Foreclosures and Renters in Washington, D.C.

Prepared by Peter A. Tatian for
The Annie E. Casey Foundation
April 2009

The Urban Institute
2100 M Street, NW
Washington, DC 20037

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FOREWORD

Today more than ever, families of every income level are experiencing greater economic, emotional and social stress in their daily lives. The impact of the foreclosure crisis on families and communities is a national story with local consequences. While the crisis has been talked about in terms of homeowners, recent data show that the evictions from foreclosures also affect as many families who rent as families who own. It is estimated that 38 percent of foreclosures across the country involve rental properties. Given that nationally, about one-third of U.S. households live in rental housing, the impact of foreclosure-induced eviction and displacement is likely to have a disproportionate impact on the nation’s most disadvantaged households.

We commissioned this report to look at the impact of foreclosures on renters in the nation’s capital, the District of Columbia. Despite being at the center of a robust regional economy over the last decade, more than 35,000 children live in poverty, with the highest concentrations east of the Anacostia River. Since rental housing is an important resource for low-income families with children, we asked the Urban Institute to analyze the impact of foreclosures on renters in the city with a special look at neighborhoods east of the River which are home to large numbers of resilient but struggling families.

The report’s overall conclusion is that the increase in residential foreclosures is affecting both renters as well as homeowners across the city and East of the River. However, renters are not receiving the same kind of targeted assistance and protection from foreclosure as those who own homes. As a result, families who rent frequently find out that their home has gone into foreclosure when they receive an eviction notice, with little time to find new housing. Because they have lower savings, families who rent face financial hardships when they move – especially with short notice – and fewer resources to come up with security deposits and money for moving expenses. Finally, families with children are forced to find new daycare, school and healthcare services as well as new housing adding to the stress of an unexpected foreclosure.

We are indebted to the study’s author – Peter Tatian – for his willingness to undertake this analysis and highlight the need for policymakers, advocates and service providers to focus on the impact of foreclosure on renters as well as homeowners. We believe this data are timely and relevant to the national agenda around foreclosure, to inform the city’s efforts to include protections for renters as well as homeowners and to advance the Foundation’s priorities around family strengthening and family economic success.

Irene Lee, Senior Associate
The Annie E. Casey Foundation

Beadsie Woo, Senior Associate
The Annie E. Casey Foundation

INTRODUCTION

The U.S. foreclosure crisis has reached serious proportions with far-reaching ramifications for the national economy. According to data from the Mortgage Banker's Association (2008), the rate of foreclosure starts and the percentage of loans in the process of foreclosure in the U.S. set new records in the second quarter of 2008. The percentage of loans in the foreclosure process at the end of the second quarter was 2.75 percent, an increase from 1.40 percent from one year earlier. Serious delinquencies were also higher, suggesting that the wave of foreclosures was not likely to subside any time soon.

Although much of the media attention in the foreclosure crisis has focused on the impacts on financial markets and lending institutions, there is growing concern about the negative consequences on neighborhoods where troubled homeowners are concentrated. It has been widely documented that subprime lending, which is one of main causes of the increasing rates of foreclosure, was not distributed uniformly, but rather was concentrated among particular populations and neighborhoods. This, in turn, has resulted in higher rates of foreclosures in certain locations, which has threatened to undermine the stability and health of many neighborhoods. In fact, in response to these concerns, the U.S. Congress has authorized the Department of Housing and Urban Development to make a special disbursement of funds that local governments can use to purchase foreclosed properties to attempt to stabilize declining neighborhoods. The first round of the Neighborhood Stabilization Program (NSP) will disburse $3.92 billion in CDBG funds to states and local jurisdictions to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. The District of Columbia's allocation of NSP funds will be quite modest: $2.8 million. The city has decided to use the money to support the revitalization of the Ivy City and Trinidad neighborhoods in Ward 5 (DHCD 2008).

Furthermore, comparatively less attention has been paid to how the fallout from housing foreclosures has affected renter households. Much of the discussion to date has focused on the impacts on homeowners and the possible adverse consequences for the nation's homeownership rate. But, renters can also be seriously affected by the foreclosure problem if the house, condominium, or apartment building where they live undergoes foreclosure. Furthermore, since typically it is the homeowner who is notified when the foreclosure process begins, renters may not even be aware that their home is threatened until the property has been foreclosed and they are at risk of imminent eviction.

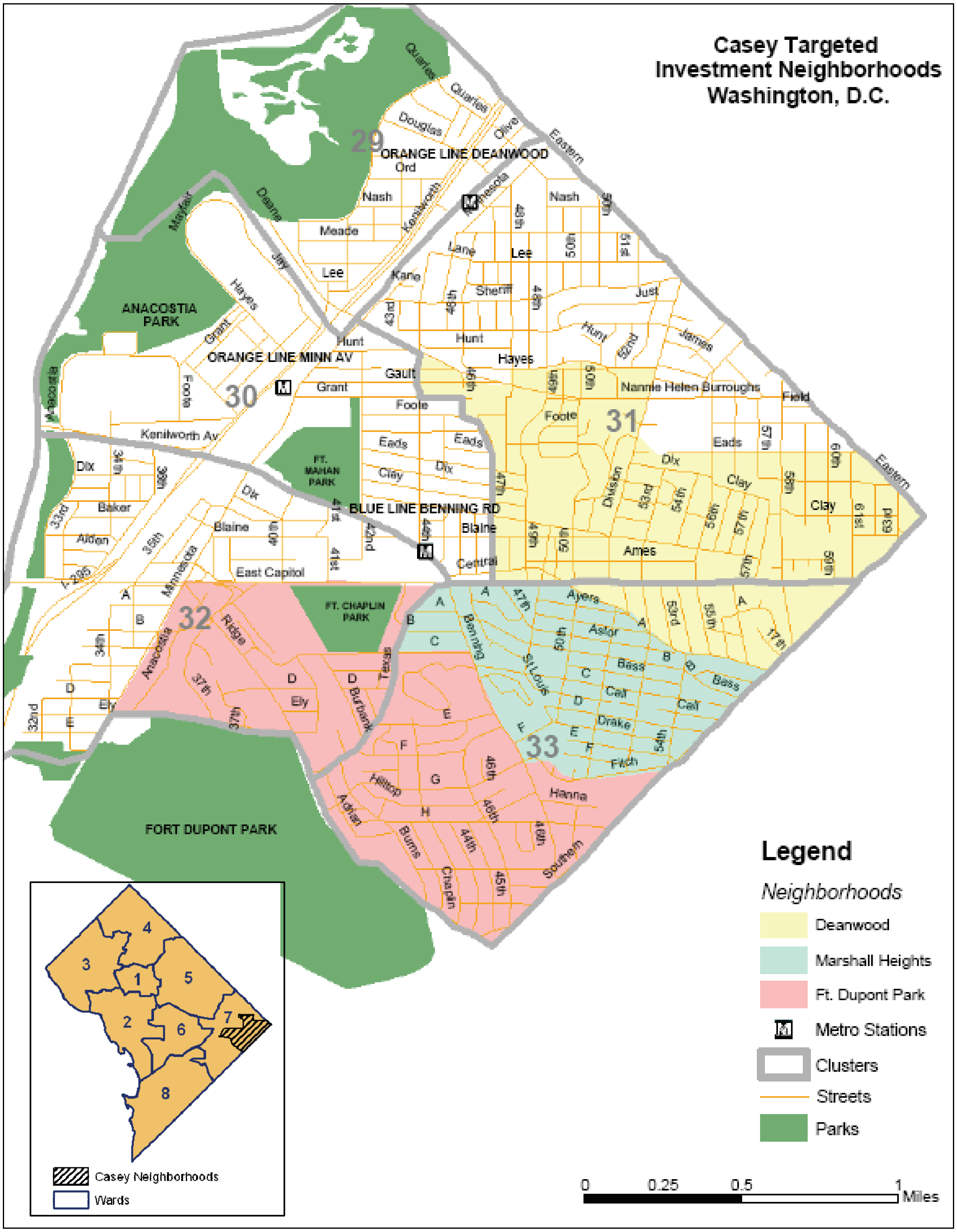
To address these concerns, in this report we provide an overview of the housing and foreclosure situation for the District of Columbia as a whole, as well as for three subareas of the city: the area east of the Anacostia River (East of the River); Ward 7; and the Ward 7 neighborhoods of Deanwood, Marshall Heights, and Congress Heights (shown in map 1). The three neighborhoods of Deanwood, Marshall Heights, and Congress Heights have been the focus of targeted investments by the Annie E. Casey Foundation through the Foundation's

Family Economic Success Initiative.[1] Throughout this report, we will refer to these three neighborhoods collectively as the “Casey targeted investment neighborhoods.”

Because foreclosure problems cannot be understood outside the context of the broader housing market, we first present a summary overview of housing market conditions in the District of Columbia, including the home sale and rental markets, as well as data on subprime lending. In the next section, we provide up-to-date data on foreclosure rates, with separate breakdowns for different property types and for renter-occupied housing.

[1] For more on the Family Economic Success Initiative, see http://www.aecf.org/MajorInitiatives/FamilyEconomicSuccess.aspx.

Map 1. Casey Targeted Investment Neighborhoods



STATE OF THE D.C. HOUSING MARKET

The economic growth in the city and the Washington, D.C., region over the past decade has driven an unprecedented expansion in the city's housing market. Throughout the 1980s and 1990s, housing prices in the city were relatively flat or rose only moderately. As a result of weak demand and population declines, the city lost large numbers of housing units. All of this changed, however, at the end of the 1990s. A thriving national economy helped fuel employment growth in many metropolitan areas in the country, especially in the Washington, D.C., region. In addition, a renewed perception of the city of Washington, D.C., as a desirable place to live led to a housing boom that lasted through the first half of the 2000's. Throughout this period, home prices in D.C. experienced double-digit appreciation, rental vacancy rates fell, and construction of new housing recommenced at a rapid pace.

The neighborhoods East of the River were slower to respond to the new housing boom than other parts of the city. Suffering from decades of disinvestment and higher incidences of social problems, this area required more intervention by public and private developers to jump start revitalization. A number of prominent public investments, including the HOPE VI housing developments at Wheeler Creek and Henson Ridge, and initiatives spearheaded by private and nonprofit developers, such as The Shops at Park Village, a shopping center that includes Ward 8's only major grocery store, and THEARC, a $27 million, 110,000 square-foot world-class education arts and recreation campus, helped transform the wider perception of neighborhoods East of the River as desirable places to live. As a result, many of these neighborhoods began experiencing substantial price increases starting around 2005 – a point when price growth had begun to slow considerably in other, higher-priced city neighborhoods.

More recently, however, the D.C. housing market has entered a profound slowdown, triggered by a decline in the national housing market, a tightening of mortgage credit, and financial difficulties for both homeowners and mortgage lenders brought on by rising unemployment and a prevalence of subprime loans. Starting around 2006, home sales in Washington, D.C., slowed, prices in most neighborhoods grew only modestly or, in some higher-price areas, actually began to fall. Although property overall retained much of its value, the city has clearly entered a downward phase of the housing market cycle.

The indicators in this chapter examine the changes that have taken place in the city's housing market over the past decade, with a particular emphasis on how conditions and trends differ across wards and neighborhoods. This differences provide important context to the discussion of foreclosures later in the report.

Home Sale Market Trends

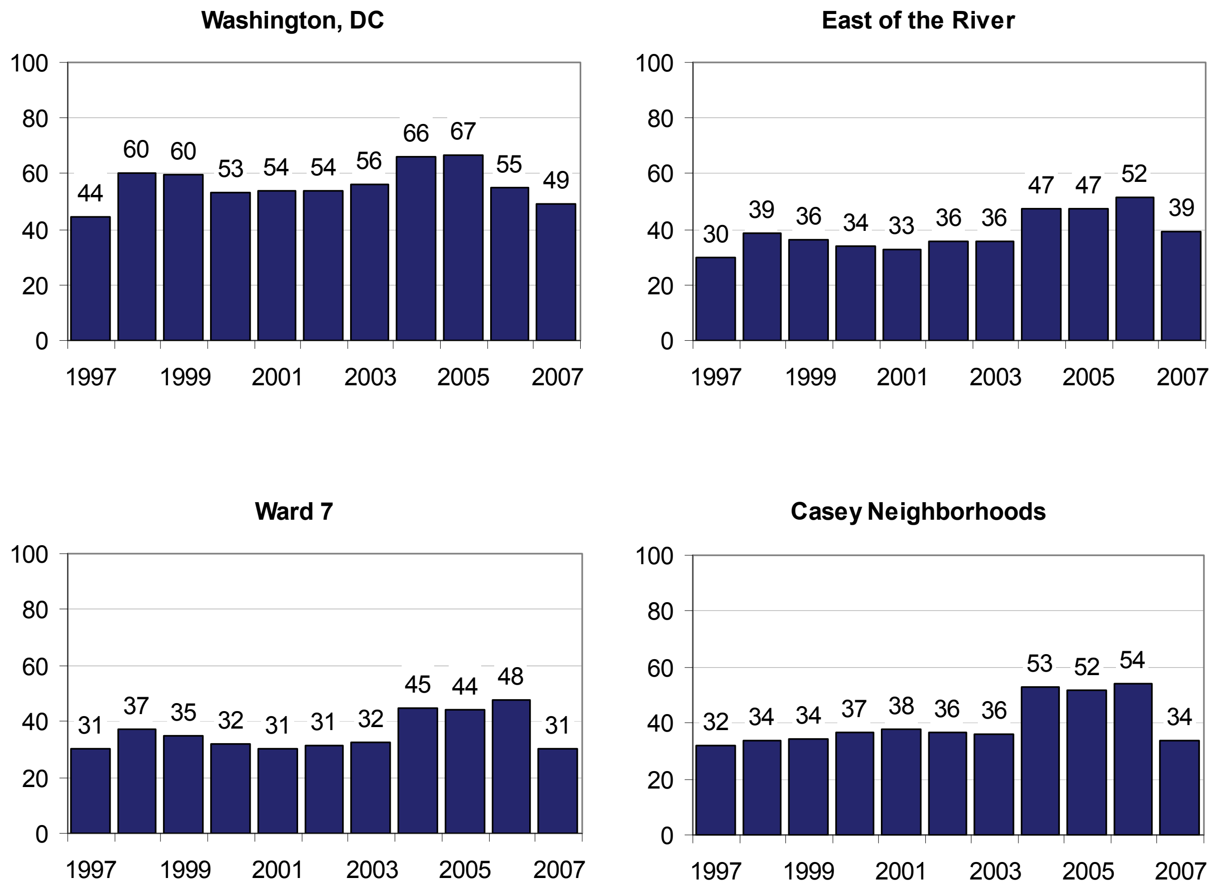
Home sales have slowed considerably from the rapid pace at the start of the decade. Overall sales in the city reached a recent peak in 2005 when 67 single-family homes and condominium units were sold per 1,000 existing units (Figure 1). In 2007, however, sales volume dropped to 49 per 1,000 existing units, the lowest level since 2000. The pattern was similar East of the River, although sales volumes never reached the city average and the market expansion lasted another year after the city slowdown began. Sales activity in the Casey neighborhoods has generally outpaced sales East of the River and in Ward 7. The Casey targeted investment neighborhoods reached a peak in sales activity between 2004 and 2006, when volume held relatively steady at 52 to 54 sales per 1,000 existing single-family homes and condominium units, before falling back to 34 sales per 1,000 units in 2007.

Despite the sales slow-down, home prices have held steady in most parts of the city. While there has been a noticeable drop in prices in the higher-priced neighborhoods, particularly in Wards 2 and 3, many neighborhoods have not, as of yet, experienced deep price declines. As shown in Figure 2, prices of single-family homes and condominiums in the city increased rapidly between 1999 and 2005. Over this period, the median price of a single-family home rose from $174,000 to $451,000 (in constant 2007 dollars), an average annual increase of 17 percent. Condominiums experienced a similar rate of price growth over this period.

Starting in 2005, however, prices began to flatten out or decline. Median single-family home prices grew only slightly between 2005 and 2007, with an average real price growth of only 4 percent per year, reaching $461,000 in 2007. Median condominium prices actually declined, however, falling 3 percent per year. The drop in condominium prices is likely attributable to the rapid increase in the supply of condominium units in the city over this period, which was a result of the construction of many new condominium properties, as well as the conversion of rental housing to condominium ownership.

East of the River has been substantially undervalued compared to the rest of the city and, although these areas also experienced significant growth in property values, this price gap has widened over the past decade (Figure 2). In 1997, the median price of a single-family home East of the River was $110,000 (in constant 2007 dollars), $59,000 less than the city median price of $169,000. As prices began to escalate, the gap widened to $195,000 in 2004 and $228,000 in 2005. (As can be seen in Figure 2, there were almost no differences in median prices between East of the River, Ward 7, and the Casey targeted investment neighborhoods.)

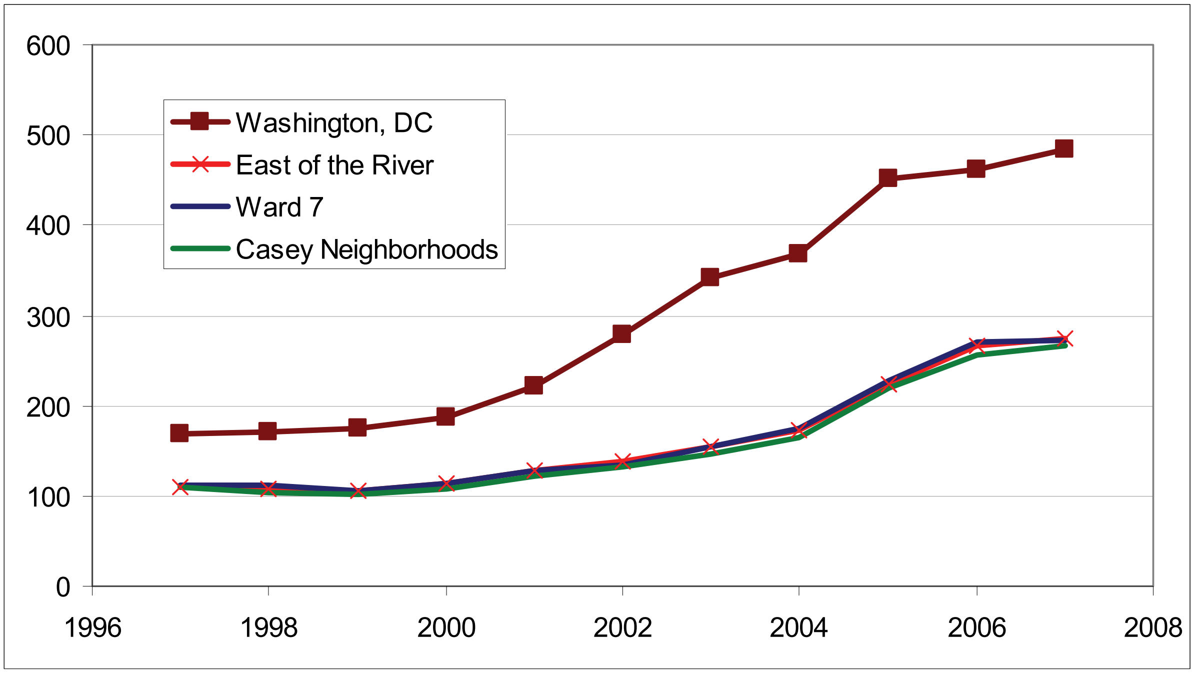
Figure 1. Sales of Single-Family Homes and Condominiums per 1,000 Existing Housing Units



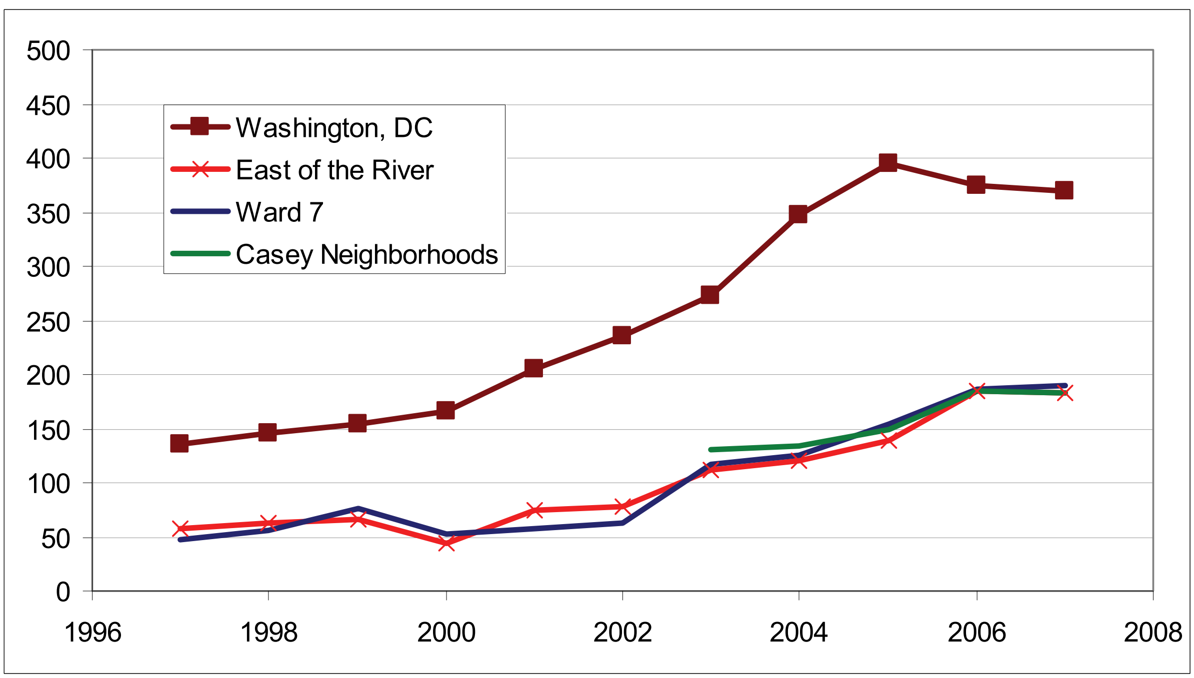
Source: D.C. Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

Figure 2. Median Sales Price of Single-Family Homes and Condominium Units (constant 2007 dollars, thousands)

Single-Family Homes



Condominium Units



Source: D.C. Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

Since 2005, prices in the city have remained relatively flat, while prices East of the River continued to experience relatively strong growth late into the housing boom, slightly narrowing the price gap. The median price of a single-family home East of the River grew an average of 11 percent per year (in constant dollars) between 2005 and 2007, compared to the city rate of 4 percent. Condominium prices also grew East of the River, 15 percent per year, compared to the drop of 3 percent per year for the city. As a result, the median price of a single-family home East of the River was $275,000 in 2007, $210,000 below the city median price of $485,000.

In addition to a rise in home purchases, the growth in home prices also helped stimulate an increase in mortgage refinances, as homeowners sought to take advantage of lower borrowing rates and freer access to credit. According to Home Mortgage Disclosure Act (HMDA) data, while levels of refinance lending have fluctuated, since 2005 the rates have been higher East of the River than in the city overall (Figure 3). Rates of refinance lending in Washington, D.C., were 31 loans per 1,000 existing single-family homes and condominium units in 2000, only slightly higher than the rates East of the River (29 loans per 1,000 units), in Ward 7 (26), and in the Casey neighborhoods (29). While the city rate climbed sharply, peaking in 2003, the rates East of the River grew more slowly, but surpassed the city average in 2005. The most recent data for 2006 show that refinance loan rates were almost 50 percent higher East of the River (169 loans per 1,000 existing units) than the city average (111 loans per 1,000 existing units). (Prior to 2002, refinance rates were virtually identical East of the River, in Ward 7, and in the Casey neighborhoods.)

The share of home purchase loans for investment properties has also grown since 1997, particularly East of the River. Figure 4 shows the trend in purchase loans made to homebuyers who intended to use the property as a principal residence. The overall share of homeowner loans was quite high, 95 percent, in the years leading up to the real estate boom. Starting in 2000, however, the rates began to fall, reaching a low of 84 percent in 2005.

The trend towards larger shares of investor purchases was more pronounced East of the River. According to HMDA, by 2003, the share of homeowner loans had dropped to 79 percent, 10 percentage points below the city rate. The overall share of homeowner loans continued to fall East of the River, reaching a low of 73 percent in 2005. The shares were slightly higher in the Casey targeted investment neighborhoods, but remained below 80 percent in 2005 and 2006. This indicates the presence of more investors in the East of the River housing market, either as landlords renting to tenants or perhaps as speculators who were looking to profit from rapidly rising property values.

HMDA also provides information on the type of lenders who made particular mortgage loans in the city. Loans originated by subprime lenders are responsible for many of the problems facing homeowners and the mortgage industry today. Many subprime loans were adjustable rate loans, particularly those with balloon payments or very low “teaser” rates that reset to much higher rates after only two or three years. Homeowners, particularly those with lower incomes, face increased risk of delinquency or foreclosure when their adjustable rate loans reset.

The use of subprime lenders by both new homebuyers and existing homeowners was much higher East of the River and in the targeted investment neighborhoods than in the city as a whole. Subprime lending for purchase loans reached a recent peak in 2005, when almost one out of every four home purchase loans in the Casey neighborhoods was made by a subprime lender, compared with one out of every ten purchase loans for the city as a whole (Figure 5). There was a similar gap in use of subprime lenders for mortgage refinancing to existing homeowners. In 2005, 25 percent of refinance loans to homeowners in the Casey neighborhoods were from a subprime lender, compared with 15 percent for the city as a whole.

The use of subprime lenders also varied considerably by the characteristics of the mortgage borrower. In 2005, the year of highest use of subprime lenders in the District of Columbia, African-American homebuyers were almost twice as likely to obtain a mortgage from a subprime lender than were Hispanic homebuyers, and almost ten times as likely as white homebuyers. More than one in four (27 percent) of home purchase loans to African-Americans were made by subprime lenders, compared with 15 percent of loans to Hispanics, 7 percent to Asian/Pacific Islanders, and 3 percent to whites. Subprime lenders were also more likely to have issued mortgages to single borrowers (male or female) than to co-applicant borrowers. Low- and middle-income homebuyers were also more likely to get a subprime loan than either very low- or high-income homebuyers.

These data demonstrate that neighborhoods East of the River, including Ward 7 and the Casey targeted investment neighborhoods, were places where housing was relatively affordable compared to the rest of the city, but nevertheless where it was possible for price growth to occur. Nonetheless, much of this gain in homeownership occurred simultaneously with higher levels of subprime lending, suggesting that many new homeowners used these riskier loans to be able to purchase in the expanding housing market. As a result, the foreclosure crisis unfolding now has the potential to undo the progress that has been made in attracting homeowners and investors to neighborhoods East of the River. Furthermore, the relatively larger shares of investor purchases East of the River implies that more of these vulnerable homes are likely to be occupied by renters.

Rental Market Trends

As a result of the boom in home sales, the number and share of renter households in the District of Columbia declined between 2000 and 2007, although renters remained the majority in the city.[2] According to data from the U.S. Census and the American Community Survey, the number of renter-occupied housing units decreased from 147,000 to 139,000 between 2000 and 2007, while the number of owner-occupied units grew from 101,000 to 112,000. As a share of the total population, renters went from 59 percent of all households to 55 percent over this period. Most renter households (70 percent in 2007) lived in larger apartment buildings of five

[2] Current data on the rental market are not available at the ward or neighborhood level, so we present only city-level information here.

units or more, but a notable share of D.C. renters lived in smaller apartment buildings of two to four units and in single-family homes (15 percent each).

Despite having fewer renters, the rental market continued to tighten because of a shrinking supply of apartments and homes for rent. The rental vacancy rate fell from 6.2 to 5.3 percent between 2000 and 2007, while the monthly median gross rent rose from $744 to $934, in constant 2007 dollars, an increase of 26 percent.[3] The drop in supply was undoubtedly a result of a combination of factors, including conversion of some apartment buildings from rental to condominium properties and increasing numbers of homeowners choosing to live in their houses, rather than rent them.

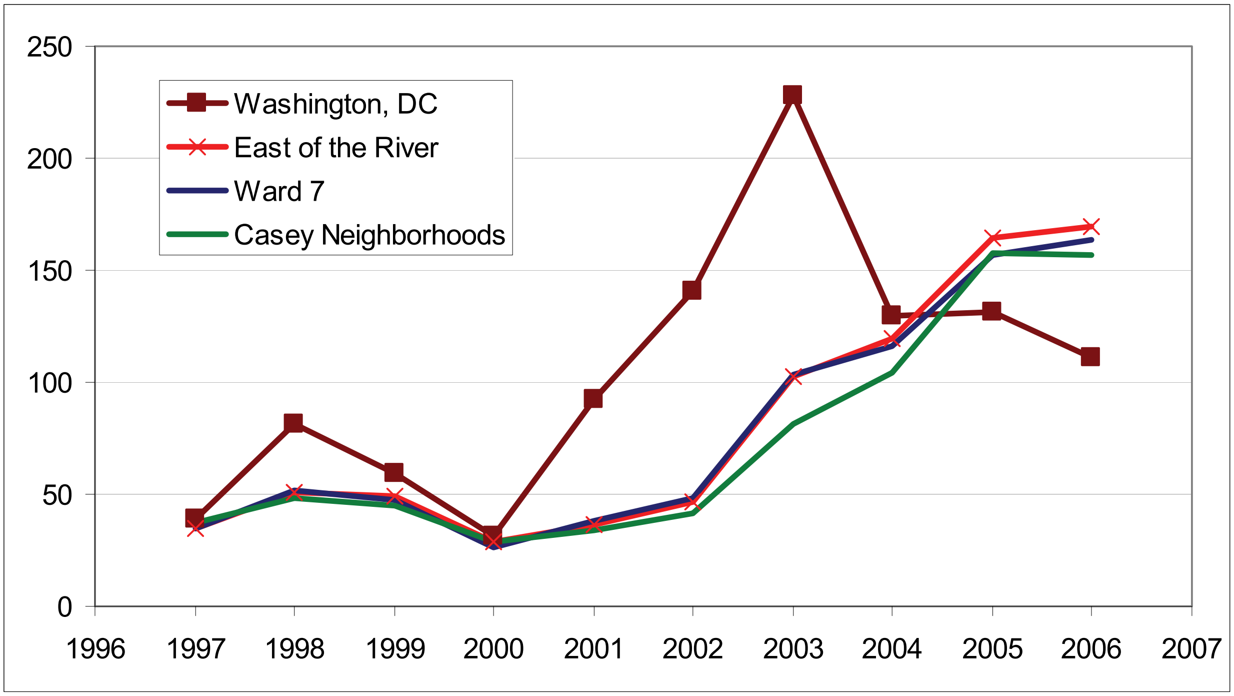
Rising rents led to increasing affordability challenges for many D.C. renters. The share of renter households paying 30 percent or more of their income on housing costs, a level that is generally considered to be unaffordable, increased from 38 to 48 percent between 2000 and 2007. The share of renters with severe affordability problems, that is, paying half or more of their monthly income on housing, also grew – from 19 percent in 2000 to 24 percent in 2007.

Not surprisingly, affordability problems were more acute for lower-income families. Among renter households, 78 percent of those with an annual income under $35,000 in 2007 had housing costs in excess of 30 percent of their income. Even among renter households with incomes between $35,000 and $49,999, 46 percent were paying 30 percent or more of their income on housing.

As these data show, many renters were already challenged in the D.C. housing market, and these challenges only grew as the housing boom continued. As will be discussed later in the next section, the new challenges posed by rising foreclosures will further complicate the situation for the city's renters.

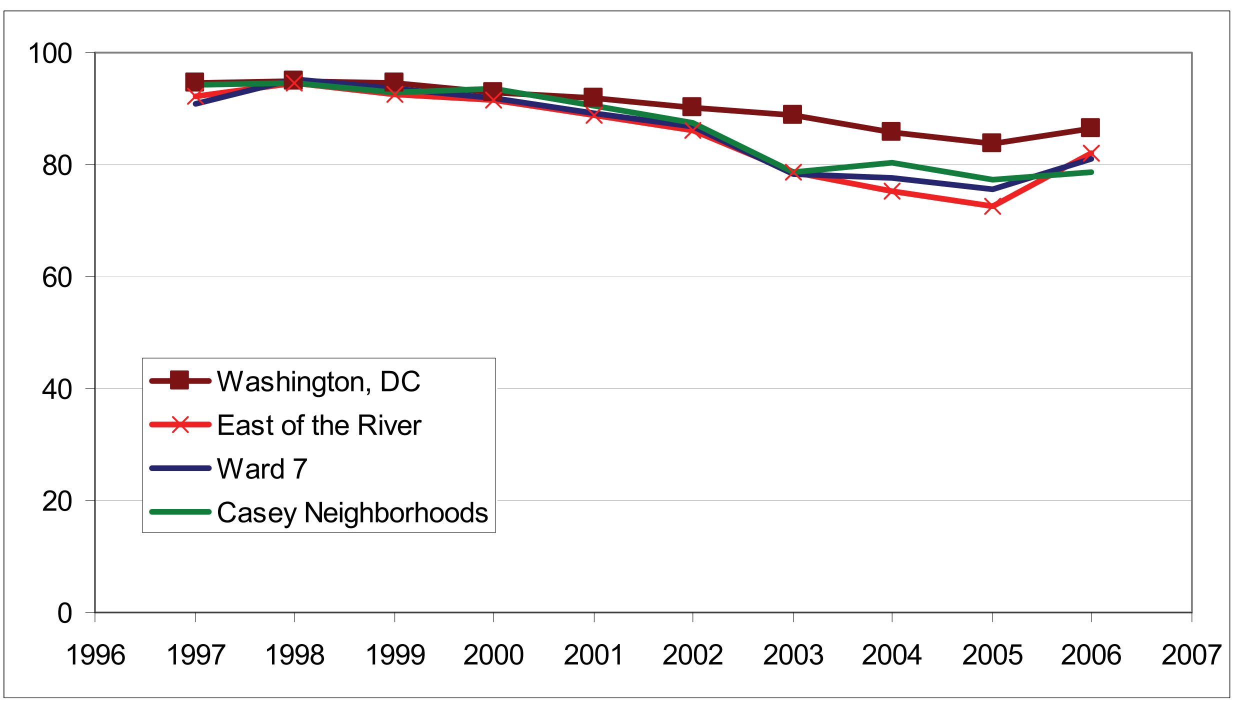
[3] Gross rent includes stated rent plus all other monthly charges, including utilities.

Figure 3. New Refinance Mortgage Loans per 1,000 Existing Housing Units



Source: Home Mortgage Disclosure Act data compiled by NeighborhoodInfo DC.

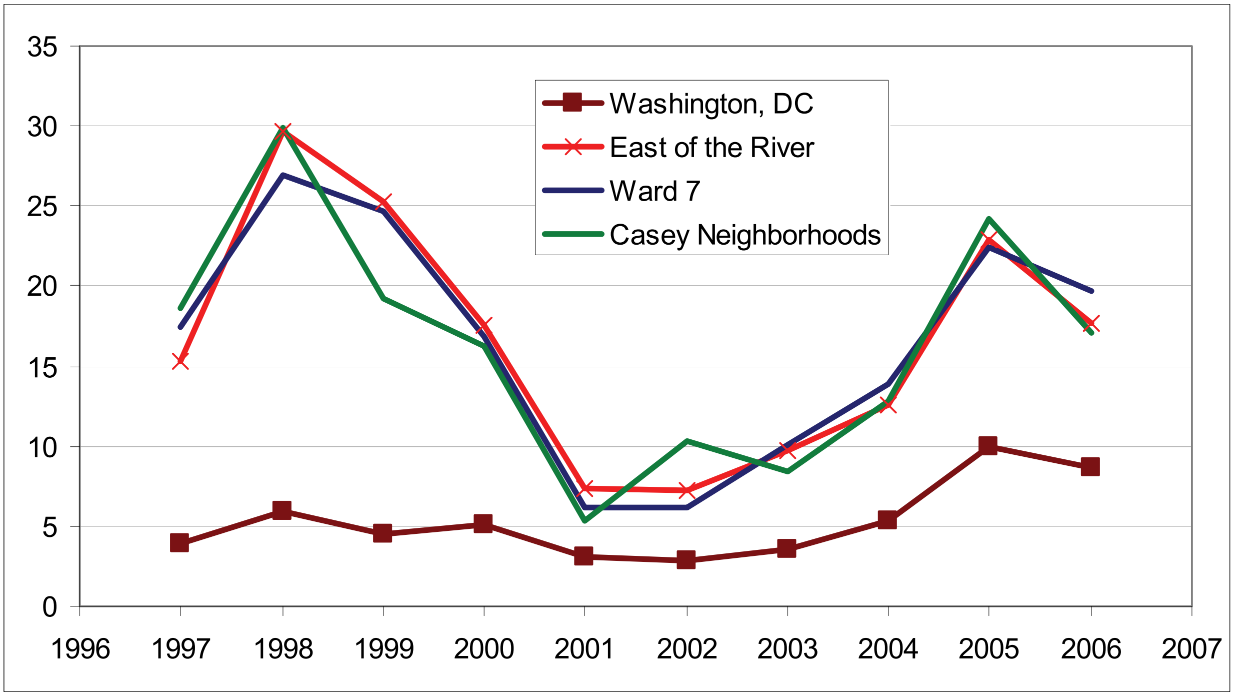
Figure 4. Percentage of New Home Purchase Mortgage Loans for Principal Residence



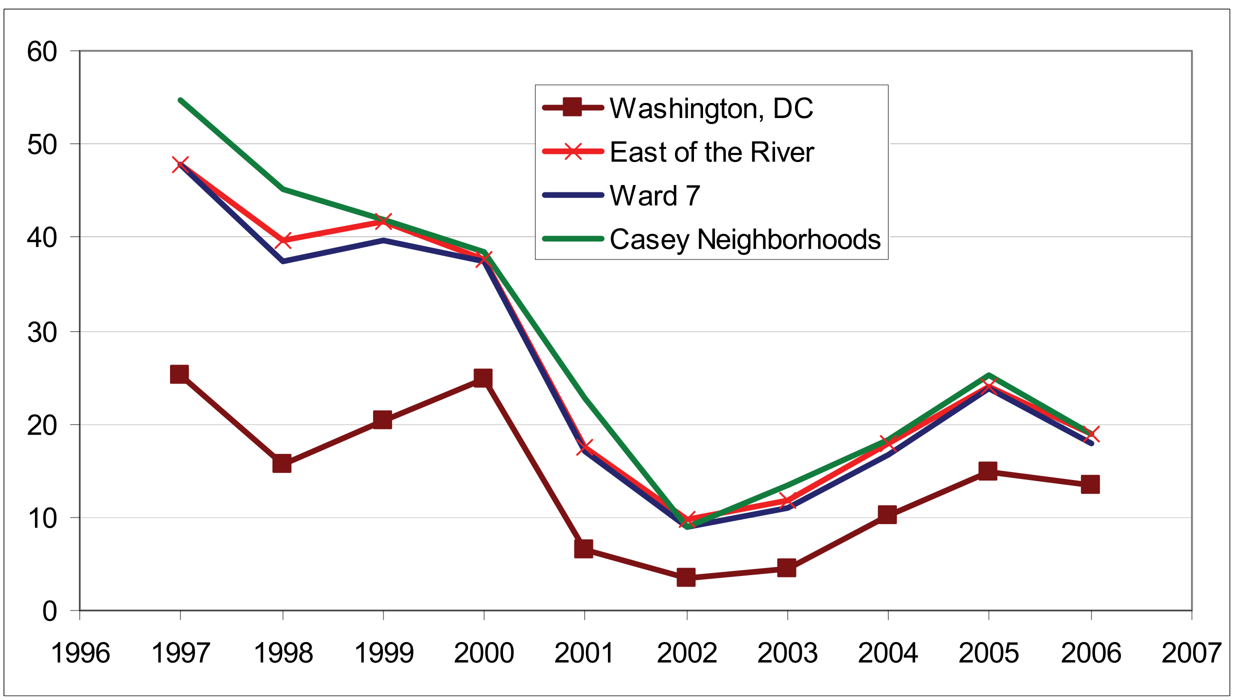
Source: Home Mortgage Disclosure Act data compiled by NeighborhoodInfo DC.

Figure 5. Percentage of New Mortgage Loans Issued by Subprime Lenders

Home Purchase Loans



Refinance Loans



Source: Home Mortgage Disclosure Act data compiled by NeighborhoodInfo DC.

FORECLOSURES

Foreclosures in Washington, D.C.

The foreclosure process in the District of Columbia is a *non-judicial* process, which means that foreclosure is usually accomplished without use of the courts or without any judicial review or oversight. In the event of a mortgage delinquency, normally the lender or loan servicer will make several attempts to reach the borrower requesting that the overdue payments be made. If the loan continues to remain past due, then the lender or servicer may begin a foreclosure process to sell the property and attempt to recover unpaid loan amounts and other costs.[4] To initiate a foreclosure against a homeowner, the lender, or the lender's agent, must send a notice of foreclosure sale, by certified mail, return receipt requested, to the property owner at the owner's last known address. A copy of this notice must also be sent to the D.C. Recorder of Deeds.

The notice of foreclosure sale must include the following information:

- The names and addresses of all property owners.
- The date, time, and place of the foreclosure sale.
- The address and a description of the property.
- The amount of the balance owed on the loan, and the minimum amount required to cure the default obligation and avoid the foreclosure.[5]
- The name and contact information for the person to contact to stop the foreclosure sale.

The foreclosure sale may not take place less than 30 days after the notice has been received by the Recorder of Deeds.[6]

In the event that a notice of foreclosure sale has been issued against the property owner, there are several outcomes that can take place:

- The property owner can pay the minimum amount required to cure the loan default, and thus stop the foreclosure.[7]

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[4] Most lenders or servicers will wait until a borrower is 90 days late or more on mortgage payments before initiating foreclosure proceedings. In the District of Columbia, however, there does not seem to be any legal restriction on when the foreclosure process can be started against a delinquent borrower.

[5] The amount required to cure foreclosure is specified under D.C. law (DC ST § 42-815.01), and may include late fees, attorney fees, foreclosure costs, and all accruals. These amounts are not itemized on the notice, however, but are just presented as a lump sum.

[6] Although the notices should be sent simultaneously to the property owner and the Recorder of Deeds, according to the law, the 30 days starts when the notice is received by the D.C. government, not when received by the homeowner.

- The property owner can try to reach an accommodation with the lender, such as negotiating a forbearance agreement or a loan modification, which will allow the owner to remain in the home and continue to make loan payments to the existing lender.
- The property owner can attempt to refinance the property with a new, more affordable mortgage with the same or a different lender.
- The property owner can attempt to sell the property to try to recover proceeds to satisfy the debt obligation. If the sale price is more than the amount currently owed on the mortgage, then the sale proceeds can be used to pay off the mortgage in its entirety. If the price is less than what is owed, however, the owner must either come up with the remaining funds from another source or else try to convince the lender to accept a *short sale*. In a short sale, lender agrees to accept the proceeds of the sale even though they are less than the total amount owed. The homeowner will walk away from a short sale having lost the home but, in most cases, without any outstanding debt. If, however, the lender refuses to forgive the outstanding amount owed, the owner may still be encumbered by debt after a short sale.
- Another alternative is for the lender to accept a *deed in lieu of foreclosure.* In this case, the owner turns the home over to the lender who agrees to accept it instead of going through a foreclosure. As with a short sale, the owner may be able to walk away without any outstanding debt, but the lender may also choose not to forgive the full loan balance if the home cannot be sold to cover the entire amount owed.
- Finally, the foreclosure sale can go through as specified in the notice. In the District of Columbia, this is accomplished through a *trustees deed sale.* In most cases, a new owner will acquire the property at the foreclosure sale. In some circumstances, however, no new owner will be willing to buy the property at an acceptable price, in which case the property reverts to the lender. This is referred to as a *real estate owned (REO)* property.

Foreclosure is usually the worst outcome for the property owner. Not only is the home lost but a foreclosure is very damaging to a person's credit history. It should be noted that achieving several of the other outcomes, particularly forbearance agreements and loan modifications, is made more complicated if there is a second mortgage on the property or if one or more of the mortgages has been sold to investors as part of a securitized loan instrument. In addition, a homeowner who avoids foreclosure in one instance may later fall behind in loan payments again, in which case the cycle starts over.

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[7] D.C. law specifies that a borrower may only cure a default on a mortgage to avoid foreclosure up to five business days prior to the date of the sale and only one time in any two consecutive calendar years (DC ST § 42-815.01).

Of course, it is not only homeowners who are affected by foreclosures. Renters can be affected as well if their home is subject to a foreclosure sale. A new property owner may not wish to keep the current renters, in which case they may have to find a new home. Furthermore, as is true in most places in the U.S., there is no requirement in the District of Columbia to notify renters of an impending foreclosure, meaning that renters may not even realize that their home is at risk of being foreclosed upon.

In addition, struggling homeowners may have little means or incentive to maintain a home properly, which can affect the quality of life for renters. Or, in the case of REO properties, while the renter may be able to remain in the property there may again be little incentive or ability for the lender to invest in maintaining the property in good condition.

Nonetheless, renters in the District of Columbia do have some protections in the case of foreclosure. According to the D.C. Office of the Tenant Advocate (2008), the Rental Housing Act of 1985 sets forth ten valid reasons for evicting tenants, which do not include a property foreclosure. The Act states clearly that “except as provided in this section, no tenant shall be evicted from a rental unit…so long as the tenant continues to pay the rent.”

Despite these protections, a new owner of a foreclosed property can legally evict a sitting tenant if the owner wants to occupy the housing unit as his/her own residence (with 90 days notice), or if the owner wants to discontinue renting the property entirely for a year or more (with 180 days notice). A new owner can also choose to demolish the property and build a new one, in which case the tenant can be evicted after having been provided 180 days notice.

Therefore, renters are not immune from the effects of rising home foreclosures and foreclosures can have a serious impact on renters in the District of Columbia.

Data on Foreclosures

The data presented in the remainder of this report include information from the D.C. Recorder of Deeds, tabulated by NeighborhoodInfo DC, on notices of foreclosure sale filed against residential properties in the District of Columbia. As noted above, the notice represents the start of legal foreclosure proceedings against the homeowner, but it is not the case that all of these properties will end up in a foreclosure sale. Nevertheless, the notices are an indicator of property owners who are at risk of losing their properties through foreclosure.

Along with the notices of foreclosure sale, we have merged information from the real property database maintained by the D.C. Office of Tax and Revenue. These data allow us to determine whether the property with a foreclosure notice is a single-family home, a condominium unit, or a rental apartment building. Apartment buildings can further be segregated into those with fewer than five housing units and those with five or more housing units. The real property database does not currently include the number of units in an apartment building, apart from the “fewer than five”/”five or more” distinction, so we cannot precisely estimate how many households living in multifamily rental properties may be affected by foreclosures.

Nonetheless, for single-family homes and condominium units, we can determine if these are likely to be owner-occupied or renter-occupied, based on the stated address of the property owner and whether the owner is benefitting from the Homestead Exemption. The Homestead Exemption provides a property tax reduction to persons who own a housing unit in the District of Columbia and occupy it as a principal residence. Units for which the property owner's address was different than the address of the property *and* which were not listed as receiving the D.C. Homestead property tax exemption were classified as renter-occupied. This is most likely an *underestimate* of the share of renter households living in these units, as there is evidence that some homeowners have claimed the Homestead exemption even though the home is not their principal residence (Office of the District of Columbia Auditor 2001).

Foreclosure Rates by Property Type

Following national trends, foreclosures in the District of Columbia reached a new high in 2008. The number of residential properties (single-family homes, condominium units, and rental apartment buildings) that received a notice of foreclosure grew from 1,005 in 2005 to 2,401 in the first three quarters of 2008, an increase of 139 percent (Table 1). Interestingly, the number of properties in foreclosure had been declining from a recent high of 2,393 in 1999. If the trend continues through the end of the year, however, 2008 will far exceed the 1999 total for residential properties entering the foreclosure process in the District of Columbia.

For better comparison of the four geographic areas, figures 6 and 7 translate foreclosures into a rate based on the number of existing properties that received a foreclosure notice sometime during the year. Although they have risen and fallen over the past ten years, single-family homes and condominiums East of the River, in Ward 7, and in the targeted investment neighborhoods have received foreclosure notices at a higher rate than the city as a whole. Through the first three quarters of 2008, 28.9 per 1,000 existing single-family homes and condominium units received a foreclosure notice in the Casey targeted investment neighborhoods, almost twice as high as the city rate of 14.9 (Figure 6). The rates East of the River and in Ward 7 were only slightly lower than in the Casey neighborhoods, 25.6 and 25.9 per 1,000 existing single-family homes and condominiums, respectively.

Table 1. Residential Properties (Single-Family Homes, Condominium Units, and Rental Apartment Buildings) In Foreclosure

	Properties with Notice of Foreclosure Sale			
	Washington, DC	East of the River	Ward 7	Casey Neighborhoods
1997	2,152	563	352	104
1998	2,374	622	375	115
1999	2,393	647	402	141
2000	2,191	663	395	125

Properties with Notice of Foreclosure Sale				
	Washington, DC	East of the River	Ward 7	Casey Neighborhoods
2001	1,840	524	351	121
2002	1,940	639	400	151
2003	1,775	588	394	141
2004	1,378	494	315	117
2005	1,005	340	224	75
2006	1,221	365	234	75
2007	1,941	562	375	142
2008*	2,401	720	460	162

Source: D.C. Recorder of Deeds and Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

Rates of properties under foreclosure are even higher for smaller multifamily rental buildings with fewer than five apartments, especially those East of the River. In the first three quarters of 2008, 23.7 per 1,000 existing small rental apartment buildings received a foreclosure notice in Washington, D.C. (Figure 6), the highest rate in the past four years, but still lower than from 1997 through 2000. Foreclosure rates for small rental buildings in the Casey neighborhoods have spiked in 2008, however. Out of 228 small rental apartment buildings in the Casey neighborhoods, 13 received a foreclosure notice in the first three quarters of 2008, for a rate of 57.0 notices per 1,000 existing properties. The 2008 rate for the Casey neighborhoods was notably higher than the rates of 46.2 and 44.4 for East of the River and Ward 7, respectively.

Larger rental buildings with five or more apartments were the least likely to be in foreclosure of all the residential property types, but foreclosures have been rising in this category as well. Foreclosure filings against rental apartment buildings with five or more units were a low 2.1 per 1,000 existing properties in Washington, D.C., in 2005, but have risen to 10.6 per 1,000 in the first three quarters of 2008 (Figure 6). The trend East of the River mirrors that in the city. Out of 1,584 larger rental buildings East of the River, 23 had a foreclosure notice filed in the first three quarters of 2008, for a rate of 14.5 per 1,000. In the Casey neighborhoods, 3 out of 334 larger rental buildings had a foreclosure notice filed in the first three quarters of 2008, a rate of 9.0 per 1,000 existing properties.

Foreclosure Rates for Renter-Occupied Homes and Condominiums

Many single-family homes and condominiums in the District of Columbia are occupied by renters. Approximately 14 percent of the 95,100 single-family homes and 45 percent of the

46,100 condominium units in Washington, D.C., were renter occupied in 2008.[8] Shares of renter-occupied single-family homes East of the River and in the Casey targeted investment neighborhoods were similar to the city average, but shares of renter-occupied condominiums were much higher. Almost two-thirds (63 percent) of the 3,700 condominiums units East of the River were occupied by renters, compared to 19 percent of the 20,300 single-family homes. In the Casey neighborhoods, 74 percent of the 470 condominium units were renter-occupied, compared with 20 percent of the 4,600 single-family homes.

For the city as a whole, foreclosure rates for renter-occupied single-family homes and condominiums were relatively constant between 2001 and 2006, with a moderate drop in 2005, but started to rise after 2006 (Figure 7). Approximately 16.3 per 1,000 existing renter-occupied homes and condominium units had a foreclosure notice issued in the first three quarters of 2008, up from 5.5 per 1,000 in 2005. For owner-occupied homes and condominiums, the rates were generally lower. In the first three quarters of 2008, the rate of owner-occupied homes and condominiums with a notice of foreclosure sale was 14.1 per 1,000 existing units, up from 7.2 per 1,000 in 2005 and higher than the recent peak of 13.6 per 1,000 in 2002.

Both renter- and owner-occupied single-family homes and condominiums East of the River were more likely to be in the foreclosure process than properties in the city as a whole. Furthermore, similar to the city picture, foreclosure rates were higher, at times much higher, for renter-occupied properties than for owner-occupied. In the first three quarters of 2008, 29.3 per 1,000 renter-occupied single-family homes and condominium units East of the River were issued a foreclosure notice, compared with 23.7 per 1,000 owner-occupied single-family homes and condominium units.

In the Casey neighborhoods, the difference was even greater. Out of the 1,250 renter-occupied single-family homes and condominium units in the Casey neighborhoods, 45 were issued a notice of foreclosure in the first three quarters of 2008, for a rate of 36.0 per 1,000 existing units. In comparison, 100 of 3,785 owner-occupied single-family homes and condominiums were issued a foreclosure notice in this same period, for a rate of 26.4 per 1,000.

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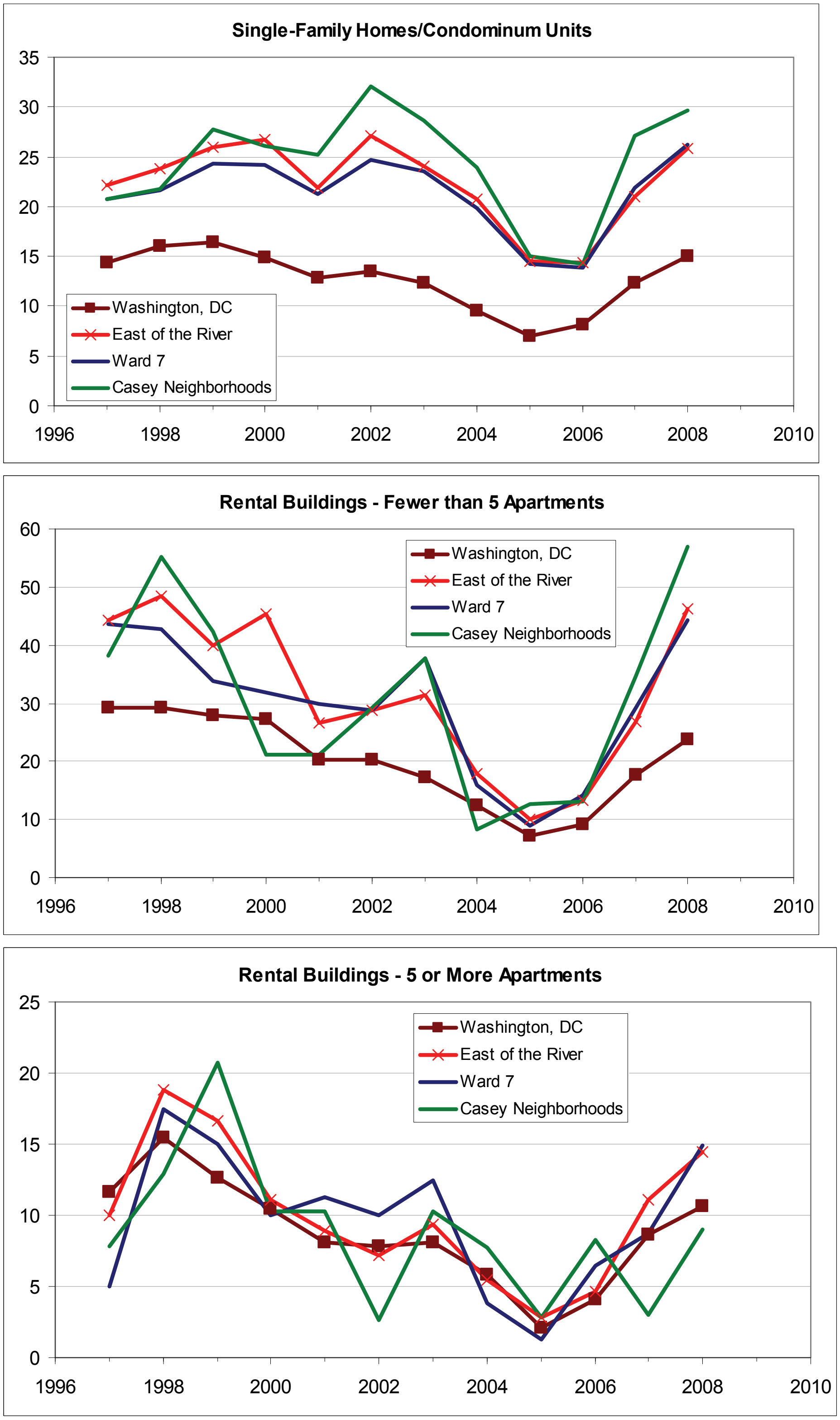
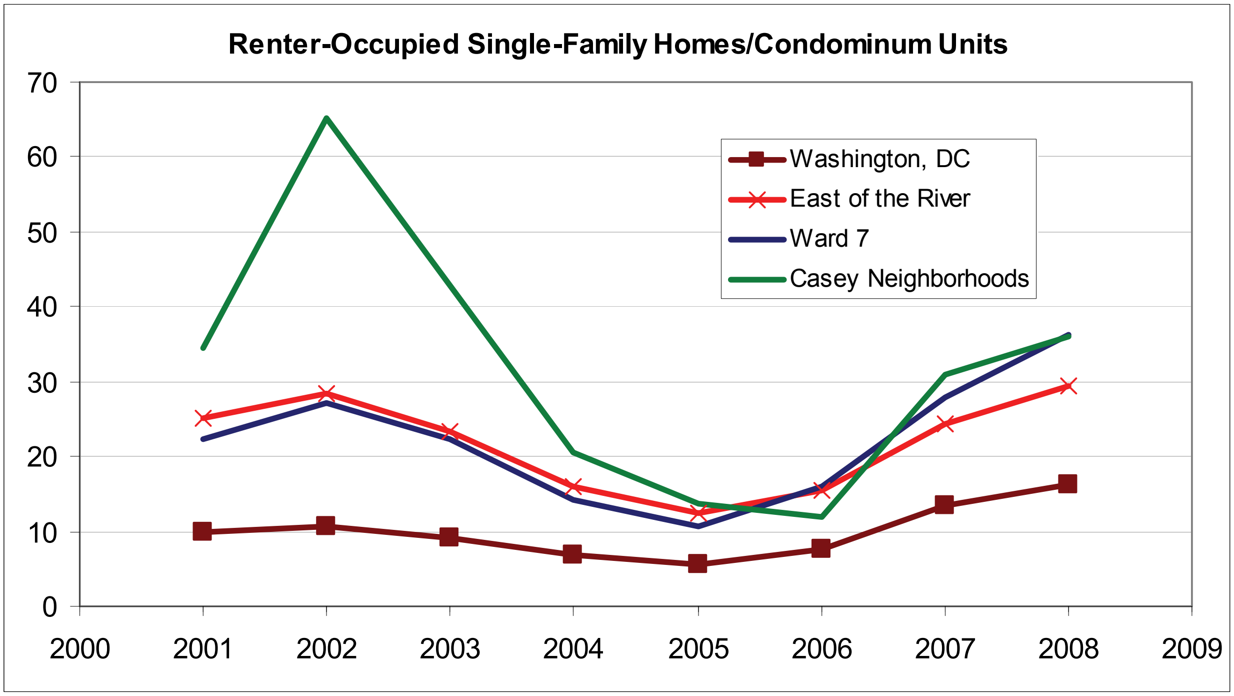
[8] As noted earlier, NeighborhoodInfo DC estimated the share of renter-occupied homes and condominiums by examining the ownership and property tax data from the Office of Tax and Revenue.

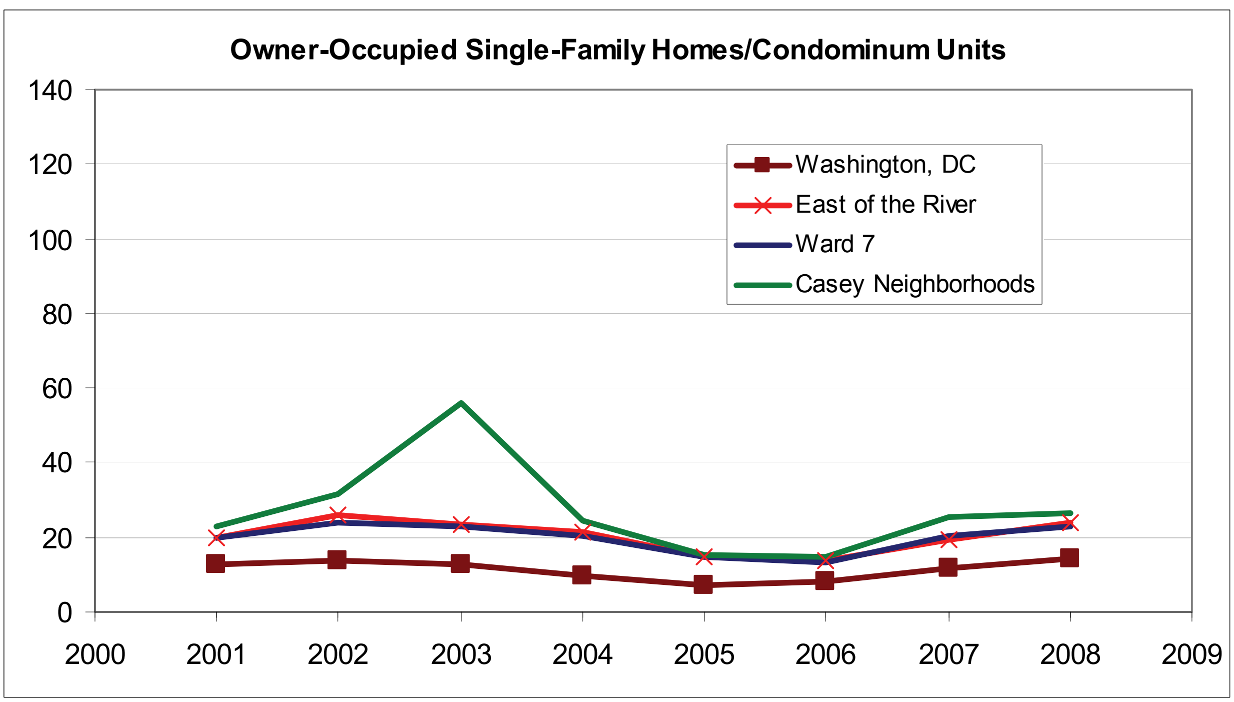
Figure 6. Properties with a Notice of Foreclosure Sale per 1,000 Existing Properties



Source: D.C. Recorder of Deeds and Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

Figure 7. Single-Family Homes and Condominium Units with a Notice of Foreclosure Sale per 1,000 Existing Properties





Source: D.C. Recorder of Deeds and Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

CONCLUSION

As the data in this report have shown, the growing number of residential foreclosures is a serious problem not only for Washington, D.C., homeowners, but for renters as well. Table 2 summarizes the numbers of rental properties and renter households potentially affected by recent foreclosures. The table shows the unduplicated count of renter-occupied housing units in single-family homes, condominiums, and multifamily rental buildings that received a notice of foreclosure any time during 2006, 2007, or the first three quarters of 2008. Since data are not available on the number of apartments in rental buildings, we have estimated the number of units in rental buildings that are at risk. (Our conservative estimate for larger rental buildings is likely a lower bound on the number of units.)

Table 2. Unduplicated Count of Renter-Occupied Housing Units in Foreclosure Washington, D.C., 2006 – 2008/Q3

	Renter-Occupied Units with Notice of Foreclosure Sale			
	Washington, DC	East of the River	Ward 7	Casey Neighborhoods
Single-family homes	648	235	157	60
Condominium units	400	101	47	14
Rental buildings (< 5 apts.)*	1,530	399	216	63
Rental buildings (5+ apts.)*	345	215	100	30

Source: D.C. Recorder of Deeds and Office of Tax and Revenue data compiled by NeighborhoodInfo DC.

Notes: *Estimated unit count: 3 units per building for < 5 apts.; 5 units per building for 5+ apts.

In total, approximately 2,923 renter households have been faced with foreclosure between the start of 2006 and the third quarter of 2008. The majority of these households are likely in smaller rental buildings of two to four apartments. In the three Casey targeted investment neighborhoods, approximately 167 renter households were at risk from foreclosure during this period, about 6 percent of the city total.

While we have no data at this time on how many District of Columbia renters are actually being evicted or otherwise displaced because of foreclosures, both national data and local intelligence on this issue have raised serious concerns. Tenant counseling organizations in Minnesota and in Cleveland, OH, have seen an increase in requests for help from renters facing foreclosure. Evictions in the Boston Housing Court have more than doubled from 2006 to 2007 and 5,000 families have been evicted from their homes in Nevada. In addition, 5 percent of those living in shelters or on the streets in Richmond, VA, were former owners or renters displaced by foreclosure, and the number of homeless children has increased by 10 percent in that city (Wardrip 2008).

In Washington, D.C., housing counseling agencies report that they are seeing renters as well as homeowners coming to them to seek assistance in dealing with foreclosed properties. Such persons may not be informed of their rights to remain in their home, even if the property is foreclosed upon. Renters are generally lower-income than homeowners and may have a more difficult time adjusting to sudden changes in their housing situation. Some counseling agencies have noted cases where renters lose their deposits to property owners in bankruptcy or foreclosure.

Although there is little national research currently on this topic, studies done in a few other places indicate that the problem is not restricted to Washington, D.C. Researchers from the National Low Income Housing Coalition estimated that 45 percent of units in New England states scheduled for auction or owned by banks were rental units, while 43 percent of Hennepin County's foreclosed properties were not owner-occupied in the first 10 months of 2007 (Pelletiere and Wardrip 2008).

Policy Recommendations

District of Columbia renters are fortunate in that they are protected by very strong rental laws. Nonetheless, if they are not informed about all of their rights, or do not have an effective advocate working on their behalf, they may end up losing their home needlessly, suffering through a traumatic relocation, or shouldering unnecessary costs.

The data presented in this report can help those who are working to address the needs of the rental community to better focus their efforts and resources towards this part of the population that is also at risk from the growing foreclosure crisis. The following are recommended actions that could help D.C. renters during this current foreclosure crisis.

- **Make sure tenants are notified when their home is facing foreclosure and are informed of their rights.** Notices of foreclosure sale are received and recorded by the D.C. Recorder of Deeds on a very timely basis. The notice provides the property location, which can be used to reach out directly to the occupants of the property. The government of the District of Columbia and housing counseling organizations could reach out to tenants proactively and encourage them to get assistance as soon as possible. Indeed, NeighborhoodInfo DC launched a pilot effort at the end of 2008 with Housing Counseling Services, Inc., to reach out directly to persons affected by foreclosures and convince them to seek help from a housing counselor.

  To further strengthen outreach to tenants, D.C. law could be amended to require separate notification of property occupants when a foreclosure notice is filed. The specification of the format of these notices could include an explanation of the rights of tenants to remain in the property and contact information for government agencies or housing counseling organizations that can provide assistance.

- **Ensure that properties in foreclosure are properly maintained and are put back into service as quickly as possible.** In neighborhoods where foreclosures are concentrated, foreclosed properties may not be resold immediately. Such properties may remain or become vacant and fall into disrepair, creating a negative impact on the surrounding neighborhood. With a growing demand for rental housing likely as more homeowners are forced into the rental market, the city needs to make sure that all available housing is put into active use as quickly as possible. The city's resources can be used to purchase, renovate, and resell vacant properties to owners willing to occupy them as a principal residence or to make them available as affordable rental housing. The city and its community development partners are pursuing such a strategy in the Trinidad and Ivy City neighborhoods using funds from the federal Neighborhood Stabilization Program (DHCD 2008).

The city could also direct its code inspection and enforcement activities towards properties in foreclosure or REO ownership, to ensure that proper building standards are being maintained.

- **Recognize that renters are affected by the foreclosure crisis and consider the needs of renters when formulating responses.** As this report has made clear, both renters and homeowners are affected by foreclosures in the District of Columbia. Therefore, when formulating responses to the foreclosure crisis, the needs of both groups should be considered. Although there has been a tendency in some responses to the foreclosure crisis to focus on homeowners over investors, partly a result of political concerns about helping only those who are "worthy" of assistance, renters can be the unintended and unfortunate victims of excluding landlords from assistance programs. Including owners of single-family homes and apartment buildings who are providing crucially needed affordable housing in D.C. neighborhoods seems a reasonable step to making sure that tenants are also helped during this housing crisis.

- **Foreclosures will likely increase the need for affordable rental housing, so assistance to renters needs to be expanded.** As noted in this report, many renters were faced with challenges finding affordable housing in many parts of the District of Columbia even before the housing crisis began. With growing numbers of homeowners leaving their homes, many of them will be seeking rental housing, putting even more strain on an already over-taxed housing system. The city should take steps necessary to increase its supply of affordable housing, such as ensuring that the Housing Production Trust Fund remains fully funded and continuing to work towards implementing the recommendations of the Comprehensive Housing Strategy Task Force report, such as increasing the availability of rent supplement vouchers to help low-income renters.

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The Urban Institute
2100 M Street, NW
Washington, DC 20037
www.urban.org