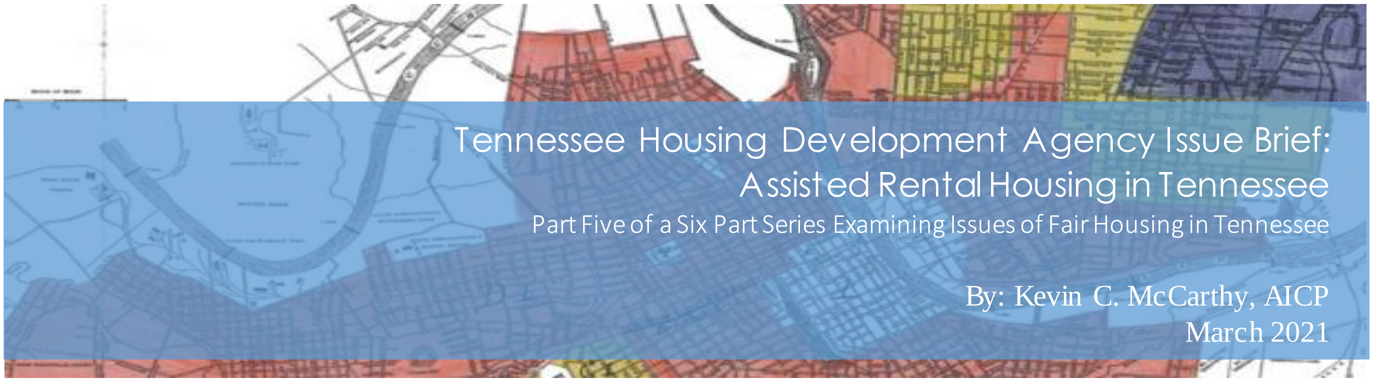

Tennessee Housing Development Agency Issue Brief: Assisted Rental Housing in Tennessee

Part Five of a Six Part Series Examining Issues of Fair Housing in Tennessee

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March 2021

Key Findings

- THDA is expanding housing choice in every part of Tennessee by increasing the supply of affordable housing while preserving existing affordable housing in rural areas.
- In partnership with local housing authorities, THDA is making transformative investments in existing housing while addressing the legacy of segregation.
- Carefully targeting resources to opportunity-rich neighborhoods expands housing choice for Tennessee families.
- Tennessee has always been on the vanguard of innovation in affordable housing and continues to expand housing choice through targeted investment in rental housing.
- Affordable and available rental housing continues to serve as a platform for upward mobility for Tennesseans, as it did for Dorothy Butler Gilliam and Elvis Presley.

Introduction

This brief is fifth in a series of six examining fair housing issues in Tennessee. Previous briefs highlighted efforts by the Tennessee Housing Development Agency (THDA) and its partners to eliminate racial disparities in mortgage lending, expand housing opportunities for Tennesseans with disabilities, and to expand access to affordable utilities including broadband internet service. This brief examines THDA's efforts to eliminate disparities in the market for rental housing and to create safe, healthy, affordable housing opportunities for all Tennesseans.

Between 2018 and 2020, THDA and its Consolidated Plan partners conducted research to identify impediments to fair housing choice in Tennessee.[i] The Analysis of Impediments (AI) research forms the basis of the 2020 – 2024 Fair Housing Plan, which includes actions and strategies to eliminate or reduce the negative effects of specific impediments.[ii] The first brief in this series provides an overview of the AI research and findings.

The AI research identified two primary impediments related to rental housing:

1. There is an insufficient supply of decent, rental housing affordable to low-income households across the state.[iii] The undersupply of affordable housing opportunities disproportionately affects persons who are members of a protected class.[iv]

2. Affordable rental units are often located in areas of high poverty or economic distress; low-income renters often lack access to affordable rental housing in areas of opportunity, which disproportionately impacts persons who are members of a protected class.

Tennesseans Who Rent

Renters account for approximately one-third (33.7 percent) of Tennessee's 2.6 million households.[v] In general, Tennessee renters have lower incomes than homeowners. The median household income among renters in the state is approximately $34,000; for homeowners it is over $66,000.[vi] The majority of Tennesseans who rent (62.2 percent) are considered low income, having a household income at or below 80 percent of Area Median Income (AMI).

Adverse phenomena experienced across Tennessee's rental markets have fair housing implications because they disproportionately impact individuals and households on the basis of membership in a protected class. Tennesseans who rent are disproportionately members of racial and ethnic minorities. Most Black Tennesseans (56 percent) are renters. Hispanic Tennesseans also rent their homes at much higher rates (59.4 percent) than non-Hispanic Tennesseans.[vii] Only 27.6 percent of non-Hispanic White Tennesseans are renters.[viii]

Certain families with children are more likely than other households to rent. Single parents in general, and single mothers in particular, rent at higher rates than other Tennesseans. Although only 39.1 percent of all children in Tennessee live in rental housing, that figure increases to 67.2 percent for children in single female-headed households.

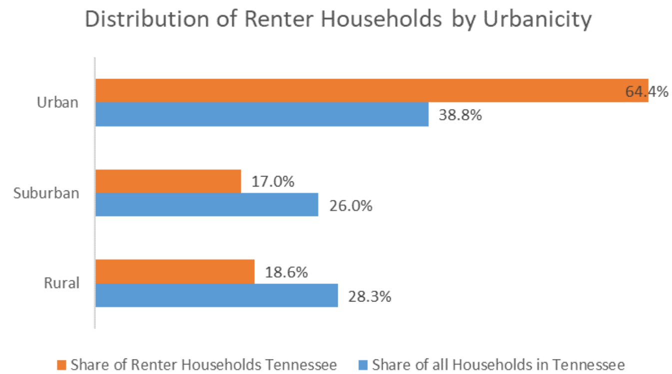
ADVERSE PHENOMENA EXPERIENCED ACROSS TENNESSEE'S RENTAL MARKETS HAVE FAIR HOUSING IMPLICATIONS BECAUSE THEY DISPROPORTIONATELY IMPACT INDIVIDUALS AND HOUSEHOLDS ON THE BASIS OF MEMBERSHIP IN A PROTECTED CLASS.

Where do Renters Live?

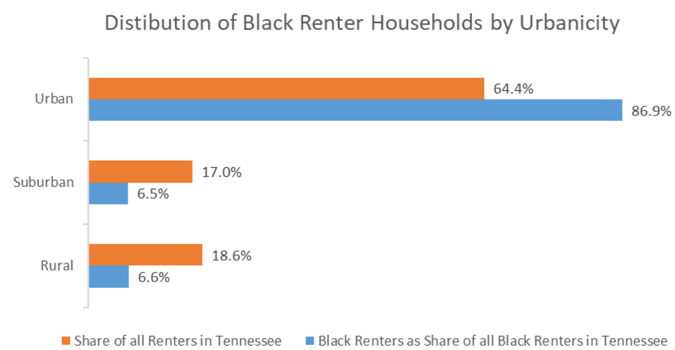
Rental housing opportunities are largely concentrated in just a few parts of Tennessee. Residents of urban areas are much more likely to rent than those living in suburban and rural areas. This is especially true of Black Tennesseans who rent. Suburbs often lack an adequate supply of rental housing.

Concentrated in Urban Areas

Most Tennesseans who rent live in urban areas. Nearly 39 percent of Tennesseans who reside in urban counties are renters; urban renters account for 64.4 percent of all renters in the state.[ix] Half of all renters live in just five of the state's ninety-five counties. In fact, just two urban counties, Shelby and Davidson, account for nearly one-third (32.8 percent) of all renters in Tennessee.



Most Black Tennesseans who rent their homes live in urban counties. Black Tennesseans comprise 16.7 percent of the states total population and 27.5 percent of its renter households. More than 62 percent of all black renters in Tennessee live in just two counties. Black Tennesseans who rent are much more concentrated in urban areas, and excluded from suburban and rural areas, than renters generally. The degree of concentration in urban areas is 1.35 times that of renters in general.



Excluded for Suburbs

Suburban counties have the lowest share of rental housing. Even in counties which are close to core cities and have comparatively urban character in at least some portions of the county (e.g. Sumner and Wilson), rental housing is rarely proportionate to renters' share of the regional population. This has the effect of excluding households on the basis of income, race, ethnicity, and familial status. The number of Black renter households in suburban counties is only 38 percent of what it would be if it were proportionate to the Black share of all renter households. Through its rental housing programs, THDA is investing in urban and rural communities while expanding housing opportunities for renters across the state, including suburban communities. These efforts are discussed in more detail below.

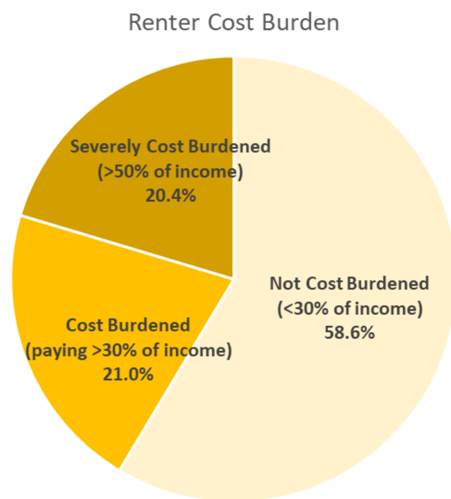
Special Challenges in Rural Tennessee

Renters in rural Tennessee face unique challenges. Some of these difficulties are described in depth in THDA's 2019 report on rural rental housing issues.[x] The key take away from that research is that Tennessee's rural rental markets are heterogeneous. Some are growing while others face population loss. In general, rural renters occupy the same unit for a longer period of time than their urban and suburban counterparts. While manufactured housing accounts for a marginal share of rental housing in urban areas, it comprises a significant portion of the rental housing stock in rural Tennessee.

Patterns of tenure vary widely across rural Tennessee. More than 28 percent of Tennesseans living in rural counties rent their homes; rural renters account for 18.6 percent of all renters in the state.[xi] In some rural counties in West Tennessee, renters account for well over 40 percent of all households. In the most economically challenged parts of Tennessee, low-income households comprise close to 75 percent of renter households. Due to disparities in tenure and income by protected class, the lack of high-quality affordable rental housing in rural Tennessee is a fair housing concern. Through a special set-aside of its resources, described in more detail below, THDA is expanding housing choice in these communities.

Renters are Cost-Burdened

Renters in Tennessee are often forced to commit a burdensome share of their incomes to housing expenses. Over 41 percent of all renters in the state are cost burdened, meaning they spend more than 30 percent of household income on rent and utilities. More than one-in-five renters is severely cost burdened, paying more than 50 percent of household income for housing expenses. Conversely, just 18 percent of homeowners are cost burdened. In other words, although only one-third of Tennesseans rent, they comprise more than half (53 percent) of all Tennesseans with burdensome housing costs.



Affordability is a fair housing issue. Due to the disparities described above, high rental cost burdens disproportionately impact Black and Hispanic Tennesseans, as well as families with children.

THDA is Increasing the Supply of Affordable Housing while Preserving Existing Affordable Housing Options

Most public sector support for renters is provided through privately owned housing. Just over three percent of Tennessee renters reside in public housing and are therefore tenants of government instrumentalities. Others are served through an array of public-sector programs that provide capital and rental subsidies to building owners. These programs reduce tenant housing costs by limiting the rents that landlords can charge, or by paying a portion of the rent on behalf of the tenant.

Affordable Housing Inventory

Privately-owned publicly-assisted affordable housing is found across the state. This housing provides the foundation of housing choice for low-income Tennesseans who rent. The state's affordable housing inventory is diverse. It includes more than 322 properties comprising more than

11,500 units financed and supported by the US Department of Agriculture Rural Development (USDA-RD). It also includes more than 31,000 units of housing at 374 sites assisted through various forms of Project Based Rental Assistance (PBRA) from the US Department of Housing and Urban Development (HUD).

Nearly all new affordable housing is financed through the Low Income Housing Tax Credit (LIHTC) and Multifamily Tax Exempt Bond (MTEB) programs. In Tennessee, these programs are administered by THDA. There are approximately 65,000 active and pipeline units across the state (with some overlap with USDA-RD and PBRA). Tenancies are limited to low-income households and rents must remain affordable.

Aging Housing Stock as a Fair Housing Challenge

The age of the affordable housing inventory contributes to impediments to fair housing choice. In 2016, THDA evaluated aging affordable rental housing in Tennessee and the need for preservation strategies. The Agency found that Tennessee renters tend to live in older structures than homeowners. A backlog of deferred maintenance and capital needs had built up at public housing, USDA-RD, and PBRA properties across Tennessee. The deterioration of existing affordable housing threatened the housing stability of low-income renters. Because Tennesseans who rely on the existing inventory are disproportionately members of racial minorities, families with children, and persons with disabilities, the deterioration of older affordable housing threatens fair housing choice in the state.

Tennessee is investing in New Housing Options for Renters in Rural Areas

The Tennessee Housing Development Agency is taking decisive action to supply decent affordable rental housing to low-income households. In 2019, after evaluating the rental housing needs of different rural counties, the agency added Special Assistance for At Risk and Distressed Counties within the LIHTC program. The special assistance targets 39 rural counties in Tennessee which are among the most economically depressed in the nation.

Developers who build rental housing in rural areas take significant risks. Low incomes, high rates of poverty, and difficulty procuring suppliers and contractors make it more expensive to build units which earn comparatively low rents. The special assistance for At Risk and Distressed counties makes additional resources available for developers who commit to provide high-quality affordable housing in economically depressed rural areas. The special assistance makes up to $13 million of tax credit equity available for sites in the 19 targeted counties. It also provides for flexible cost limits. In this way the assistance reduces debt and allows housing providers to afford the higher costs of construction in a rural area without having to charge higher rents.

WITH A SINGLE TARGETED INVESTMENT, THDA HAS PROFOUNDLY EXPANDED HOUSING CHOICE FOR RENTERS IN ONE DISTRESSED RURAL COUNTY.

In 2020 the agency awarded tax credits to a property in Scott County under the special assistance criteria. The 64-unit development, Bear Creek Place Apartments, will increase the affordable housing inventory in Scott County by 15 percent. In fact it will increase the overall number of rental homes in the county by two percent.

Scott County, like the 18 other eligible counties, is economically challenged. As part of the AI research, THDA and ECD staff visited Scott County to facilitate a focus group discussion on fair housing. Isolation and economic difficulties compound impediments to fair housing. The incidence of poverty in Scott County is 50 percent greater than the state as whole. The share of the population with a disability (22 percent) is double that of the state as a whole. The county is one of the least racially diverse places in Tennessee, all racial minorities combined account for just 2 percent of the total population.

Construction of Bear Creek Place will provide millions of dollars of capital investment to Scott County. It will also promote racial diversity and meaningfully increase the supply of high-quality affordable rental housing for persons with disabilities and families with children. Like all properties funded by THDA, the development must comply with the Fair Housing Act in marketing and leasing, prominently display the fair housing logo, and incorporate accessibility and visibility features into the building's design. In addition, the property has made an enforceable commitment to provide a residency preference for families with children. As evidence of this commitment, the development will feature a playground and more than 30 percent of the units will have three bedrooms. With a single targeted investment, THDA has profoundly expanded housing choice for renters in one distressed rural county. Over the course of the next several years this strategy may significantly alter the range of housing choice for rural Tennesseans.

THDA is Increasing Housing Choice by Investing in Existing Affordable Housing

Through creative partnerships and strategic investments, THDA has preserved affordable housing options across the state.

> "PRESERVING TWENTY COMMUNITIES IN SMALL TOWNS ACROSS RURAL TENNESSEE IS A SIGNIFICANT ACHIEVEMENT [...] THE PROJECT WILL PROVIDE QUALITY RENTAL UNITS FOR LOW- AND MODERATE-INCOME INDIVIDUALS AND FAMILIES."
>
> Ralph Perrey, THDA Executive Director

The agency sets-aside a significant share of its annual competitive housing credit authority for preservation and redevelopment of the existing affordable housing inventory. Each year, up to 25 percent of the state's competitive housing credits are used to rehabilitate existing multifamily housing. Another 20 percent is set-aside to support redevelopment of public housing units across the state. This vital resource allows local housing authorities to recapitalize and reposition their properties to ensure access to rental housing for low-income Tennesseans.

Existing Rural Housing

Preserving the USDA-RA portfolio is critical for maintaining and expanding housing choice in Tennessee. The properties supported by USDA-RD often comprise a significant share of the available affordable rental housing rural areas.

In 2016, THDA executed an innovative approach to preserving this important resource. After researching the risks to the existing inventory, the agency supported the acquisition and rehabilitation of a 20-property portfolio comprising 6.9 percent of all USDA-RD units in Tennessee. A $28 million bond issuance combined with $16 million of tax credit equity allowed the owners to leverage an additional $44 million and preserve critical rental assistance from the federal government.

The transaction was the first of its kind in Tennessee.[xii] Through strategic allocation of its resources THDA has ensured that renters in rural communities, including families with children and persons with disabilities, have access to high-quality affordable rental housing.

Public Housing

In partnership with THDA and the US Department of Housing and Urban Development, local housing authorities across Tennessee are giving new life to distressed public housing. Housing authorities are special purpose local governments. Although housing authority boards are appointed by municipal mayors, or county commissions in the case of county and regional authorities, they operate independently. The creation of most public housing was originally tied to efforts to eliminate slum and blight. Housing authorities exercise the power of eminent domain and may condemn land for a public purpose (i.e. slum clearance).

In Tennessee, as in much of the South, the location of public housing reflects the legacy of *de jure* racial segregation in effect during the period. Site selection decisions were often made with explicit reference to racial exclusion and separation. Using THDA resources, local housing authorities are changing this legacy and creating racially and economically integrated communities.

Tennessee's Rich History of Mission-Driven Housing

Tennessee has long been a leader in housing innovation. The public housing program is authorized under Section 9 of the Housing Act of 1937. Public housing was built primarily between 1937 and 1973 by local authorities using federal funds.[xiii]

Tennessee's major cities began building public housing even earlier. In 1935, the city of Memphis established the nation's second local housing authority.[xiv] The first families moved into two racially segregated developments in February 1938. Nashville soon followed with initial occupancies later that year.[xv]

Early proponents conceived of housing as a public utility with capital expenditures paid by the federal government and the cost of operations and capital maintenance paid by residents. After 1969, however, housing authorities were mandated to operate at a loss with the promise of federal subsidies to offset mounting costs.[xvi]

Tennessee's first public housing properties opened in Memphis in February 1938. The properties were segregated by race. Lauderdale Courts was limited to White families (including the family of young Elvis Presley from 1948 to 1953). Dixie Courts was open to Black families (including the family of pioneering journalist and editor of the Washington Post, Dorothy Butler Gilliam).

The Tennessee Housing Development Agency (THDA) provided Low Income Housing Tax Credits and Multifamily Tax Exempt Bond (MTEB) proceeds to the Memphis Housing Authority in order to transform these properties into the integrated mixed-income communities of Uptown and Legends Park.

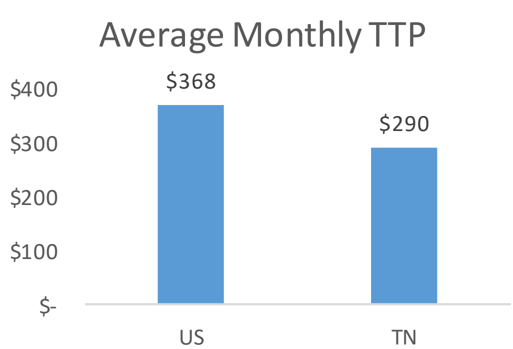
Tennessee Housing Authorities are Underfunded and Overburdened

Federal subsidies often fell short of actual costs.[xvii] Congress regularly appropriates less than the formula-determined amount necessary to operate public housing and replace obsolete physical components. As a consequence, Section 9 public housing is often physically inadequate; public housing staff are frequently overworked and have few resources with which to take affirmative action to further fair housing.

The National Association of Housing and Redevelopment Officials (NAHRO) estimates that accumulated capital costs across the program exceeded $70 billion by 2019. In Tennessee, approximately half of existing public housing was built between 1960 and 1979.[xviii] With some of the nation's oldest properties, Tennesseans living in public housing bore the brunt of this chronic underfunding.

Tennesseans Living in Public Housing are Economically Distressed

The problem of inadequate rents and operating subsidies is more acute in Tennessee than across the nation as a whole. This is because PHAs are severely limited in their ability to generate revenue from rents.



Tennesseans living in public housing are more economically distressed than their counterparts nationwide. The average household income of resident households in Tennessee is more than 20% below the national figure ($12,292 compared to $15,514). Tennessee public housing residents are less likely than their counterparts nationwide to participate in the labor force, significantly limiting their earning potential. Just 29 percent of Tennessee public housing residents report income from wages, compared to 34 percent nationally. On average, public housing residents in Tennessee derive a larger share of their incomes from disability benefits and welfare programs.

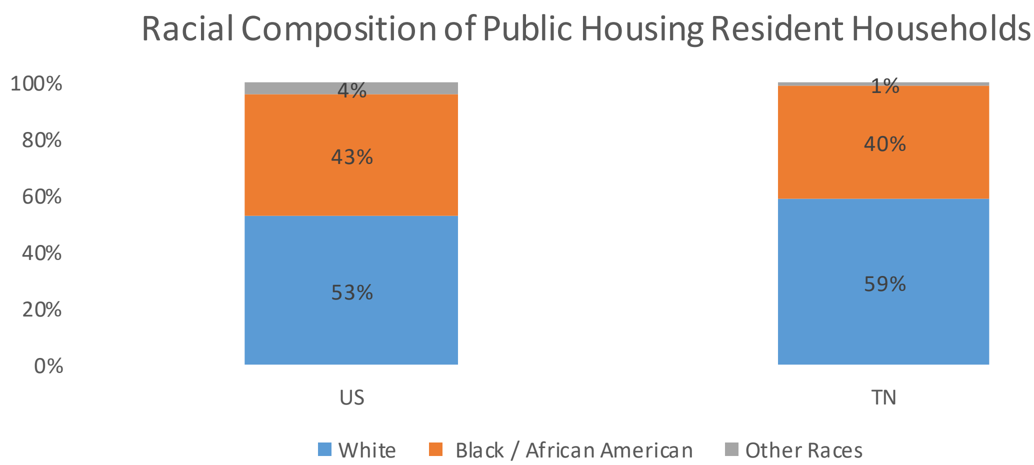
On average, the total tenant paid (TTP) rent in Tennessee public housing units – determined formulaically as a percentage of household income – is just $290. That is 21% below the national average of $368. Low incomes and formulaic rents make it impossible to operate public housing without federal subsidies. The challenge of meeting the capital needs of aging building is even more difficult with no income to set aside as reserves for replacements. Consequently, public housing residents often live in physically deficient buildings operated by underfunded authorities. The poor physical condition of the housing compounds the disparate impacts from the legacy of segregation.

Public Housing Residents are impacted by Regional Poverty and the Legacy of Segregation

Public housing properties integrated slowly. In some parts of the country properties began to integrate following World War II.[xix] During the 1950s, federal courts repeatedly held that segregation by race in federally funded housing violated the US Constitution.[xx] Nonetheless, public housing in Tennessee, as in much of the South, remained segregated throughout the decade. Finally, in 1962, President Kennedy ordered that all new federally funded housing be integrated. However, most existing housing was exempted.[xxi]

In 1963, at the time of the United States Commission on Civil Rights, PHAs in Tennessee were only beginning to integrate. Unfortunately, urban renewal occurred in tandem with integration. In hearings focused on Memphis, the Commission heard testimony indicating that although *de jure* segregation by race was receding, *de facto* segregation was actually increasingly "due to such factors such as site selection" and "traditional association" of certain areas with one race.

In much of the state, the resulting pattern of *de facto* segregation persisted into the twenty-first century. White Tennesseans utilize public housing at higher rates than Whites nationwide. This reflects the demographics of Tennessee generally, as well as higher overall rates of poverty. However, Black Tennesseans account for a substantial minority of public housing residents, disproportionate to the Black share of the overall population. In Tennessee's largest cities, as described above, public housing authorities originally isolated and segregated residents by race. Over time, the concentrations of low-income people in aging buildings compounded the effects of segregation. The largest urban public housing portfolio in the state is also the oldest. It serves a resident population that is 98 percent Black.[xxii] Conditions of extreme segregation and disparities in housing quality remain pressing fair housing concerns long after the end of *de jure* segregation.



A New Model for Assisted Rental Housing

In the 1990s the federal government initiated various efforts to address the perceived failures of public housing. The Quality Housing and Work Responsibility Act of 1998 created a policy framework for reform that continues to reshape public housing. The Act created a model for the demolition and replacement of public housing with mixed-finance housing through HOPE VI and its successor programs, namely the Rental Assistance Demonstration (RAD) program. Among the Act's provisions is a limitation on the number of active public housing units to the number in service on October 1, 1999.[xxiii]

This framework guarantees that the number of public housing units will gradually dwindle until they are completely replaced by other forms of below-market rental housing. It also means that the pace and character of redevelopment is determined in large part by state and federal priorities related to the allocation of capital subsidies and inducements for private investment, especially the Low Income Housing Tax Credit Program (LIHTC).[xxiv] In Tennessee, the program is administered by THDA.

THDA Provides Transformative Resources

The state of Tennessee, through THDA's rental housing production programs, is taking action to empower communities, reverse disinvestment in rental housing, and eliminate the pattern of racial segregation that has persisted in public housing for eighty years. The agency's transformative investments in existing rental housing are expanding housing choice for Tennesseans.

Public housing properties in Tennessee are rapidly transforming into integrated mixed-income communities. In just five years, THDA's tax credit awards to public housing redevelopments has resulted in nearly $200 million of capital investment. Properties in Memphis, Nashville, Knoxville, Chattanooga, Murfreesboro, Columbia, Jackson, and cities across Tennessee have benefited from THDA's partnership through the RAD program.

As of this writing there are 107 RAD transactions completed or underway in Tennessee. These developments will convert two-thirds of Tennessee's public housing units into modern housing options for low- and moderate-income renters. These developments often also incorporate market rate units, creating a broader mix of incomes than traditional public housing. Unlike the housing it replaces, affordable housing financed by THDA is physically indistinguishable from market rate housing. Over time, the changing affordable housing inventory will reduce the disparate housing conditions Tennesseans experience on the basis of membership in a protected class.

THDA'S STRATEGIC INVESTMENTS IN RENTAL HOUSING ARE HISTORIC AND IMPACTFUL; OVER TIME THESE INITIATIVES WILL REDUCE THE DISPARATE HOUSING CONDITIONS TENNESSEANS EXPERIENCE ON THE BASIS OF MEMBERSHIP IN A PROTECTED CLASS.

About two dozen RAD transactions have been funded by THDA through LIHTC and the MTEB programs. More are in the pipeline. Others will continue to apply for funding over the next several years. These investments are in addition to the tax credit and bond awards which supported HOPE VI redevelopments and continue to support the Memphis Housing Authority's Choice Neighborhood Initiative (CNI) implementation. This investment is as historic and impactful as the initial creation of mission-driven rental housing in the 1930s.

THDA is Creating Housing Opportunities in Areas of Opportunity

Income disparities among Tennesseans suggest impediments to housing choice. Affordable housing opportunities are concentrated in areas of high poverty. At the same time, the incidence of poverty among Black and Hispanic Tennesseans is disproportionately high. Similarly, the incidence of poverty among families with children greatly exceeds that of other households. Obviously, families living in poverty are more likely than others to utilize income-qualified housing. Consequently, differences in income may disparately impact housing choice on the basis of race, ethnicity, and familial status.[xxv]

Some Neighborhoods are Islands of Poverty and Prosperity

Across Tennessee there is a moderate relationship between the cost of housing and the neighborhood-level incidence of poverty. [xxvi] In core metropolitan counties, moderately-priced neighborhoods are generally integrated by income. Neighborhoods where the median rent is around $800 have wide ranging poverty rates. The challenges and opportunities tied to residential location are available to families in these neighborhoods with a range of incomes.

In stark contrast to moderately-priced neighborhoods, the highest and the lowest cost neighborhoods have extreme differences in the incidence of poverty. In all Tennessee neighborhoods where median rents are less than $400, the poverty rate exceeds 30 percent. Conversely, in all neighborhoods where the median rent exceeds $1,350, very few households experience poverty. In other words, most housing opportunities that low-income renters can afford without incurring burdensome costs are located in areas of concentrated poverty.

Neighborhoods Shape Daily Life

The result of this spatial sorting by income is extreme isolation at either end of the income ladder. People living in higher-cost neighborhoods are sheltered from the challenges tied to having neighbors who live in poverty. At the same time, people currently living in the most distressed neighborhoods are excluded from the opportunities available to those who can access a high-cost location. Urban Tennessee families living in poverty face limited choices if they wish to move to an opportunity-rich neighborhood. Many are only able to find affordable rental housing in sequestered islands of poverty.

Residential segregation by income is an impediment to fair housing choice. Given the relationship between poverty and race, one result of spatial sorting by housing cost is a persistent pattern of residential segregation by race. Additionally, families with children are more likely than other households to live in low-rent high-poverty neighborhoods.

THDA is Creating Affordable Housing Options in Low-Poverty Areas of Opportunity

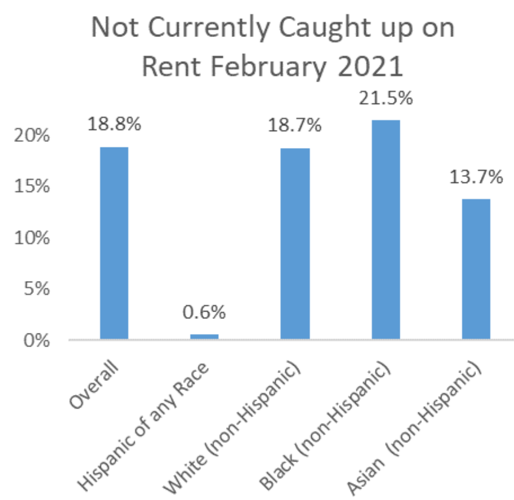
There are few programs which create new affordable rental housing for low-income families. Developers who participate in these programs face a trade-off between land costs and the number of units they can produce. As a result, these programs often concentrate new housing opportunities in areas of high poverty. In recent years THDA has made measurable progress toward altering that pattern.

Beginning in 2019, the Agency changed the way it allocates the largest source of capital available for the production of new affordable income-qualified rental housing, LIHTC. Over the last two years, THDA has steered capital investment in housing away from areas of concentrated poverty identified as Qualified Census Tracts. The agency's resources remain available to recapitalize existing housing in those areas, but not for new construction (see the discussion of public housing above).

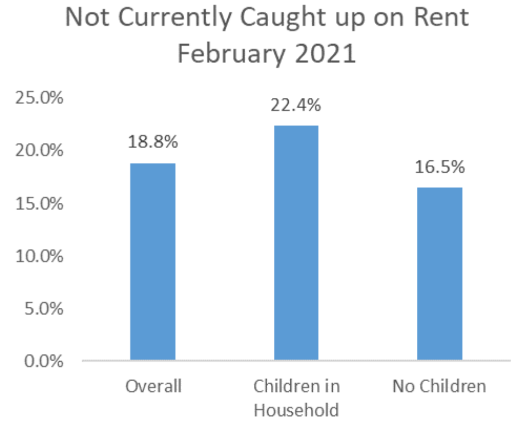
The results have been impressive and immediate. Prior to 2019, the average poverty rate in census tracts receiving new housing was 23 percent. Over the last two years it has fallen to 19 percent.

The agency continues to evaluate ways it can target these resources to opportunity-rich neighborhoods in the years to come. In this way, THDA is working to overcome this impediment to housing choice and to create affordable housing opportunities in areas where the incidence of poverty is low. Investing in new housing will gradually reduce the exclusion of renters which characterizes suburban Tennessee. Over time, these efforts will reduce the degree of residential segregation in Tennessee.

THDA is addressing the Disparate Impacts of the COVID-19 Pandemic through Emergency Rental Assistance



The economic impacts of the ongoing COVID-19 pandemic have been severe for Tennesseans who rent. Early attempts to measure the effects of the pandemic on households indicate that low-income renters have experienced housing insecurity during 2020 and early 2021. According to data from the Census Bureau, among renters in Tennessee, Black households and families with children are more likely than other renters to face eviction as a result of the pandemic.[xxvii]



In December of 2020, Congress authorized a $25 billion emergency rental assistance program. THDA is implementing the federal COVID-19 Emergency Rental Assistance program in 91 of Tennessee's 95 counties. During the spring and summer of 2021, the agency will distribute $384 million to pay rent and utility bills for low-income renters impacted by the pandemic. Although this effort is not specifically mentioned in the agency's Fair Housing Plan, it will prevent the disparate impacts of the pandemic from exacerbating unequal access to housing on the basis of membership in a protected class.

Impediments and Recommended Actions

As mentioned above, THDA and its Consolidated Planning Partners undertook research and community engagement from 2018 through 2020 to ascertain barriers to fair housing choice. The fair housing plan identifies that actions the agency will take to overcome the impediments.

This brief describes only a few of the agency's efforts to expanding housing choice for renters. Others are described below. Accomplishments resulting from some of these actions will be detailed in Consolidated Annual Performance and Evaluation Reports (CAPERs) during the planning period. Those documents will be available on THDA's Consolidated Planning webpage. The Housing Choice Voucher (HCV) program is the subject of a forthcoming brief in this series.

Impediment: Insufficient supply of decent, rental housing affordable to 0-80% AMI across the state, which may disproportionately affect persons in a protected class who are low income.

1. Develop and implement rental housing and tenant based rental assistance programs targeted to 0-80% AMI households through THDA's HOME program. Guidelines for HOME are in the program description.
2. Support the development of rental units targeted to households at 30% and 50% AMI through THDA's National Housing Trust Fund (HTF) and the Tennessee Housing Trust Fund Competitive Grants.
3. Incentivize awardees of THDA's National HTF to create project based rental assistance (PBRA) units and increase affordability for extremely low-income households.
4. Support Continuums of Care (CoC) through THDA's Emergency Solutions Grant (ESG) program to refine a framework to address veteran and chronic homelessness more effectively through the Community Solutions "Built for Zero" program.
5. Provide targeted ESG grant funding to CoCs and other qualified entities to respond to the effects of COVID-19 in the housing and sheltering of homeless individuals and families.
6. Provide a set-aside of up to 20% of THDA's annual competitive housing credit authority to support the redevelopment of public housing units to help ensure access to rental housing for Tennessee's lowest income residents (discussed in this brief).

Impediment: Affordable rental units are often located in areas of high poverty or economic distress, and low-income renters often lack access to affordable rental housing in areas of opportunity, which may disproportionately impact persons in a protected class.

1. Implement scoring preferences or systems in THDA multifamily development programs that incorporate measures of opportunity, such as economic security, mobility and education to encourage development in areas with attributes determined to improve economic opportunity and livability (discussed in this brief).
2. Engage in activities or targeted outreach to increase participation in the HCV program by property owners who have units available in areas of greatest need (the HCV program is the subject of a forthcoming brief).

Further Considerations

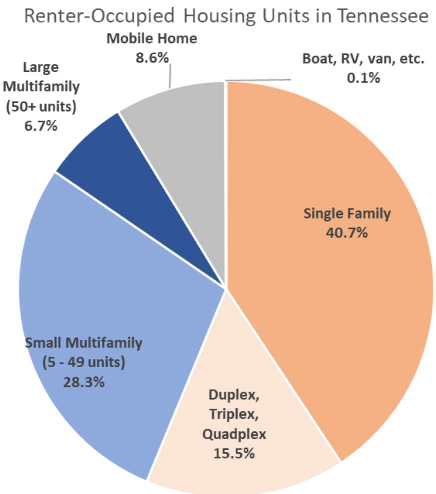
The Unassisted Private Market Is Opaque

It is difficult to ascertain housing impediments in the private unassisted market. Fair housing complaint data reveal individual incidents of direct discrimination, as discussed in the first brief in this series. However, rental market data which would indicate structural impediments to housing choice are limited. While THDA is able to evaluate disparities in mortgage lending, it is impossible to evaluate the rental market in the same way.

Naturally Occurring Affordable Housing

Most renters live in privately owned unassisted housing. The entire assisted housing inventory, excluding tenant-based subsidies like HCV, comprises no more than 15 percent of all rental housing in Tennessee. Although large professionally managed multifamily properties are an important part of the housing market in urban and suburban areas, most renters in Tennessee live in small properties (manufactured housing, single-family homes, duplexes, triplexes, and quadplexes). Mobile homes comprise more than 8 percent of rental homes statewide. In rural areas, mobile homes account for more than one-in-five rentals, a fact highlighted in THDA's 2019 report on rural rental housing issues.

A body of literature suggests that some portion of the private rental market consists of Naturally Occurring Affordable Housing (NOAH). That is, housing which remains affordable to low-income renters through market forces. The inventory of NOAH grows through a process of *filtering*. As single family homes depreciate they are converted from owner-occupancy to rentals. In the same way, luxury apartments eventually become class-B rentals as new entrants to the market draw away higher-income tenants. As former occupants move on, the housing becomes available to renters who value affordability over quality. For building owners, the return on investment is insufficient to justify recapitalization of the property. Over time, aging structures provide increasingly affordable housing as they slowly depreciate.



The relationship between median gross rent and age of structure suggests the process of filtering may occur in Tennessee. Units in newer buildings command a premium over the statewide median rent. Meanwhile, older units rent for a comparative discount which generally increases with the age of the structure. However, the process depends on a steady supply of new homes for upwardly mobile consumers. Supply constraints in some parts of the state may prevent the process from producing NOAH where it is needed. It is also unclear whether all renters benefit from NOAH. The geographic concentration of renters by race, as well as the disparate rent burdens experienced by race and familial status, suggest many Tennessee renters have been unable to benefit from this process. More research in this areas could identify what THDA can do to equitably preserve and promote NOAH.

Median Gross Rent (MGR) by Age of Structure

Year Built	MGR	Premium/Discount
Built 2014 or later	$1,259	44.9%
Built 2010 to 2013	$1,087	25.1%
Built 2000 to 2009	$994	14.4%
Built 1990 to 1999	$891	2.5%
Built 1980 to 1989	$848	-2.4%
Built 1970 to 1979	$819	-5.8%
Built 1960 to 1969	$799	-8.1%
Built 1950 to 1959	$816	-6.1%
Built 1940 to 1949	$789	-9.2%
Built before 1949	$808	-7.0%
All Units	$869	

Institutionalization of Rental Market

Institutional investors are reshaping the rental housing market in Tennessee's largest cities. Historically, individual investors owned most rental housing. Three-quarters of single-family rentals are owned by individual investors. It is likely that most rental units in Tennessee are still owned by "mom-and-pop" operators. However, over the last decade institutional investors have entered the small-building rental market. There are now several publically traded Real Estate Investment Trusts (REITs) specializing in single family rentals. Private equity firms have also assembled large portfolios of single family rental. They are especially active in Memphis and the suburban counties surrounding Nashville.

It is unclear what impact this trend has on affordability or fair housing choice. Renters may benefit from sophisticated professional management. At the same time, it may be that tenants benefit from having landlords with connections to the community. Additional research could guide THDA's response to this phenomenon and ensure that it doesn't exacerbate existing impediments to fair housing choice.

Other Briefs in This Series

Anderson, Teresa; Swanson, Laura "Overview of Findings Supporting the Fair Housing Plan & Perspectives on the State of Fair Housing." Tennessee Housing Development Agency, January 2021.

Arik, Hulya; McCarthy, Kevin C, "Racial and Ethnic Disparities in Home Mortgage Originations in Tennessee." Tennessee Housing Development Agency, January 2021.

Anderson, Teresa, "Housing Opportunities for Persons with Disabilities." Tennessee Housing Development Agency, February 2021.

McCarthy, Kevin C; Randle, Zelinka, "Barriers to utilizing Housing Choice Vouchers." Tennessee Housing Development Agency, *forthcoming*.

Webb, Megan, "Fair Housing Impacts of Utility Costs and Broadband Access in Tennessee." Tennessee Housing Development Agency, February 2021.

https://thda.org/research-reports/issue-briefs

ABOUT THDA

As the State's housing finance agency, the Tennessee Housing Development Agency (THDA) is a self-sufficient, independently funded, publicly accountable entity of the State of Tennessee. THDA's mission is to ensure that every Tennessean has access to safe, sound, affordable housing opportunities. More information about THDA programs can be found online at www.thda.org.

Tennessee Housing Development Agency

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[i] The Consolidated Planning programs consist of THDA's HOME Investment Partnerships Program, Housing Trust Fund (HTF) program, and Emergency Solutions Grants (ESG) program; Tennessee Department of Economic and Community Development's Community Development Block Grant (CDBG) program; and Tennessee Department of Health's Housing Opportunities for Persons with Aids (HOPWA) program. When referring to these programs, the collective agencies are known as the Consolidated Planning Partners. https://thda.org/research-reports/consolidated-planning

[ii] The full Fair Housing Plan (FHP) is included in the 2020-2024 Consolidated Plan. The FHP lists impediments and recommended actions.

[iii] Low Income is generally defined as household income at or below 80 percent of Area Median Income (AMI). Some programs use other thresholds.

[iv] The term *protected class*, as used here, refers to the seven protected classes mentioned in the Fair Housing Act: Race, Color, Religion, National Origin, Sex, Familial Status, and Disability. The Tennessee Human Rights Act also prohibits discrimination in housing on the basis of creed.

[v] Comprehensive Housing Affordability Strategy (CHAS) 2006-2016.

[vi] ACS 2015-19 5-year estimate (Table S2503)

[vii] Although ethnicity is not listed as a protected class in the Fair Housing Act, it is indicative of real or perceived national origin, which is a protected class.

[viii] ACS 2013-17 5-year estimate

[ix] For purposes of this brief an urban county is one which contains a principal city of a Metropolitan Statistical Area (MAS); suburban counties are part of an MSA but do not contain one of its principal cities; rural counties are those which are not part of any MSA.

[x] The 2019 report used a slightly more expansive definition of "rural" than used elsewhere in this brief.

[xi] THDA's Research & Planning Division published a detailed analysis of rural rental housing in 2019.

[xii] Kimura, Donna, "Rural Tennessee Properties Pooled in $88.6 million Deal." Affordable Housing Finance, 2015.

[xiii] About 65 developments – including four in Tennessee – were built through local efforts and predecessor programs. These were later incorporated into the Section 9 program. Very few public housing developments were built after the Nixon administration declared a moratorium on their construction in 1974.

[xiv] The first developments were Dixie Homes (Black) and Lauderdale Courts (White). They have both been redeveloped as integrated, mixed-income communities using funds from THDA. The various phases of Legends Park are on the former site of Dixie Homes. The Uptown redevelopments include the former Lauderdale Courts.

[xv] The first developments in Nashville – third and fourth to open in Tennessee – were Andrew Jackson Courts (Black) and Cheatham Place (White). Both properties are still in operation and are subject to ongoing redevelopment financed in part by THDA.

[xvi] The Brooke Amendment – so called for Senator Edmund Brooke – mandated that housing authorities charge no more than 25 percent of a tenant's income as rent. The maximum was increased to 30 percent in 1981.

[xvii] Post-1981, tenancies are limited to low-income households having a family income at or below 80% of the area median income (AMI). Furthermore, HUD requires that at least 40% of all new admissions to public housing be of Extremely Low Income (ELI), either the federal poverty level or 30% of AMI. Tenants pay 30% of their income as rent, less a utility allowance. Public housing properties are subject to a declaration of trust between the local authority and the United States

Department of Housing and Urban Development (HUD). HUD subsidizes the deficit between rents collected from tenants and the authority's cost of operating the housing through an operating fund. Additionally, HUD provides a capital fund subsidy to housing authorities for the replacement and modernization of building components. These funds, as well as support for any Housing Choice Voucher (HCV) program administered by the authority, are established through an Annual Contributions Contract (ACC) between HUD and the PHA. The targeting of public housing to ELI households in areas of historical segregation generally leads to the concentration of low-income minority families in racially isolated areas of high poverty.

[xviii] Swanson, Laura, "Aging Affordable Rental Housing in Tennessee & the Need for Preservation." Tennessee Housing Development Agency, 2016.

[xix] Congress considered a ban on segregation by race as part of the major 1949 expansion of the Housing Act. However, in order to retain support from Southern senators and representatives, the proposal was abandoned.

[xx] Heyward v. Public Housing Administration; Detroit Housing Commission v. Lewis; and Banks v. Housing Authority of San Francisco.

[xxi] Executive Order 11063 of Nov. 20, 1962

[xxii] Public Housing Information Center Resident Characteristics Report.

[xxiii] This Faircloth Amendment – so called for Senator Lauch Faircloth who proposed it – amends Section 9(g)(3) of the Housing Act of 1937. The provision prevents HUD from funding the construction or operation of any net increase in public housing. It applies to each public housing authority regardless of its size at the time the Quality Housing and Work Responsibility Act went into effect.

[xxiv] HUD's June 2019 report on the progress of the RAD program indicates that LIHTC equity provided 38.6% of $12.5 billion invested in converting Section 9 public housing to affordable housing with project and tenant based rental subsidies.

[xxv] Although ethnicity is not listed as a protected class in the Fair Housing Act, it is indicative of real or perceived national origin, which is a protected class.

[xxvi] For this analysis, census tracts are used to approximate "neighborhoods."

[xxvii] U.S. Census Bureau Household Pulse Survey, Week 24