

THE FORECLOSURE Legacy



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Rhode Island, the smallest state in the Union, with 39 municipalities and only 1 million residents, became New England's poster child for the residential foreclosure crisis. How that came about and what can be done to prevent it in the future is a critical public policy question for the Ocean State.

Over the past several years, HousingWorks RI has monitored Rhode Island's troubling surge in foreclosures. In 2010, the first *Special Report on Foreclosures* examined how having a critical shortage of long-term affordable homes for more than a decade made Rhode Island vulnerable.

It all started with the run-up on home prices. Rhode Island's home prices began to increase dramatically after 2000. Between the first quarter of 2000 and the first quarter of 2006, home prices increased at the steepest rate in the state's history, with an average increase of almost 21 percent in 2003 alone—the highest in the United States that year.¹ At the same time, the supply of new housing stock was not keeping pace with that of other New England states. In fact, according to statistics from the U.S. Census Bureau, Rhode Island ranked as the state with the lowest rate of housing production in the nation between 2000 and 2008.

The lagging supply of homes further fueled housing-price appreciation and made rentals less affordable.

A Perfect Storm

Meanwhile, the amount of money working families could borrow increased dramatically even though the median wage in Rhode Island was receding. The lack of affordable housing and the availability of easy credit conspired to create a perfect storm. Despite high

prices for homes, subprime mortgage financing gave homes an “illusion of affordability.”² (See “Median Income and Housing Costs.”)

The fertile subprime market was one key factor in Rhode Island’s foreclosure crisis. The protracted economic downturn and the high unemployment rate exacerbated the problem. As of December

2009, Rhode Island had the second-highest unemployment rate in the nation (11.8 percent).³ In 2009 alone, there were 2,852 residential foreclosure deeds filed in the state, averaging 238 per month. In 2010, the number of completed residential foreclosures dropped to 1,891 but increased again in 2011 to more than 2,000. In all,

between 2009 and 2011, 3.6 percent of all mortgaged properties in Rhode Island experienced foreclosure.⁴

No town in the state has been immune to the volatile housing market, but communities have been affected differently depending on the location of the foreclosures. For example, in smaller, nonurban municipalities, foreclosures tend to be scattered and less visible. But in the state’s urban communities, high concentrations of foreclosures have blighted entire neighborhoods with boarded-up buildings.

Nearly one-third of residential foreclosure deeds filed from 2009 through 2011 were multifamily homes, significantly affecting renters. The cities of Central Falls, Pawtucket, Providence, and Woonsocket had the highest number of multifamily foreclosures, accounting for 76 percent of the state’s total multifamily foreclosures over the 36-month period. Most multifamily foreclosed homes were three- to five-apartment triple-deckers, or old millworker residential buildings.

Each multifamily foreclosure affects multiple rental homes, which in turn threatens tenants with possible eviction. For every multifamily property foreclosed, approximately two to three families could find themselves without shelter. HousingWorks RI estimates that more than 6,300 apartments were lost as a result of the 2,178 multifamily foreclosures from 2009 through 2011.⁵ (See “Estimated Loss of Housing Units Due to Foreclosures in Rhode Island.”)

Public Investment

It is tempting to assume that the glut of foreclosures and resulting depressed prices effectively solved Rhode Island’s lack of affordable

Median Income and Housing Costs

Year	Avg monthly rent for 1-bedrm apt	Avg rent for 2-bedrm apt	Avg rent for 3-bedrm apt	Median annual salary	Median single family sale price	Median wages in 2010 dollars
2001	642	775	875	31,727	156,000	16.27
2002	694	863	1,017	32,897	188,150	16.87
2003	796	1,032	1,195	32,565	230,000	16.70
2004	880	1,121	1,377	32,370	264,700	16.60
2005	911	1,147	1,418	32,409	282,900	16.62
2006	903	1,172	1,423	32,253	282,500	16.54
2007	905	1,142	1,350	31,356	275,000	16.08
2008	944	1,232	1,406	32,136	234,900	16.48
2009	956	1,170	1,533	33,365	199,900	17.11
2010	943	1,165	1,531	33,111	210,000	16.98

Sources: Year-End Rent Survey, 2001-2011, Rhode Island Housing; Median Wage and Household Income Fact Sheet, Economic Policy Institute analysis of Current Population Survey data as used by Economic Progress Institute; and Rhode Island Association of Realtors and Statewide Multiple Listing Service.

Estimated Loss of Housing Units Due to Foreclosures in Rhode Island (2009-2011)

Type of Home	Number of foreclosures	Average number of units per home	Total units lost
Multifamily	2,178	2.9	6,325
2 units	1,031	2.0	2,062
2-5 units	65	3.5	228
3 units	823	3.0	2,469
4-8 units	248	6.0	1,488
9+ units	5	9.0	45
Apartment buildings	6	5.5	33
Single-family	4,011	1.0	4,011
Condo	551	1.0	551
Total	6,740	1.6	10,887

Source: HousingWorks RI estimates

homes. However, the increased demand for rental homes was coupled with decreased supply, and that helped sustain high rental prices, particularly in urban areas. The average cost for a three-bedroom apartment in 2010 was \$1,531, 75 percent higher than in 2001, when it was \$875; for a two-bedroom apartment, it was 50 percent higher; for a one-bedroom apartment, 47 percent higher.⁶

Rhode Island lacks the consistent state policies and investment in affordable housing seen in neighboring Connecticut and Massachusetts, but some temporary Rhode Island programs have had excellent results.

At the federal level, the Neighborhood Stabilization Program (NSP) has had a significant impact on lives of countless families. In the first distribution from NSP, the Rhode Island Office of Housing and Community Development, in partnership with Rhode Island Housing, received a total of \$19.6 million to target 11 communities that had been designated “hardest hit” by foreclosures. Another \$5 million was received in the third round of NSP funding, which was targeted to hardest-hit areas in Providence, Pawtucket, and Central Falls. Those funds were rapidly distributed to rehabilitate foreclosed properties into affordable housing and stem the tide of blight in specific urban neighborhoods.

A temporary state program, Building Homes Rhode Island, was also important. It was funded by \$50 million in proceeds from the state’s first affordable housing bond, approved in 2006. Building Homes Rhode Island is the only state program focused on providing capital investments for affordable housing development. About \$19 million of Building Homes Rhode Island funds were used to create 530-plus long-term affordable rental and 40 ownership homes out of what were once foreclosed units.

An economic impact study by HousingWorks RI found that for every dollar the program invested in affordable housing production, \$16 went back into the Rhode Island economy.⁷

A great example of the opportunities created by public investment in affordable housing can be seen in Providence’s Smith Hill neighborhood, where Smith Hill Community Development Corporation is using \$1.22 million in NSP funds and \$2.5 million of Building Homes Rhode Island funds as part of a \$12.4 million neighborhood stabilization project. The Smith Hill CDC is working to convert 19 empty houses, 18 of which were previously foreclosed, into 52 two-, three-, and four-bedroom apartments. Some of the properties will be owner-occupied multifamily homes, offering eligible buyers the opportunity to earn rental income to supplement their earned income. To date, 31 homes have been completed and are currently occupied. Significantly, the \$12.4 million project has provided employment for between 175 and 200 workers.

Although there are many examples of proven success in the development of affordable housing, Rhode Island remains one of the few states that does not have a consistent investment strategy

for building homes designed to remain affordable in the long term. High cost burdens have resulted in the rental housing market becoming one of the most damaged segments of Rhode Island’s economy. Likewise, persistent foreclosures remain a significant factor in the state’s recovery.

For Rhode Island to be truly competitive in attracting and retaining businesses, it must address the lack of a consistent funding policy and elevate the development and operation of long-term affordable housing into its overall economic development strategy. Rhode Island’s economic stability and health requires safe, affordable homes for all its residents.

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Endnotes

- ¹ See Federal Housing Finance Agency, Home Price Index, <http://www.fhfa.gov/>.
- ² J. Carr, “Responding to the Foreclosure Crisis” (National Community Reinvestment Coalition testimony to the United States House of Representatives, January 29, 2008).
- ³ See www.census.gov/mcd and www.bls.gov/lau.
- ⁴ HousingWorks RI analysis of the Warren Group data, 2009 through 2011, www.thewarrengroup.com.
- ⁵ In the HousingWorks RI analysis of the Warren Group data, apartment buildings were individually researched using property addresses to determine available realtor information regarding total square footage, number of bedrooms, and number of bathrooms. One unit was assumed for every bathroom listed, with the majority of units assumed as two bedrooms. Two- to five-family residential properties were assumed to have an average of three and one-half units each. Four- to eight-unit apartment properties were assumed to have an average of six units each. Nine-plus properties were assumed to have nine units each.
- ⁶ See http://www.rhodeislandhousing.org/filelibrary/RentSurvey_YE2010.pdf.
- ⁷ “Measuring the Economic Impact of Affordable Housing in Rhode Island” (report, HousingWorks RI, Providence, spring 2010), <http://www.housingworksri.org/news-events/special-report-measuring-economic-impact-affordable-housing-rhode-island>.