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A Bridge Linking Housing Research and Practice

# Flexibility in Combating Homelessness

A major reform of HUD's homeless programs took place this past spring with the passage of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act. The HEARTH Act, first introduced in the House of Representatives in 2007, was incorporated by amendment into the Helping Families Save Their Homes Act, approved by Congress on May 19, 2009 and signed by President Obama the next day (see Research*Works*, July/August 2009). The White House signing statement explained the importance of the Act's homelessness provisions:

> This legislation significantly increases aid to homeless Americans, appropriating $2.2 billion dollars to help solve the crisis of homelessness, and addresses the enormous costs homelessness can impose on individuals, families, neighborhoods, and communities. In addition, the legislation consolidates homelessness programs to improve effectiveness and streamline administration, and targets assistance to families with children — the fastest growing segment of the homeless population.[1]

The legislation reauthorizes and streamlines the original federal policy response to the problem of homelessness, the McKinney-Vento Homeless Assistance Act of 1987. Congress found that a lack of affordable housing and limited housing assistance programs are the primary causes of homelessness in the United States. The HEARTH Act helps localities reduce homelessness and provides an additional impetus for its prevention. At the core of the

*A lack of affordable housing and limited housing assistance programs are the primary causes of homelessness in the nation.*

HEARTH Act are provisions to:

- Consolidate separate homeless assistance programs carried out under McKinney-Vento (Supportive Housing and related innovative programs, the Safe Havens program, the Single Room Occupancy program, and the Shelter Plus Care program) to streamline application requirements for communities applying for competitive grants;
- Codify the Continuum of Care planning process as a required and integral means of generating local strategies for ending homelessness; and
- Establish a federal goal of ensuring that individuals and families who become homeless return to permanent housing within 30 days.

The $2.2 billion appropriated for targeted homelessness assistance grants increases current levels of funding by $600 million. Up to 20 percent of the funds ($440 million) will support homelessness prevention initiatives. The Act furthers the goal of housing people who are chronically homeless, adding families with children to this initiative. The Act also expands the definition of homeless to include those

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## Flexibility in Combating Homelessness

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who will lose their housing within 14 days and those who are fleeing or attempting to flee domestic violence or other life-threatening situations.

To emphasize the prevention and reduction of homelessness, Congress renamed HUD's Emergency Shelter Grant program as the Emergency Solutions Grant (ESG) program. Eligible ESG activities include the renovation, major rehabilitation, or conversion of buildings to be used as emergency shelters, as well as associated maintenance, operation, insurance, and provision of utilities and furnishings. ESG services eligible for funding are related to emergency shelter or street outreach, such as employment, health, education, family support for homeless youth, substance abuse, victim support, and mental health services. ESG funds can also subsidize short- or medium-term rental housing assistance to homeless or at-risk populations; quickly moving such individuals and families to other permanent housing; or housing relocation or stabilization services such as housing search, mediation and outreach to property owners, legal services, credit repair, and other financial assistance (for example, for security or utility deposits, utility payments, last month's rent, and assistance with moving costs).

*Congress reauthorized the McKinney-Vento Homeless Assistance Act and earmarked funds to support the prevention of homelessness.*

In a separate provision, the Act allows the use of Continuum of Care funds for building new transitional or permanent housing; acquiring, leasing, or rehabilitating a structure to provide transitional or permanent housing (other than emergency shelter); and to provide supportive services similar to those allowed under the ESG.

The HEARTH Act allows local communities to combine and consolidate programs to create flexible strategies that prevent homelessness. With an option of forming a community planning board, homeless-serving organizations may collaborate on a single, jointly submitted application to HUD. An organization may also apply for designation as a Unified Funding Agency — an entity that distributes subgrants within the community, ensures that participating groups follow accepted financial procedures, and arranges for an annual audit or evaluation of the financial records of these groups.

Congress also built flexibility into the law for rural service providers and for communities that are especially successful in reducing homelessness. In recognition of the exceptional needs of the rural homeless and worst-case housing populations, rural area applicants will have greater leeway in using homeless assistance grants and will compete only with other rural homeless projects for Rural Housing Stability Assistance funds. Participating agencies in communities with low homelessness rates, called high-performing communities, will have extra flexibility in allocating funds among eligible activities.

To see all provisions of the HEARTH Act, readers can refer to the Helping Families Save Their Homes Act of 2009 at **http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s896enr.txt.pdf** (pp. 32–72). The National Alliance to End Homelessness also provides helpful fact sheets, summaries, and analyses of the new legislation at **www.endhomelessness.org/content/article/detail/2241.**

[1] "Reforms for American Homeowners and Consumers: President Obama Signs the Helping Families Save Their Homes Act and the Fraud Enforcement and Recovery Act," May 20, 2009, **www.whitehouse.gov/the_press_office/Reforms-for-American-Homeowners-and-Consumers-President-Obama-Signs-the-Helping-Families-Save-their-Homes-Act-and-the-Fraud-Enforcement-and-Recovery-Act/.**

# Development Regulations: How Do They Affect the Local Labor Supply?

Although scholars and practitioners have explored the effects of regulations on housing supply, few have examined how development regulations, which tend to reduce the supply of housing and increase its cost, also slow economic growth and affect the ability of employers to recruit and retain employees.

In *A Review of Regulatory Barriers to Employer Ability to Recruit and Retain Employees*, Carliner et al., a team of analysts from Newport Partners, LLC; Abt Associates; and the Joint Center for Housing Studies, examine the relevant literature to answer this question and develop guidance for future research.[1] The study is a broad exploration of development regulations and their possible effects on businesses, labor markets, business location decisions, the local mix of industries, employee productivity, the relative economic competitiveness of different metropolitan areas, and other concerns.

Summarizing this research, the authors provide a conceptual framework for thinking about how development regulations — intended to govern residential construction — might produce secondary impacts on labor supply and demand.[2] In general, a jurisdiction's tightening of housing regulations leads to restrictions on development. This is often a response to a spurt in local development, which in itself may be a response to an increased in-migration of workers drawn by a rising local demand for labor. This regulatory-induced contraction in housing supply raises home prices (and may increase commuting time, which is often included in a calculus of housing costs), discouraging the incoming migration of workers to join the metro area labor supply. Because workers have to be concerned about real wages (i.e., wages adjusted for the cost of living, including housing costs), any contraction in housing supply drives up wages and, in turn, employers' operating costs (see fig. 1).

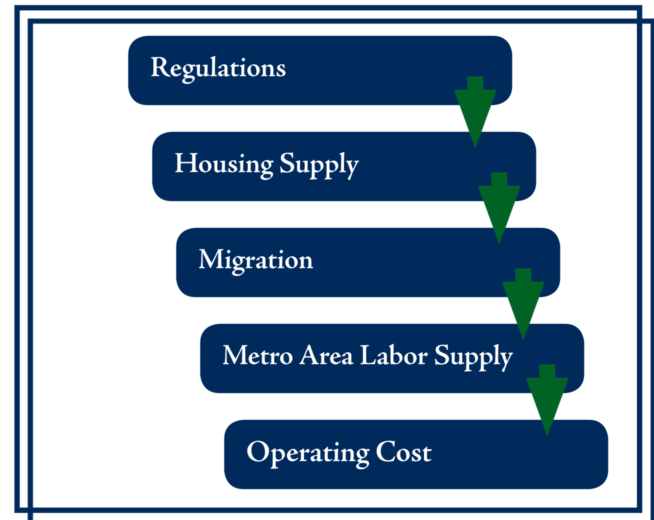


*Figure 1. Process Set in Motion by Development Regulations*

Credit: FEMA/Rob Melendez

*Development regulations have an impact on the housing supply, as well as on the availability of workers needed by local businesses.*

Scholars have long known that the cost of housing disproportionately affects the migration of less educated, less-skilled, and lower-paid workers. Therefore, businesses that employ lower-paid workers are more vulnerable to housing supply problems. More highly skilled, better-paid workers tend to be relatively insulated against housing price rises. Housing supply and cost issues have greater effects on potential in-migrants, who generally fill most of the new jobs in a locality, than on workers who already live in the area.

Earlier empirical studies have established that regulatory restrictions add to development costs and reduce construction activity. The study refers to Mayer and Somerville's formulation that regulations "work locally to restrict development by adding explicit costs, uncertainty, or delay to the development process."[3] The development-restriction tools used by localities include such mechanisms as limiting land use for development, reducing development densities, increasing the delays and risks involved in the regulatory process, adding directly to costs (for example, through development fees), and other means.

The study notes that measuring differences in the restrictiveness of development regulations across localities is difficult. Data on local area regulations are not easy to collect. The planning boards of cities,

### Development Regulations: How Do They Affect the Local Labor Supply?

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towns, and counties have considerable discretion in setting and implementing a vast array of rules from a variety of sources: zoning regulations, environmental laws, historic preservation mandates, growth management plans, and other government policies. This complicates attempts to categorize land use regulations or to construct a general index of regulatory restrictiveness.

Among the directions for future research suggested by the study is the need for better and more detailed measures of land use regulations. Ideally, these measures would include ways to account for both the letter of the law and the strictness of its implementation. The authors also see a need for measures that allow for differentiation below the metro area level, because the impact of strong restrictions in certain jurisdictions of a metro area may be mitigated by more permissive regulation in other local jurisdictions. Several types of data, if available, would strengthen research in this relatively unexplored area. The analysts suggest, for example, that the Job Opening and Labor Turnover Survey — carried out monthly on major industries by the Bureau of Labor Statistics since 2000 — should present data by the metro-area level, rather than by broad geographic regions, as is presently the case.

The authors also call for more research from the business perspective. As the study points out, plenty of information is available about how people find jobs, but relatively little exists about how employers find workers. In this context, researchers need to learn more about how employers respond to the dynamic of rising house prices. If in-migration of potential workers is discouraged, do employers try to compensate by increasing wages, broadening their search areas, lowering standards for candidates, providing larger signing bonuses, subsidizing relocation expenses, some combination of the above, or by other means? To what extent do employers consider the cost and availability of housing in their location decisions?

In sum, this study provides a thorough orientation relative to the status and possible future of the nascent study of how development regulations may affect the labor supply of local businesses.

Credit: Credit: FEMA/Win Henderson

*Regulatory-induced contractions in the housing supply drives up wages, increasing employers' operating costs.*

[1] Michael Carliner, Lisa Bowles, David Roddal, Eric Pelsky, and David McCue, *A Review of Regulatory Barriers to Employer Ability To Recruit and Retain Employees*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, July 2008, **www.huduser.org/publications/polleg/review_regbarrier.html.**

[2] Michael Carliner, "Development Regulations and Affordable Housing: Business Perspective: Labor Supply," Newport Partners, LLC, p. 2. PowerPoint presentation given at HUD headquarters, May 22, 2007, Washington DC, **www.michaelcarliner.com/articles.html** (accessed July 14, 2009).

[3] C. J. Mayer and C. T. Somerville, "Land Use Regulation and New Construction," *Regional Studies and Urban Economics* 30 (2000): pp. 639–662.

## Mortgage Insurance Facilitates Affordable Financing

Many hospitals and long-term care facilities are finding that access to the funds needed to perform required improvements is limited in the private credit market. However, other options are available from HUD through the Federal Housing Administration (FHA). In support of its mission to promote community development, HUD offers mortgage insurance programs for these facilities. One program provides hospitals with access to financing, while the other does so for long-term care facilities.

Sections 232 and 242 are mortgage insurance programs under the National Housing Act that keep the financing of health care and long-term care facilities affordable. Section 232 is an FHA-insured loan product that, since 1934, has backed mortgages for facilities that provide long-term care. Nursing homes, assisted living facilities, and "board and care" facilities can all be insured under this program, which insures mortgage loans that

finance the purchase, refinance, new construction, and substantial rehabilitation of such developments, as well as the installation of fire safety equipment. Section 242, a similar FHA-insured loan product that has been available since 1968, facilitates the financing of hospitals for the care and treatment of persons who are acutely ill or who otherwise require medical services typically available from hospitals. Like the 232 program, these insured loans can be used for new construction, purchase, rehabilitation, refinancing, and installing fire safety equipment.

The 232 and 242 programs afford an array of benefits to qualifying facilities. These mortgage insurance programs provide AA and AAA credit ratings, which result in lower interest rates, and government backing improves the creditworthiness of organizations securing the loans. Fixed-rate loans with repayment periods of up to 25 years (Section 242) or 40 years (Section 232) are also offered. There is no maximum loan amount for hospital applicants (Section 242), and the loan-to-value ratio can be up to 90 percent. In addition, a limited amount of cash is required at closing (with none required when sufficient equity exists) and 99 percent of the loan amount is insured by FHA.

For assisted living, board and care, and nursing home facility applicants (Section 232), the maximum amount of a loan for both new and existing projects is 85 percent (90 percent for nonprofit sponsors) of the estimated value of physical improvements and major movable equipment, such as hospital beds, wheeled equipment, and office furniture.

In the 75 years since the Section 232 mortgage insurance program's inception, the program has issued 4,000 insured loans totaling $16 billion to

*New construction and rehabilitation of hospitals and long-term care centers can be financed with Section 232 and 242 loans insured by FHA.*

*Section 242 mortgage insurance facilitates the financing of acute-care hospitals, where patients receive typical hospital-based services.*

both nonprofit and for-profit organizations in all 50 states. One such applicant is Wilmac Corporation, a for-profit, family-owned senior health care provider in Pennsylvania. With the assistance of Lancaster Pollard, an underwriter that serves the health and long-term care sectors, Wilmac Corporation used three concurrent Section 232-insured loans to refinance 10-year loans that had matured and were cross-collateralized. The resulting loans allowed for a predictable, fixed payment; an extension of the properties' amortization to 25 years; and financing for capital improvements. This group of loans was one of the first to close simultaneously under the recently implemented LEAN process for the 232 program, which employs standardized work products and processes to obtain consistent, timely results.

Since Section 242's inception more than 40 years ago, 367 mortgage insurance commitments totaling $14.9 billion have been issued to nonprofit and for-profit hospitals in 42 states and Puerto Rico. One recent recipient, Wills Memorial Hospital in Washington, Georgia, is a small, rural hospital that provides care 25 miles from the nearest inpatient facility. This 25-bed hospital received a $12.7 million FHA-insured mortgage loan to renovate the inpatient medical/surgical unit, pharmacy, respiratory therapy area, outpatient specialist clinic, and emergency department. According to Marvin Goldman, chief executive officer of Wills Memorial, the mortgage insurance provided "access [to] affordable capital financing that was otherwise unavailable to…a small rural hospital." Goldman also said that this funding will "regenerate an aging facility" so that it can "continue to provide quality healthcare…for many years to come."

## Mortgage Insurance Facilitates Affordable Financing

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The mortgage insurance provided by the 232 and 242 programs reduces capital costs, helping further HUD's mission of creating strong, healthy communities. As tight credit markets inspire providers to find more affordable financial resources, the need for these long-standing programs — and the benefits they afford — is likely to continue.

Additional information on these programs is available at **http://portal.hud.gov/portal/page?_pageid=73,7771897&_dad=portal&_schema=PORTAL** and **http://portal.hud.gov/portal/page?_pageid=73,1826910&_dad=portal&_schema=PORTAL**, respectively. Readers interested in the recently modified refinancing component of the Section 242 program will find details at **www.hud.gov/news/release.cfm?content=pr09-114.cfm&CFID=352845&CFTOKEN=5e932f9-000416a0-5635-1636-9580-80e8d3d10000.**

# HUD Field Economists Keep Tabs on U.S. Housing Markets

Each quarter, HUD's field office economists contribute to *U.S. Housing Market Conditions*, published by HUD's Office of Policy Development and Research. Located in 13 HUD offices around the country, our economists analyze economic changes and their impacts on local and regional housing markets. They gather information from state and local governments, housing industry sources, and HUD's ongoing research to provide 10 regional reports and selected profiles of metropolitan areas to produce a quarterly synopsis of market trends and conditions.

The regional and metropolitan narratives include current economic developments and trends in employment, housing sales and prices, apartment vacancy rates and rents, and residential building activity. The following summary findings and analysis drawn from the first quarter 2009 *U.S. Housing Market Conditions*' "Regional Activity" section are for the New England, New York/New Jersey, Mid-Atlantic, Southeast/Caribbean, Midwest, Southwest, Great Plains, Rocky Mountain, Pacific, and Northwest regions of the country.

## Regional Activity

### *Employment Trends*

- Of the 10 regions in the report, only the Southwest gained jobs, while 8 registered employment declines and 1 region remained unchanged.
- The largest employment losses in most regions were seen in the construction and manufacturing sectors.
- Education, health services, and government were the most frequently reported growth sectors. Only the New York region reported a notable increase in leisure and hospitality employment.

### *Sales Market Trends*

- State-level home sales increased significantly in California and Florida, largely due to the respective 40 and 30 percent declines in median sales prices; sales decreased in the remaining 29 states discussed in the report.
- Northern Virginia, Las Vegas, Phoenix, Minneapolis, and Brunswick, North Carolina were the only metropolitan areas and state regions (of the 75 cited) where existing home sales increased.
- State-level home sales prices increased in North Dakota, South Dakota, Wyoming, and Montana, or just 4 out of the 29 states analyzed.
- Metropolitan area home sales prices increased in less than 10 percent of the 85 markets cited, including San Antonio, Beaumont, and Bryan-College Station, Texas; Tulsa, Oklahoma; Wichita, Kansas; and 3 smaller markets in North Carolina.

### *Rental Market Trends*

- Apartment vacancy rates increased in more than three-fourths of the 81 metropolitan area rental markets cited, mainly due to weaker economic conditions and new apartments, single-family homes, and condominiums entering the rental market.
- Vacancy rates declined in just four of the rental markets discussed — Tulsa, Philadelphia, Baltimore, and Palm Beach.
- Average apartment rents increased moderately or were unchanged in nearly every market covered, with the exception of declines in six areas — New York City, Long Island, Boise, Fort Lauderdale, Miami, and Palm Beach.

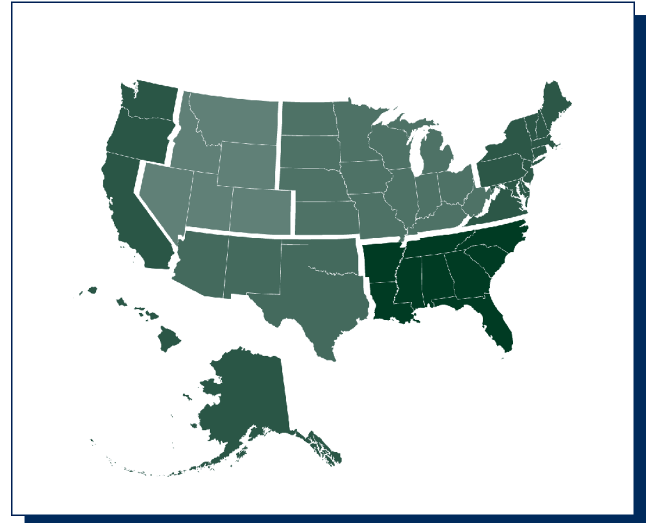
***Residential Building Trends***

- Single-family building activity declined in all 50 states reported on, because of slow home sales market conditions.
- Multifamily building activity declined in all but nine states — Arkansas, Massachusetts, Rhode Island, New Hampshire, Utah, South Dakota, Wyoming, Hawaii, and Kentucky.

## Metropolitan Activity

This issue of *U.S. Housing Market Conditions* features metropolitan profiles for Atlanta-Sandy Springs-Marietta, Georgia; Denver-Aurora-Boulder, Colorado; Midland-Odessa, Texas; Nashville-Davidson-Murfreesboro-Franklin, Tennessee; Phoenix, Arizona; Rochester, New York; Sacramento–Arden-Arcade–Roseville, California; and Tulsa, Oklahoma. Details from the latest *Housing Market Profiles*, available in greater detail in the "Regional Activity" portion of the report, include the following:

- In the Denver-Aurora-Boulder, Colorado metropolitan area, ConocoPhillips Company is constructing a $1 billion renewable energy research training center that is projected to employ more than 7,000 people when completed in 2030.
- In the Nashville-Davidson-Murfreesboro-Franklin, Tennessee metropolitan area, the apartment vacancy rate increased from 5.8 to 9.4 percent; soft market conditions are expected to continue, as 2,100 rental units are currently under construction.
- In the Atlanta-Sandy Springs-Marietta, Georgia metropolitan area, the condominium sales market was soft with more than 6,000 unsold units and 1,400 units under construction.



*Field economists monitor economic changes and their impact on local housing markets throughout the nation.*

- Rental market conditions were tight in the Midland-Odessa, Texas metropolitan area, due to strong population growth and relatively few new apartments entering the market.

These quarterly regional reports and metropolitan area profiles are just two features of the *U. S. Housing Market Conditions* reports. Each issue also contains national data on housing sales, prices, and affordability; building permits, housing starts, completions and apartment absorptions; foreclosure rates; vacancy rates; and homeownership rates, among other key variables. Every report highlights an article of interest, such as a recent piece, "New Low-Income Housing Tax Credit Project Data Available." Current and back issues of the report are available as free downloads at **www.huduser.org/periodicals/ushmc.html**, and print copies can be ordered at no cost by calling HUD USER at 800.245.2691, option 1.

GETTING YOUR FINANCIAL HOUSE IN ORDER

MY HOME
MY FUTURE
MY MONEY

3 ACHIEVING FINANCIAL SECURITY MY FUTURE
2 SUSTAINING HEALTHY HOMEOWNERSHIP MY HOME
1 BUILDING A FINANCIAL FOUNDATION MY MONEY

A financially secure future requires a solid understanding of financial basics. To spread this awareness, HUD's Federal Housing Administration created *My Money, My Home, My Future*, a one-stop online source for financial tools that visitors can use to learn how to build a healthy financial foundation, sustain homeownership, and achieve financial security.

*My Money, My Home, My Future* is available at **http://portal.hud.gov/portal/page?_pageid=73,7620944&_dad=portal&_schema=PORTAL.**

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## In the next issue of … ResearchWorks

- HUD's Office of Policy Development & Research (PD&R) welcomes its new Assistant Secretary, Raphael Bostic, and will introduce him to the Research*Works* readership in the next issue. Dr. Bostic is an expert on housing, homeownership, and housing finance issues with a lengthy record of research, teaching, and public service. We'll share his vision with readers, not only for PD&R, but for the nation's housing conditions and markets.
- New York City's Homebase program combats homelessness by helping shelter-seeking individuals and families find immediate alternatives, shorten their stay in shelter, and prevent repeated shelter stays. Winner of the 2009 HUD Secretary's Opportunity and Empowerment Award, the network of neighborhood-based homeless prevention centers offers a variety of prevention services. We'll take a closer look at Homebase for features that may be applicable to other locations.
- A new era in HUD's documentation of homelessness is marked by *The 2008 Annual Homeless Assessment Report to Congress* — the first to provide year-to-year trend data. We'll review early trends in population counts, community responses in terms of services available, and the demographics of homeless populations, and see how the data is resourced and collected. We'll also examine first quarter 2009 information from the Homelessness Pulse Project that tracks real-time changes in homelessness.
- HUD housing analysts have completed their study of changes in the nation's housing inventory from 2005 to 2007. The resulting *Components of Inventory Change* (CINCH) and the *Rental Dynamics* reports are available from the HUD USER Clearinghouse. We'll briefly review what the researchers found in terms of losses, gains, and characteristics of U.S. housing.