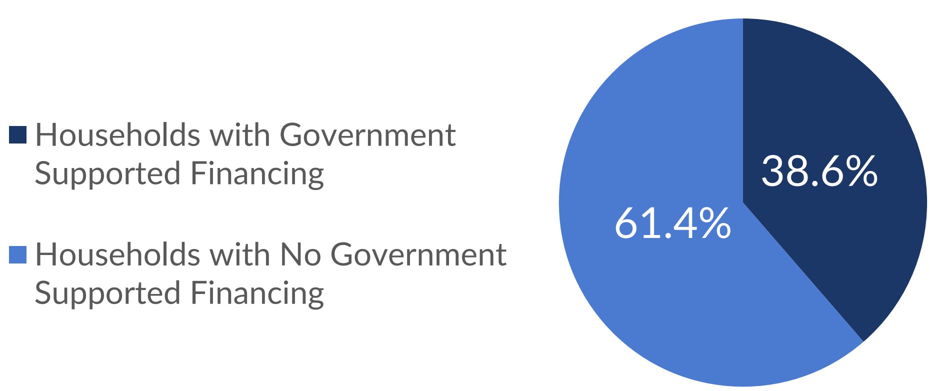
AMHERST MARKET COMMENTARY

COVID-19 RELIEF HELPS SOME, LEAVES OVER HALF OF HOUSEHOLDS VULNERABLE

EXECUTIVE SUMMARY

- Our analysis indicates that current COVID-19 housing support has been helpful in mitigating the financial impact of the crisis for over 38% of American households.
- The majority of the more vulnerable rental households fall in the remaining 61% of households that do not receive additional government support other than unemployment benefits.
- Renter households start with a naturally disadvantaged position of lower average household income than homeowners, with a significantly higher share of renters' income going to housing costs.
- COVID-19-related job losses are highly concentrated in low-income, hourly wage workers that are more likely to be renters. Our data indicates that about a quarter of individuals with incomes below $30k are likely to have lost their jobs since mid-March.
- The housing policy response to COVID-19-related stress has addressed the plight of homeowners with government-backed mortgages, but a gap exists between government and non-government supported households that do not address the financial needs of the consumer, and is instead driven by who financed the homes they live in.
- While current government support is currently somewhat helpful for low and middle income households facing acute levels of unemployment, stimulus measures are temporary and many provisions are ending as soon as July.
- In light of the impact of COVID-19 and absent additional intervention, there is a risk of a number of evictions and foreclosures in excess of the levels we saw in the wake of the Great Recession.



Government support beyond Economic Impact Payments helps some households, leaves over half of households vulnerable

Government intervention in reaction to COVID-19 has come in the form of blanket and targeted support to households to mitigate the economic impact of the coronavirus pandemic and has been effective for households with government supported financing.

The main source of housing support beyond supplemental funding for Department of Housing and Urban Development (HUD) programs is focused on properties owned or securitized with a guarantee by the Government Supported Enterprises (GSEs), Ginnie Mae, the Veterans Administration (VA) and the U.S. Department of Agriculture (USDA) Rural Housing Service (RHS) or insured by the Federal Housing Administration (FHA). Homeowners whose loans are supported by a form of government backing qualify for mortgage forbearance which allows them to delay mortgage payments for up to 12 months.[i] Meanwhile, renters who live in properties financed through these programs are protected from eviction in the event they are unable to pay rent for a period of 120 days beginning March 27, 2020. At the end of this period, the rental property owners may be required to provide a 30 day notice of eviction.

These protections do not legally absolve owners or renters from paying mortgage or rental payments, though the genesis of the legislation implies the challenges in doing so. After the forbearance and eviction moratorium ends, the mortgage payments and rents remain due, which can spread out the amounts owed. In contrast, for individuals leasing homes who benefit from the eviction protections, rents may be due in lump sum at the end of the forbearance period. Government entities have made clear that the mortgage payments will not be expected to be paid in a lump sum and many rental property owners with government supported mortgages will likely offer repayment plans in light of their eligibility for forbearance. For homeowners or renters whose property is not within the government supported infrastructure, there are no targeted housing relief programs at the national level.

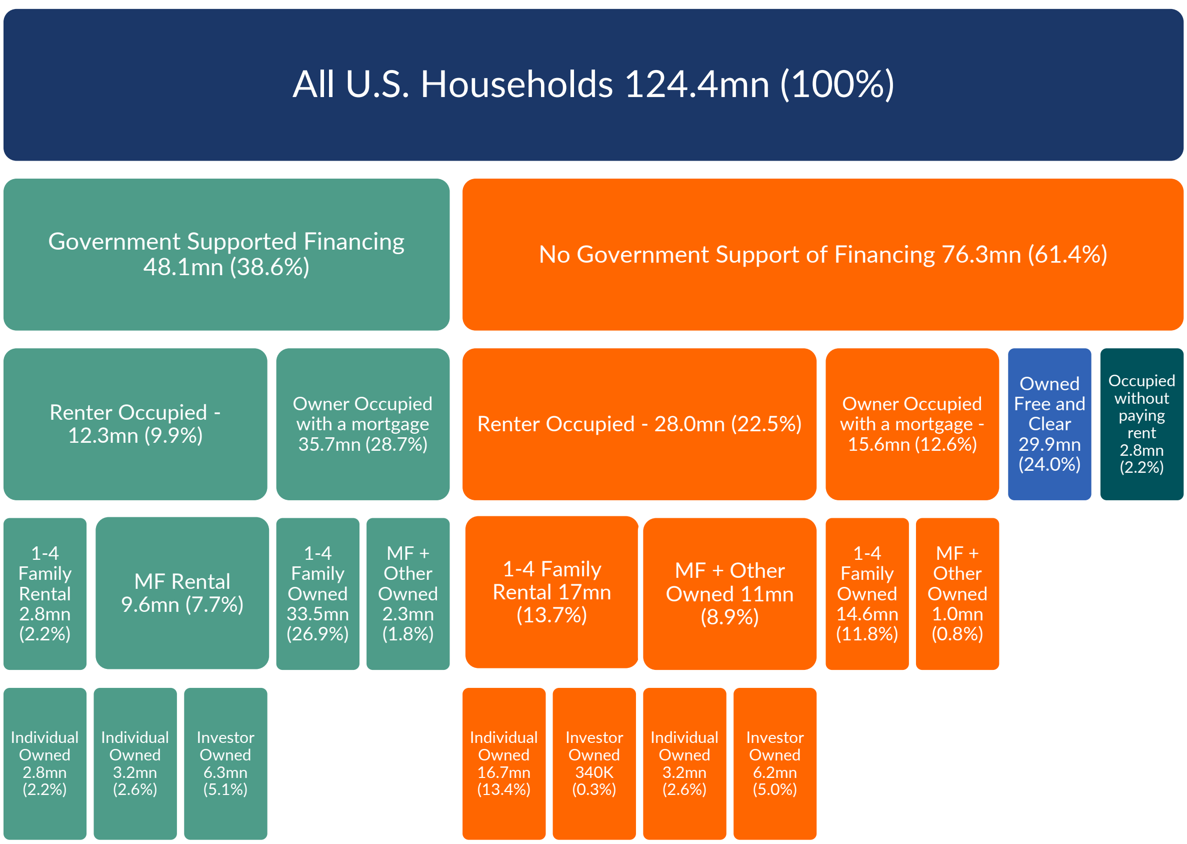
Based on the population eligible for targeted housing support due to the pandemic, we estimate that relief is available to no more than two out of every five households in the U.S. As Figure 1 shows, only 48mn of the nearly 125mn in the United States households are eligible for support towards their housing costs. This includes 35.7mn households with a government-backed mortgage and 12.3mn renters in households with a government-backed mortgage. Government support thus far has addressed the plight of many homeowners and provided some breathing room for renters but our findings indicate that the asymmetric nature of the support to date will leave the remaining two-thirds of households without support to cope with the financial impact of COVID-19.

[i] Under the CARES Act borrowers are eligible for 180 days of forbearance and can request an additional 180 days.

[ii] The Federal Housing Finance Agency clarified on April 27, 2020 that lump sums are not required at the end of the forbearance period after reports indicating that servicers were communicating a lump sum payment requirement to borrowers in forbearance.
https://www.fhfa.gov/Media/PublicAffairs/Pages/No-Lump-Sum-Required-at-the-End-of-Forbearance-says-FHFAs-Calabria.aspx

Of the 76.3mn households (61.4% of all households) whose homes are not owned or financed through these vehicles, we estimate the population at the greatest risk of eviction or foreclosure are 28mn renter households (22.5%) and 15.6mn owner households (12.6%). Of these households, the renter population is also the most financially disadvantaged, and thus at the greatest risk due to income and job losses. We will focus the remainder of this commentary on these vulnerable rental households.

FIGURE 1: MAJORITY OF U.S. HOUSEHOLDS ARE NOT SUPPORTED BY GOVERNMENT FINANCING



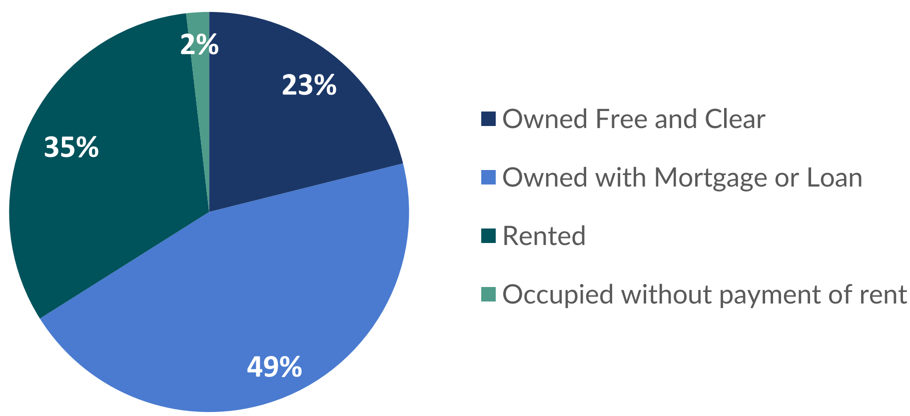
*All percentages are expressed as a proportion of all households; box sizes are intended to show the breakdown of American households and are not fully to scale
** All boxes in the same row add up to the corresponding numbers in the row above

Note: To conduct this analysis, Amherst leveraged data from CPS/HVS (Housing Vacancies and Homeownership), 2018 ACS/PUMS (2018 American Community Survey), NHMC (National Multi Housing Council), CBPP (Center for Budget and Policy Priorities) and the Urban Institute, applying Amherst derived estimates. For purposes of this analysis the 5m households who supported by federal support are distributed through this analysis and the properties they inhabit are financed independent of rental subsidy though we do acknowledge that subsidy may be considered in financing eligibility. Multifamily (MF) is defined as 5+ units and Other includes Manufactured Housing. Investor Owned refers to a broad ecosystem of parties involved including insurance companies, pension funds, investment funds and other commercial property owners.

Since the Great Recession, individuals choosing to lease vs. own is on the rise

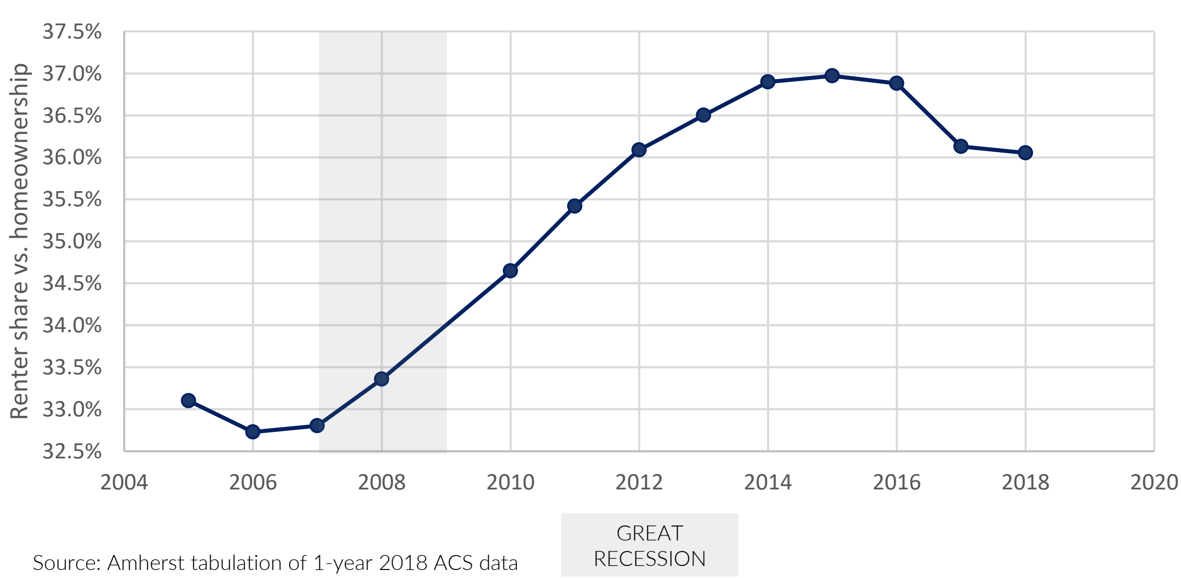
The majority of Americans live in a single family home, with about 40% of those households paying for their house with a mortgage – totaling about 48mn households across the U.S. However, as the Great Recession made obtaining a mortgage harder than ever for Americans, there is a growing population of renters in the U.S. Today, about 43mn households, or 35% of America's population are renters. This is largely at odds with a federal policy response that to date has primarily directed support to homeowners.

FIGURE 2: U.S. HOUSEHOLDS – HOW DO WE LIVE?



Source: Amherst tabulation of 2014-2018 5-year ACS PUMS data

FIGURE 3: RENTERSHIP HAS GROWN BY OVER 4 MILLION HOUSEHOLDS SINCE THE GREAT RECESSION

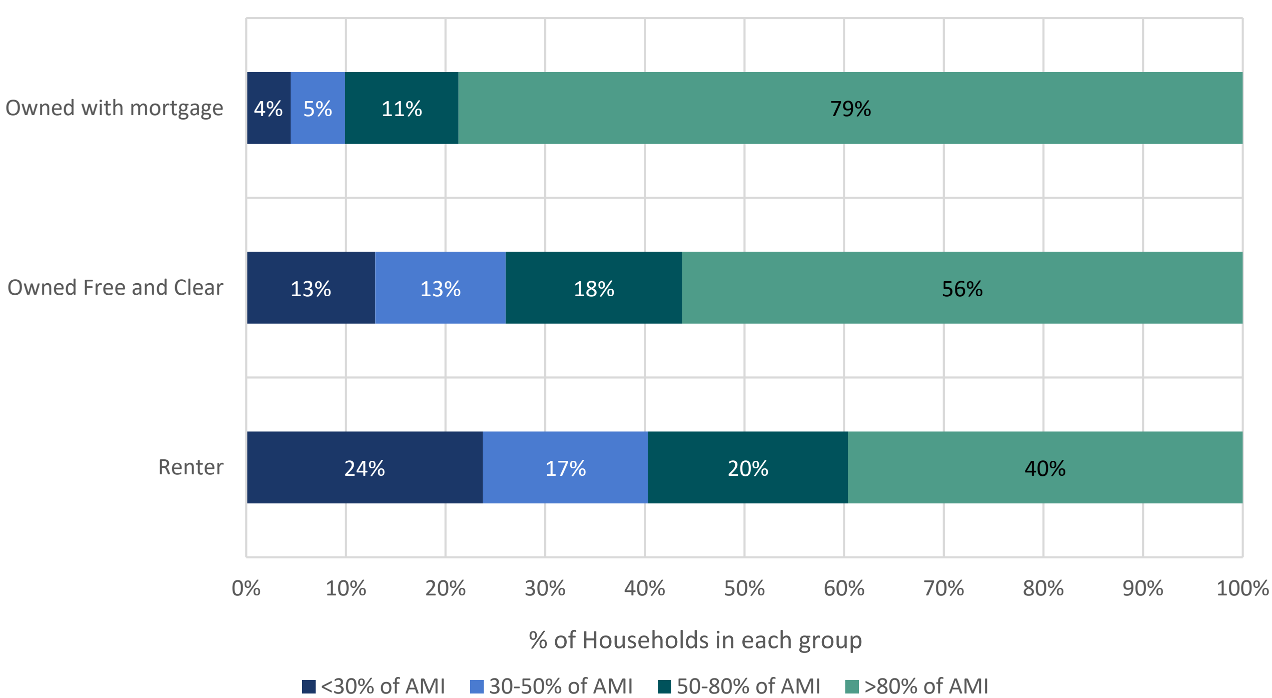


Source: Amherst tabulation of 1-year 2018 ACS data

Renters are particularly vulnerable in economic downturns

Based on data from the American Community Survey (2014-2018 5-year sample data), the median annual income of renter households was less than half of homeowners: renter households had about $40,000 in income compared to $90,000 for homeowners that had a mortgage. Figure 4 shows the income distribution across the U.S. of owners with a mortgage, owners without a mortgage and renters. Of note, 60% of renter households have incomes that are less than 80% of the area median income (AMI), while only 44% for owner households without a mortgage and only 21% for owners with a mortgage fell below the AMI. The differences are even more pronounced when we focus on the lowest part of the income distribution – almost a quarter (24%) of renter households make less than 30% AMI, compared to only 4% for owner households with a mortgage. So while there are similar numbers of renters and homeowners in America, the distribution of wealth between the populations is starkly different.

FIGURE 4: DISTRIBUTION OF RENTER VS OWNER INCOMES

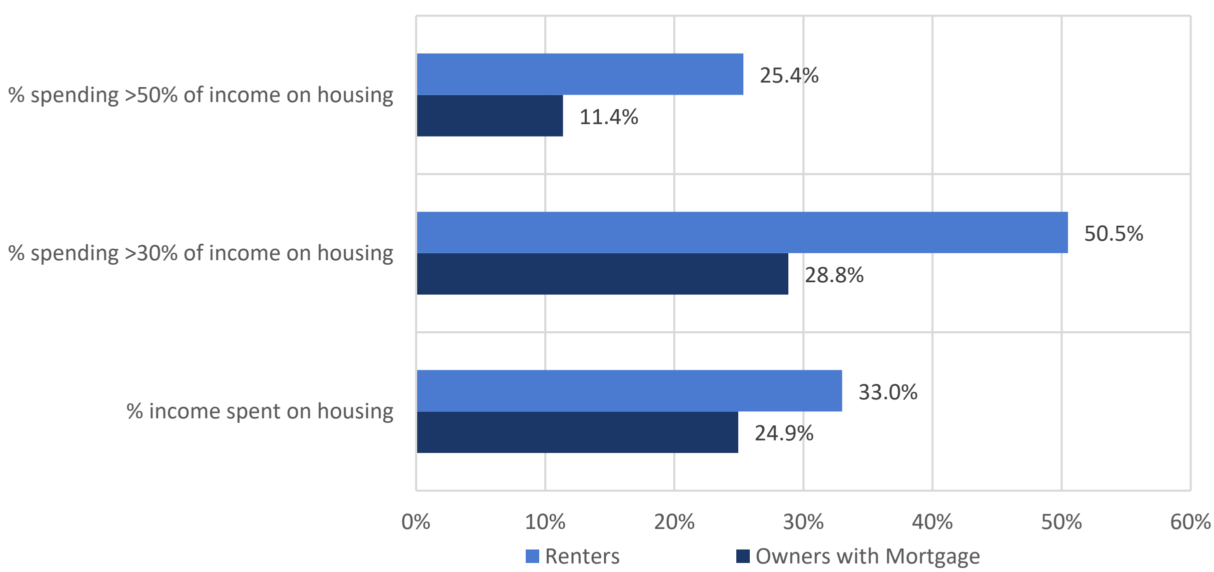


Source: Amherst tabulation of 2014-2018 5 yr ACS PUMS data

Renters pay a much higher share of their incomes towards housing costs

On top of being at the lower end of the income distribution, renters on average pay more of their incomes towards housing and related expenses compared to owners that have a mortgage. Renters spend over one-third of their income on housing costs, while homeowners with a mortgage only spend about one-quarter of their income on housing, as seen in Figure 5. This trend becomes more pronounced with lower income households: about a quarter of all renters spend more than 50% of their incomes on housing vs. just 11% of owners with a mortgage.

FIGURE 5: AVERAGE HOUSING COST BURDEN AS A FRACTION OF HOUSEHOLD INCOME



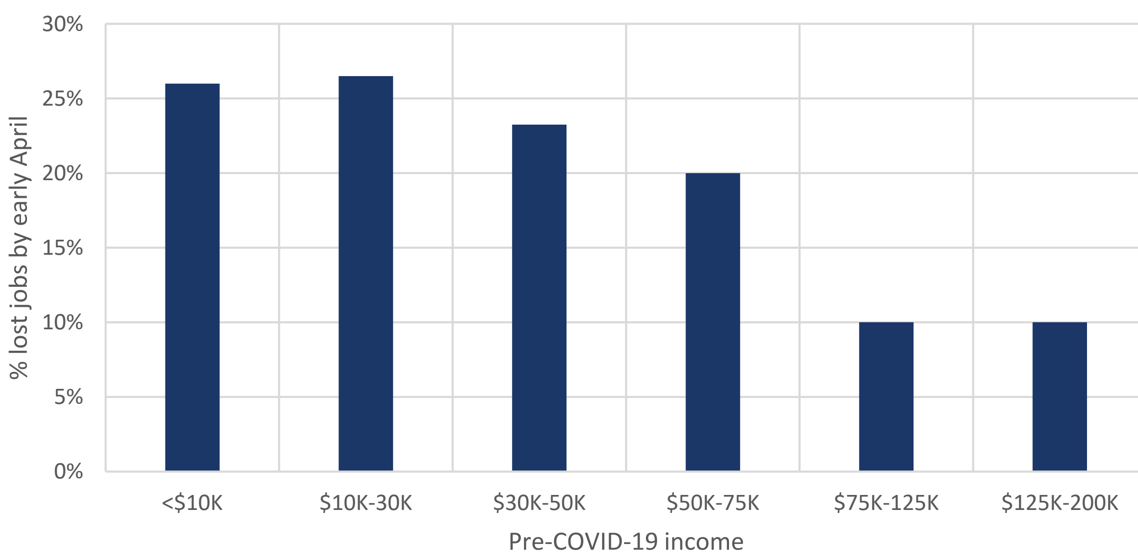
Source: Amherst tabulation of 2014-2018 5 yr ACS PUMS data

Note: Average for all sample households where the reported Owner cost or gross rent is <= 100% of the reported income. The Owner Cost to household income ratio and Gross rent to income ratios are capped in the data reporting at 101 which represents all instances where housing cost was reported as higher than income.

Post-COVID-19 environment has caused unprecedented levels of unemployment, disproportionately affecting low-income workers

The wide-scale suspension of economic activity and closure of businesses in the U.S. has led to cumulative initial jobless claims of about 30mn from mid-March to early April. Figure 6 shows our estimates of jobs lost by mid-April for various ranges of income based on a survey of over 4,000 Americans conducted in late March 2020. We estimate that approximately a quarter of individuals with incomes below $30,000 are likely to have lost their jobs since mid-March. For incomes between $30,000-$75,000 the number is likely in the low 20s as a percentage. In contrast, for people with higher than $75,000 incomes the rate of job loss is probably closer to 10%. In addition to the job losses, hours worked per employed worker were down 12% in early April (33.8) vs mid-March (38.3), further compounding the impact on renters' income. This data suggests disproportionate negative effect on the lower strata of the economy who are more likely to be renters.

FIGURE 6: ESTIMATED JOB LOSSES BY PRE-COVID-19 INCOME RANGES



Source: https://voxeu.org/article/large-and-unequal-impact-covid-19-workers

Note: Based on Amherst's extrapolations from a VoxEU & CEPR survey of 4,003 people in the US conducted in late March 2020.

Government support thus far is patchwork

One might argue that it is not reasonable to look at job and income losses in isolation, especially with the sizable stimulus that is being pushed into the economy to mitigate the economic impacts resulting from the response to the coronavirus pandemic. These stimulus measures include:

a. A one-time stimulus check as a function of income – up to $1,200 per adult
b. Unemployment Insurance (varies by state)
c. Expanded Unemployment Insurance from the CARES Act - $600/week

Current stimulus does not offer long term support to keep renters in their homes

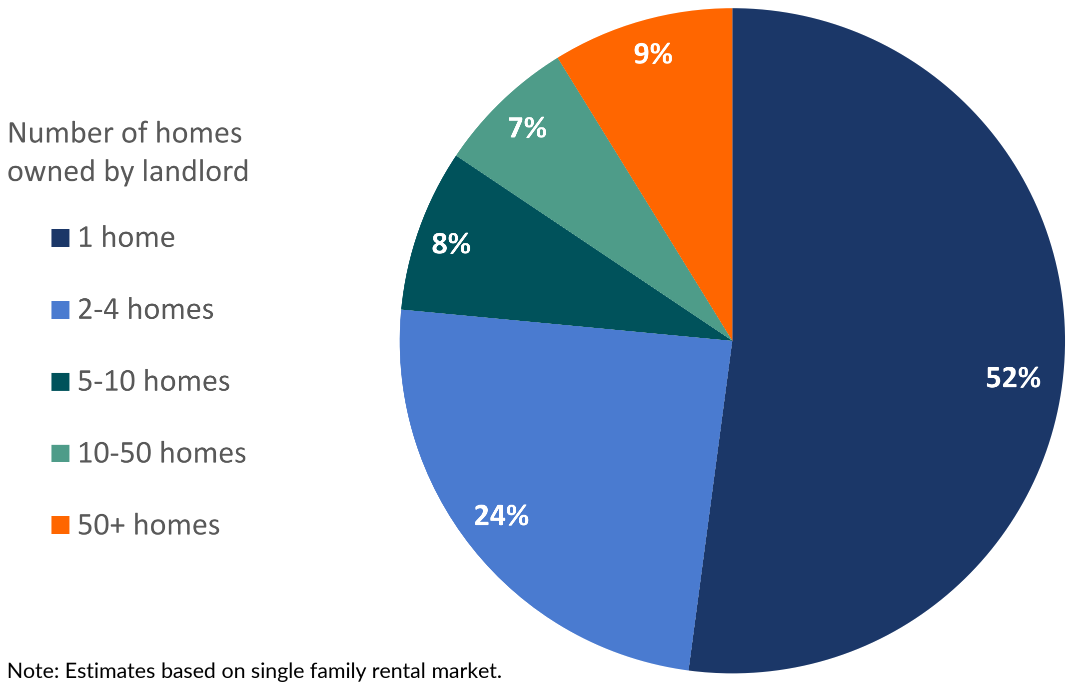
Extended unemployment benefits through the CARES Act are supposed to cover nearly all the loss of income. If benefits are fully and timely paid, the adverse effect on the workers could be marginal in the near term. However,

- Some states do not cover workers with hours reduced by less than 20%. According to the real-time labor market survey, ~12% of Americans report loss in income around 20% in April 2020 compared to March 2020.
- States are experiencing huge budget shortfalls due to loss of sales and property tax revenue, as well as emptying their rainy day funds to fulfill unemployment claims. Consequently, Americans will continue to see lag times in receiving their benefits, and, in some cases, states will run out of funds putting payments at risk. To the extent the full benefit is not available to all in a timely manner, households living paycheck to paycheck will face severe stress.
- Historically, stimulus injections fade before the economy has fully recovered, but it takes much longer for income and jobs to be recouped. Augmented unemployment support is set to expire as early as July with no offsetting long-term support for renters currently in place.

Trickle down from the stimulus may not work as well

While the CARES Act and unemployment benefits directly put money in the pockets of people who lose jobs and income, there are typically other beneficiaries of this income (such as landlords, a vast majority of whom own a handful of homes; see Figure 7) who may not see the trickle down benefit of the stimulus checks and unemployment insurance. This is because some tenants may not pay rent, meaning that many families who may be dependent on incoming rental payments as a source of income will be without income until renters begin repayment. This may or may not include arrears. At the same time, landlords continue to incur expenses and must pay property taxes, make insurance payments, and maintain quality/safety of the property through maintenance activities.

FIGURE 7: THE VAST MAJORITY OF INVESTMENT HOMES ARE OWNED BY INDIVIDUALS OR FAMILIES



Note: Estimates based on single family rental market.
Source: Corelogic, Amherst

Housing policy response to COVID-19 leaves significant gaps

Overall, we find the policy response to COVID-19-related stress creates a gap between government and non-government supported households, which does not provide support based on the consumer's financial needs, but is instead driven by who financed the homes they live in. For example, borrowers with mortgages effectively backstopped by the federal government can avail themselves of forbearance and those tenants protections from evictions; however households that have mortgage loans made by private lenders do not receive any targeted support. Among the non-government supported population are 28mn renter households that are more vulnerable from an income standpoint and are likely to experience greater stress in a prolonged downturn caused by COVID-19-related concerns. We estimate that among the 28mn renters not in government supported properties, there are about 17mn households living in single family rental homes and 11mn who live in multifamily. Of the 17mn single family renter homes, 16.7mn are owned by an individual or investors. Additionally, another 3.2mn multifamily homes are owned by individuals who fall outside the purview of any government supported financing.

Most of these owners depend on rental income and all remain responsible for paying taxes, taking care of the properties and providing a safe and habitable place for renters to live in. The housing policy response has inadvertently created a gap in support for families and the broader economy. In light of the impact of COVID-19 and absent additional intervention, our data indicates that there is a risk evictions and foreclosures in excess of the levels we saw in the wake of the Great Recession.

IMPORTANT DISCLOSURES

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