are always a large number of homeless families waiting for openings in Housing Hope’s 110 housing units for formerly homeless households. “The county has a community wait list and it’s bigger than ever because of unemployment and ongoing foreclosures,” he says.

“Homeownership is still a dream, but the loan funds and underwriting have ratcheted much tighter,” he sums up. “I think a lot of people are aware that this isn’t the time and that they’re not really equipped and prepared to become homeowners. But I think the dream is still there, and it’s very real. There’s so much data on the kids that live in homes owned by their parents in terms of their performance in school and their stability and health. So in terms of societal values, it’s important to keep that homeownership component in place, even while we weather this economic and real estate downturn.”



ABOVE: Housing Hope's Team Homebuilding program helps families keep their homes affordable by doing 65% of the work themselves. These eight families completed their homes in Stanwood at the Copper Station development on June 16, 2011.

AT LEFT: The McNicol family in front of their new home.

A LAST VIEW OF TEAM HOMEBUILDING'S HOMES IS FEATURED ON PAGE 19.

In Walla Walla, affordable homeownership remains tough

Walla Walla Housing Authority (WWHA) carries a big mandate. Under the leadership of Executive Director Renee Rooker for close to 20 years, WWHA has sought to create and make available affordable rental housing for low- and moderate-income people in Walla Walla, Benton, Columbia, and Franklin Counties. A critical part of its mission is fostering healthy communities. WWHA doesn't just build housing, it makes a commitment to build healthy neighborhoods.

That's why they agreed to take on homeownership right before the housing market downturn, serving as developer of 25 single-family homes, 13 of which were targeted to families at 80% of AMI. "When we brought the units online in 2008, it was when the whole housing market was going south," Renee recalls. Yet "it was a commitment we had made to the community. It was important to them, and it was also another component of revitalizing a neighborhood. We began this when we renovated a historical school building targeted to homes for seniors. It's on the same parcel. The commitment was to develop the balance of the property for homeownership."

And the Washington School Homes project has been "the catalyst in changing the neighborhood. The people who live here absolutely love it: They have a very vibrant homeowners' association."

But since the homes were completed, WWHA's challenge has been in finding buyers at 80% of AMI *who could qualify*. "Our 80% buyers, for the most part, have had



RENEE ROOKER
Executive Director, Walla Walla Housing Authority

*"These waitlists are huge...
We have about 500 rental
units that we manage; we
have zero vacancies."*

credit issues," says Renee. WWHA still has one of these 13 homes remaining for sale. The asking price is \$149,900. "We were worried that we wouldn't attract market buyers, but we were wrong," she says. The 12 homes targeted at market had no problem finding buyers. In fact, she says, they could have sold the last house dedicated to an 80% AMI family on the open market "10 times over."

From where Renee sits, the question of homeownership vs. renting for so many of the lower-income people WWHA works with is beside the point. Decent, affordable rental housing is in high demand. And so they're sticking to their knitting. Last year, they completed 25 rental housing units for workforce families at 60% of AMI. "We targeted infill lots. So we took distressed properties, and turned them into duplexes and one triplex. That was a very exciting project to do. And we didn't use an architect—we did off-the-shelf plans and modified them to help keep down costs." Plus, WWHA hopes to have all 60 units completed for a farmworker housing development, Valle Lindo Homes, on December 1. This is a project done in partnership with the Walla Walla County Housing Authority.

Unfortunately, she says, Walla Walla is experiencing the economic slowdown two years behind much of the rest of the country. Unemployment in Walla Walla County peaked at 9.1% in February 2010; it had retreated to 7.2% in August. "It takes us a little longer to recover. We are now really facing foreclosures, where other markets are starting to rebound. Our waitlist for our rentals—we also administer the Section 8 housing choice voucher programs and vouchers for homeless veterans—these waitlists are huge. When the economy started to really go down, we saw a rash of applications. We have about 500 rental units that we manage; we have zero vacancies."

Spokane's innovative credit counseling program

Spokane County is Washington State's 2nd poorest county. Unemployment in August was at 9.2%. The need for affordable housing is high. Families are doubling up; Spokane Housing Authority (SHA) gets 30 to 50 calls a day from people seeking help in securing affordable housing. And the resources available are not up to the need: As of this month, more than 300 of the families that were issued a lottery number in late 2008 for a Section 8 Housing voucher are still on the wait list.

But for those who do have a job, the Spokane area presents a solid opportunity for homeownership. Houses here are "Cheap. You can get a quality home here for \$90,000," says Jordan Tampien. For many, cleaning up their credit in order to qualify for a mortgage can be a tall order, but his SNAP program is demonstrating how it can be done successfully.

Jordan is Financial Services Manager of a relatively new credit-building program offered by Spokane Neighborhood Action Partners' (SNAP) Financial Stability team. What's great about this program is how it educates and supports participants throughout the credit-building process—even to the point of providing access to small loans so that people not only learn how to turn their credit around, but have the tools to accomplish this.

Of the people who walk through the doors of Financial Stability's Credit Builder program, "80% state that they have the goal of homeownership," Jordan says. "Yet when we pull their credit they have a 450 or 500 credit score because of a foreclosure, a bankruptcy,

debt piling up. Decisions between: Do I buy food or do I pay for heat? Decisions that no person should have to make."

The counselors begin by educating clients. "They typically don't know what makes their score, what changes their score, why it went up when they paid off debt, why it went down when they closed a credit card. And we also establish goals. That's when they tell us whether they want to pursue homeownership. From there we put together a plan. For some it's six months, for some it's two years to get there." Using Credco's What-if Simulator software program, clients can prioritize their debt effectively.

What sets the Credit Builder program apart is its loan capabilities. "One of the key attributes of the program is that we help them get a \$300 loan. They can use that to get a \$300 secured card. So now we've opened up two trade lines to increase their positive credit and their score."

The Credit Builder program works with Numerica Credit Union. "We guarantee the loan with some of our loan funds—and then Numerica manages it from there. The goal is that participants will move to unsecured credit, move up to a car loan, and then, ideally, to a home loan. Over the course of time, we'll try to build up to where they can show that they can pay off larger amounts of debt."

The inspiration to create the loan program came from "seeing the need," Jordan says. "People would come in to talk about their finances, but there was no way to really address this without talking about *how to improve your credit right now.*"



JORDAN TAMPPIEN
Financial Services Manager, SNAP Financial Access

The Credit Builder team sees from 10 to 25 clients each day. "Part of our goal is to make what seems too overwhelming, reachable and obtainable. And by showing them, for example, your credit may be bad now but in two years we can turn this around—people sit up straighter in their chairs, they get that look of hope back."

He talks about a client, Dale Banks, whose homebuying story is told on the next page. Dale worked with Credit Builder for several years, ultimately making the step to homeownership last July. "He has literally done every single loan, even one of our small business loans. It's just amazing to see what achieving a life goal like that does—the motivation it gives people."



For Dale Banks, qualifying to buy a home took persistence, patience and hard work

Dale Banks arrived in Spokane from California four years ago with no job and no home. “Things were bad,” he says. “I lost my car and many other things in the transition.”

Now he’s off to a great start with his new business, R.D.B. Wardrobe Services. And on July 15, he, his daughter and granddaughter moved into the Spokane home he purchased.

How did he do it? He secured a full-time job managing crews for Goodwill Industries. He worked with SNAP’s Financial Stability programs to get his financial house in order. He disciplined himself to save every dollar he could. And he was patient. “It’s really been a matter of keeping my eye on the prize,” he says. “It wasn’t easy and it still isn’t. I’ve gone without in other areas to save money for this.”

Originally, owning his own home was a far-away dream. “I didn’t see it in the immediate

future, like it could happen as quickly as it did. I just didn’t have a clear idea when—maybe even 10 years from now. It was a goal to try to achieve.”

Dale worked hard with the Financial Stability team to raise his credit score, progressively moving through several loan and credit-building programs, including a small business loan. Finally, “SNAP told me, ‘Looks like you can go for it.’ And we did. It’s been exactly three years to get into this home, from start to end.”

While Dale focused on saving for his home, he continued to keep his full-time job—and put his new business efforts on hold. Now that he’s moved in, he’s refocusing on his business, which he operates from home. “Owning this home is still the American dream,” he says. “It just takes you to another level.”

The renting side of the equation: Housing shortfalls in a period of declining production

For many people, being a renter is clearly an explicit choice. For many others, the simple reality is they have no choice: They don't have the financial means. As we've heard from Glenn Crellin, rents are going up and vacancies are going down—all across the state. This is a very troubling phenomenon for those concerned about the accessibility of affordable housing for people who truly have no other option.

To get a clear picture of trends in renting, I spoke with three people who work exclusively in our state's rental markets as advocates and, in the case of Chris Persons, a developer of affordable rental housing as well. What we can't afford to lose sight of is the long-term impact of our struggling economy on rental housing production. The slowdown in new rental housing construction over recent years may well mean we will face an increasingly dire shortfall in affordable rentals.

Aging portfolios—and limited public dollars

I'll start with the very industrious and dedicated Joseph Diehl. Joe is the Executive Director of three affordable rental housing associations: the Affordable Housing Management Association of Washington (AHMA), the Washington State Council for Affordable & Rural Housing (CARH) and the Northwest Indian Housing Association (NWIHA). He has served in this capacity for AHMA and CARH for about a decade and a half—and for NWIHA since 1998.

Most of these three organizations' members manage affordable rental housing under either federal or state housing programs. The goal is to train, educate, and advocate for more government funding for their initiatives.

I asked Joe where we stand in terms of public dollars spent on subsidizing affordable rental housing.

“When a roof needs replacement and you don't have the \$70,000 or \$100,000 to do it, what happens then?”

“There isn't much in the way of development of new affordable housing, other than the Low Income Housing Tax Credit program,” he says. “Under USDA/Rural Development, new construction funding has been slashed by Congress. There's virtually no new development funding being appropriated for the Section 515 program, which built approximately 9,000 units across the state from the 1970s into the early 1990s. Now this portfolio is aging and there is an increasing demand for rehabilitation funds.

“The biggest concern here is how these aging portfolios are going to be handled,” he says. “Rents are subject to not only market conditions, but federal agency regulations as well. And with inflation rising in terms of costs and the fact that these properties need more and more maintenance, the owners and the managers really get squeezed.”

For many private owners of publicly subsidized housing, there's little appetite to fund more money into a project that's offering little or no return on their investment. “In the nonprofit sector, the viability of the nonprofit drives whether they can reinvest money into their properties or not,” Joe says. “And with grant money drying up and funding from Congress also drying up, it really puts them into a bind. When a roof needs replacement and you don't have the \$70,000 or \$100,000 to do it, what happens then?”



JOSEPH DIEHL

Executive Director

Affordable Housing Management Association of Washington,
Washington State Council for Affordable & Rural Housing,
Northwest Indian Housing Association

Joe also speaks to the current tight lending marketplace. Where formerly the lending markets were very open to builders of housing, including apartments, he says, “now, with so many issues coming up with credit markets, that money's not there anymore.”

Declining production of subsidized affordable housing

Like Joe, Christopher Persons is concerned about how the recession has impacted the development and ongoing health of subsidized affordable rentals for lower-income people. Chris is Executive Director of Capitol Hill Housing (CHH), a developer and manager of affordable housing for people who are, in CHH's words, "priced out of the housing market." Though this nonprofit's historic focus has been on Seattle's Capitol Hill neighborhood close to downtown, CHH continues to develop properties in partnership with other nonprofits in the greater Seattle area as well.

"The production of subsidized affordable units is going to continue to decline," Chris says. "The number of projects throughout the state that have received funding in the last couple of years is half what it had been through the more robust years in the 1990s and 2000s. Without public funding at the state level, there's more pressure, and there's higher demand for the City of Seattle's resources."

Under these conditions, Chris believes we're going to end up with fewer nonprofit developers in the coming years. "I think it's going to be increasingly difficult for small developers to attract equity, and even attract bank lenders." The trend he's hearing from funders is that their focus will be increasingly on underwriting the capacity of organizations as opposed to underwriting projects. Those organizations with stronger balance sheets that "can demonstrate some level of liquidity in order to support guarantees are the ones that will continue to develop. Others will have a harder time doing that."

Chris' organization mostly serves people at the 50-60% AMI level, "largely because that's what our mission has been. We do have housing that serves people at 30% AMI and below, and the median income for everyone in our portfolio is about \$17,000."

And the need in the communities CHH serves?

"Our vacancy rate has never been as low as it is now," he says. "This runs a little below the industry and market-rate vacancies. It couldn't possibly be any lower. That's partly because we're efficient in how we manage and rent, but it's obviously also due to a very tight market, and very high demand for rental housing."

CHH's residents reflect the broad scope of affordable housing needs. "We have a school-teacher who works in the Seattle Public schools. As a single mom of three on a public school teacher's salary, she qualifies for affordable housing. We have individuals with health issues that restrict full-time employment. Young people just starting out, seniors, immigrant families in our units. 360 children live in our buildings, and a similar number of seniors." CHH houses roughly 1600 tenants in 1132 units.

With dim prospects for a near-term, momentous turnaround in our economy, I ask Chris where he sees possibilities. "We need to look at lots of different models," he says. "It'll be interesting to see if there's a greater role the private sector can play in creating affordable housing units." One venture he points to that poses lower costs are the very



CHRISTOPHER PERSONS
Executive Director, Capitol Hill Housing

small studios some for-profit developers are building for younger professionals. "It's serving a different population than we do, but it's an interesting model."

"There are also opportunities for partnerships between private and nonprofit developers to maximize the different sources of funding on larger-scale development," he adds. These arise "where state and federal resources are lining up around TOD [Transit-Oriented Development] and sustainable development." Chris points to Seattle Housing Authority's ambitious plans for the Yesler Terrace redevelopment. "You can bring in additional leverage, if there's some private sector developers that are contributing to the cost of the land."

Challenges in financing in the for-profit sector, too



JULIE JOHNSON
President, Rental Housing Association of Puget Sound

“What are we going to see from this generation of kids who experienced foreclosures with their families? They may well end up believing that rentals are a better way to go.”

How does the rental housing landscape look from the for-profit side? I spoke with Julie Johnson, who is President of the Rental Housing Association of Puget Sound (RHA) and herself a landlord and investor in rental housing. Julie’s organization represents 4600 members—rental property owners, managers and investors—across the state. Most of these own and manage a handful of units, but close to 270 are larger property managers and real estate brokers. The majority are based in the Puget Sound region.

Julie concurs with both Chris and Joe on the tight lending environment for real estate. “Financing is really tough right now for rental property owners,” she says. “Right now it’s a great time to buy properties. Even if you’re a successful landlord, the financing isn’t available. The banks’ requirements do vary a lot, so you have to shop. But they are very, very stringent.”

Just like many homeowners, many rental real estate investors have had a tough time during these economic doldrums, she points out. “It’s scary for tenants. And when you have, in some Washington communities, half of the housing being rentals, you can imagine how devastating that can be when rental housing isn’t financially healthy.” During the housing downturn, her organization’s members lobbied Olympia for more attention to their plight; many rental owners were hit with the same depreciation-coupled-with-cash-flow problems as homeowners in default faced.

Julie acknowledges that there is a growing demand for rental housing right now, which is pushing rents higher. But she says rents have not yet reached their previous high mark. During the housing bubble, she explains, when people were shifting to condos and homebuying in general, “landlords had to begin cutting rates quite a bit, and I don’t know that they’re back to where they were at the height of the market.”

I ask Julie whether she believes we are becoming a nation of renters. “Rental housing is becoming more for *everyone*,” she responds. “For example, the luxury segment of the rental market is expanding. Households making more than \$50,000 a year have been the fastest-growing segment of the rental market. And 41% of renters say they rent by choice, and not out of necessity.”

Julie stresses that “communities need rental housing in order to help them thrive. It is one of the most affordable options available, whether rent’s at market rent or not.” She points to the behavior of people during and following the Depression: “People hunkered down. What are we going to see from this generation of kids who experienced foreclosures with their families? They may well end up believing that rentals are a better way to go.”

Downpayment distortions—and our growing population

It's not unexpected to hear from the President and President-Elect of Washington REALTORS® (WR), Phil Harlan and Faye Nelson, that they are firm believers in the merits of homeownership. They came to our conversation armed with statistics, as well as a firsthand view of what's happening in the communities where they practice. In addition to serving as president of WR for the past year, Phil is a Realtor with Keller Williams Realty in Thurston County. WR President-Elect Faye is a Realtor with RE/MAX First Advantage in the Tri-Cities.

Faye began the conversation by affirming, "the American dream of homeownership is alive and well." Both Faye and Phil are seeing solid growth in their communities.

Unlike much of Washington State and the nation, the Tri-Cities' housing market has been relatively stable. Says Faye, "We're at 4% to 5% appreciation yearly, so that makes it easier for sellers to sell when it comes time. And it's a very steady market. We recently had some job layoffs that we knew were coming and so we're going into a little bit of a buyer's market but we are still dealing with multiple offers."

In Thurston County, says Phil, "we're back to sales of about 250 homes per month. This is reflective of what the numbers were in 2000 and 2001."

Looking at the broader picture, both Realtors are concerned about distortions they're seeing in the media concerning downpayment requirements. Phil points to a statement he read in a recent AP article published in *The Olympian* about the housing market:

Because the economy is barely growing and unemployment exceeds 9 percent, many people see a home purchase as too big a risk. Some worry about losing their jobs. Others can't afford the 20 percent down payment that most lenders now require.¹

"I could imagine people reading this," Phil says. "Maybe they were thinking about taking advantage of the wonderful housing inventory, the wonderful price points and interest rates, and beginning to think about forming households and buying their first home. And they saw that 20% down as a requirement. And their dream just went out the window. I believe that piece of misinformation is the biggest thing that's killing this market."

Faye agrees. She remarks that in the last year, just one of her clients purchased their home with 20% down. "One family put down 10%; everyone else came in with 3% to 5% down. 20% would take out the first rung of the homeownership ladder—the first-time homebuyers." In Thurston County, Phil says, "we see a lot of VA loans, which are zero down. I've seen a lot of requests for USDA loans, which also include zero down, but there are some geographic limitations in terms of being outside urban areas. Probably the overriding number, at least in my business, are FHA loans—and that's 3.5% down."

Importantly, Phil says, "The size of the downpayment is not tied to default. Because you've got more downpayment does not mean you're less likely to default. It does not correlate." Fay adds, "the reasons people lose their



PHIL HARLAN
President, Washington REALTORS®

"I could imagine people reading this... And they saw that 20% down as a requirement. And their dream just went out the window. I believe that piece of misinformation is the biggest thing that's killing this market."

¹ Derek Kravitz, The Associated Press: "Home sales worst in decades"; September 27, 2011.

Financing \$200,000 in mortgage debt

INTEREST RATE	9.0%	8.0%	7.0%	6.0%	5.0%
WHEN THIS RATE WAS IN EFFECT	OCT 1994	AUG 1992	DEC 1997	DEC 2002	MAR 2010
MONTHLY PAYMENT	\$1,608	\$1,466	\$1,328	\$1,197	\$1,071
TOTAL INTEREST OVER 30 YEARS	\$381,182	\$330,060	\$281,287	\$233,046	\$187,774

Chart Source: *The Return of Housing Affordability in Washington*, Michael Luis & Associates

homes are generally job losses, major medical problems, family issues. And these have no correlation to the size of downpayment.”

Both Phil and Faye agree that the newer mortgage underwriting guidelines are getting the housing markets back to a healthier, more stable climate. Like Glenn Crellin and Kim Toskey, they speak to the relationship between low interest rates and homebuying affordability.

WR commissioned Michael Luis & Associates to conduct research on the affordability topic; the result, “The Return of Housing Affordability in Washington,” was published late last year. The impact of low interest rates is illustrated by a chart that reveals how changes in interest rates alter the total costs of financing \$200,000 in mortgage debt, and shows when those rates were common. These numbers are reproduced above.

“This demonstrates clearly how much money you can save in interest over a 30-year term. The numbers are just staggering,” says Phil.

We also discussed our state’s growing population. At the request of the State Legislature, WR commissioned “Migration into Washington” to update legislators on recent trends. This report is an eye-opener. Among the findings: We currently rank fourth in the nation in both our net number of in-migrants and our net in-migration rate. Between 2000 and 2009, more than 440,000 people moved here. Our in-migrants tend to be young, single, well-educated—and lower-income. *And they need homes.*

“Home formation over the next five years is going to be significant,” Phil states. “And if we’re not careful, five years from now, we’re going to be in a hurt locker.”



FAYE NELSON
President-Elect, Washington REALTORS®

“One family put down 10%; everyone else came in with 3% to 5% down. 20% would take out the first rung of the homeownership ladder—the first-time homebuyers.”

Homeownership *and* Renting

I first envisioned this issue as an effort to gauge where we stand in Washington: Whether the benefits of homeownership, viewed both objectively and subjectively, have profoundly changed since 2008.

What is clear is that most people who have that choice have become more careful in considering their options when making decisions about renting vs. owning. This is a very welcome phenomenon. 'All real estate is local' is one truism that continues to hold sway. We can add to that, *all real estate is personal*. People are scrutinizing what's best for their present situation, their future, their dreams, their finances, their values, as well as the community where they choose to live.

Not only is it too soon to tell if our beliefs and dreams about owning a home have changed. The far more pressing issue is not homeownership vs. renting but homeownership *and* renting: Will we have enough of both options in the coming years to meet the growing needs in Washington State?



The Washington State Housing Finance Commission is a publicly accountable, self-supporting team, dedicated to increasing housing access and affordability and to expanding the availability of quality community services for the people of Washington.
