Rhino

Common Ground: Addressing America's Housing Challenges

Policy Proposals for the Multifamily Housing Industry and the Renters They Serve

America today is facing an unprecedented housing crisis. Millions of our neighbors are confronting rising rent costs, a shortage of affordable housing and potential eviction. We cannot wait to find solutions to this problem - we must act now.

At Rhino, we are working to address these issues by building products that provide Americans greater financial flexibility, ensure property owners are protected, and remove barriers to obtaining quality housing. By allowing renters to replace their security deposit with insurance, Rhino is helping to unlock more than $45 billion of cash sitting in escrow accounts in order to put those funds back into the economy, allowing Americans to pay off debt, save for emergencies, or invest in their retirement. However, for all that we have accomplished, we recognize there is so much more that we can and should do.

In an effort to find practical, effective and real solutions to these issues, Rhino has brought together leaders from across public and private sectors to discuss sustainable solutions to the housing affordability crisis. To this end, in the summer of 2020 Rhino launched the Rhino Housing Innovation Council with the participation of executives, industry leaders and policymakers to explore pragmatic solutions to these issues. With the partnership of top-50 multifamily operators and the mayors of cities like Dayton, Ohio, Richmond, Virginia & Tolleson, Arizona, Rhino's Innovation Council provides the forum for discussion and thought leadership that is so desperately needed today.

We believe that listening to leaders from all sides will result in win-win solutions that ensure affordability for renters while contributing to the prosperity of local housing markets. At Rhino, we do not believe that we have all the answers, nor do we believe that the suggestions below are the only answers to America's housing crisis. But they are a start.

Section 1

Executive Summary

Common Ground: Addressing America's Housing Challenges explores our housing crisis from the perspectives of renters, property owners and developers and recommends creative, effective policies, and common-sense solutions that are already being implemented across the country to address these challenges. Here are the facts:

- **Housing Costs Are Rising:** Rent has risen by 72% since 1960, nearly three times faster than increases in income across the country. More households than ever are spending 50% or more of their income on housing, hindering their ability to save or pay for necessities;
- **There Are High Barriers to Accessing Housing:** more than 40% of Americans cite upfront costs as a barrier to housing, and $45 billion of America's money is tied up in cash security deposits;
- **Millions Could Be Evicted:** Nearly 40 million Americans are at risk of being evicted as a result of the COVID-19 pandemic.

Historically, solutions to our housing crisis have been limited in scope and designed to address immediate challenges of renters, property owners, or developers individually. This dynamic has locked renters out of housing opportunities and hurt property owners' ability to scale their businesses. This report highlights initiatives adopted and promoted by local governments and businesses to solve such problems related to housing accessibility.

Rhino conducted a series of interviews with housing policy experts, advocates, and industry leaders—working on the national and local level in policy, government, advocacy, and industry across the country—and developed a list of common-sense solutions that have already been successfully implemented in major cities and states. Many of these policies have immediate, tangible benefits for renters and owners alike, and could be impactfully implemented in a matter of weeks, rather than years. State and local governments should strongly consider them and the creative thinking that led to them for their own jurisdictions. Below is a high-level overview of the policies explored in *Common Ground*.

- **Zero-interest loans** for developers who rehabilitate uninhabitable properties if they agree to a cap on rent once completed;
- **Consistent and straightforward zoning standards** based on population density;
- **"Renters' Choice" legislation**, which would allow renters to use alternatives to burdensome cash security deposits, such as low-cost insurance programs like Rhino's;
- **Damage mitigation funds** that would cover damages beyond a security deposit for lower-income renters, allowing property owners to take on "high-risk" renters with increased peace of mind;
- **Tax credits** that cover housing costs in excess of 30% of household income;
- **Local and state incentives** for property owners to keep their renters in stable housing, rather than going through eviction proceedings;
- **Pragmatic eviction diversion strategies**, mitigating the negative economic effects of the COVID-19 pandemic, and allowing more renters to access housing now and moving forward.

Introduction

Housing accessibility remains a complex national problem that is often left to be addressed on the state and local levels—the nature of housing challenges vary from region to region and city to city. However, there are some broader themes that persist: 13.1 million Americans are projected to spend more than half of their income on rent by 2025,[1] and rents have risen 72% in the last 60 years[2]. Low-income renters—particularly people of color—have suffered the most under these rising costs, with three-quarters of extremely low-income households (80% or less than area median income) paying over half of their income in rent.[3] [4]

The COVID-19 pandemic has exacerbated these issues. Millions of Americans are unemployed due to the economic insecurity brought on by the pandemic. As a result, nearly 40 million Americans are at risk of being evicted[5] and experiencing homelessness or housing insecurity at a time when gainful employment is difficult to come by. When renters can't pay their bills on time, property owners struggle to meet their financial commitments to mortgages, loans, and building maintenance costs, putting their livelihoods at risk. The federal government has failed to adequately respond to these conditions.

Now, in the midst of the worst housing crisis since the Great Recession, America's renters need action and property owners also need relief to continue to operate and keep roofs over renters' heads. Across the country, city and state governments are stepping up and implementing pragmatic solutions that benefit renters, property owners, and developers alike.

> "Improved housing accessibility is an aligned interest for every stakeholder in a community, including multifamily owners and residents, but employers, environmental advocates, and even local governments benefit too. Increased access means increased demand for property owners and broader options for residents that better reflect their unique needs and preferences, but employers benefit from shorter commute times for workers, which cuts down on auto emissions and other environmental impacts, and even improved fiscal performance for local governments as properties thrive and generate tax revenue."
> **— Kimble Ratliff, Vice President, Government Affairs, NMHC**

In the following pages, we outline solutions that address three primary problems facing America's renters: a lack of access to safe and affordable homes, a limited housing supply, and an outdated, overly punitive eviction system. Our proposed solutions draw from innovative approaches already being piloted at the local level and supported by thought leaders across the nation. By learning from these examples, it is possible to bring down the cost of renting and expand housing access for all Americans.

1. https://www.enterprisecommunity.org/resources/projecting-trends-severely-cost-burdened-renters-13350
2. https://listwithclever.com/research/home-price-v-income-historical-study/
3. https://nlihc.org/resource/racial-disparities-among-extremely-low-income-renters
4. https://www.gao.gov/assets/710/707179.pdf
5. https://nlihc.org/sites/default/files/The_Eviction_Crisis_080720.pdf

Breaking Down Barriers to Renting

The costs associated with renting a home can be a prohibitive barrier for many and keep millions of Americans from accessing quality housing. These issues have been tackled in innovative, creative ways by city and state government officials and business leaders across the country. Rhino sees great value in creative solutions that make housing accessible to a greater number of people without requiring significant taxpayer investment.

> "High barriers to entry not only affect renters, who must save up for a security deposit and clear background checks, but also impact property owners and operators. Higher barriers means that owners have more screening costs, fewer eligible potential renters to choose from, and are potentially less able to adjust quickly to changes in market conditions by filling vacant units. With lower barriers to entry, property owners would see more applications to their units and ultimately more efficiently-run properties."
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> **— Benjamin Keys, Associate Professor of Real Estate at the University of Pennsylvania's Wharton School**

Reducing the Burdens of Move-in Fees and Other Upfront Costs Through Functional Alternatives

Upfront move-in costs and fees, including security deposits, are an insurmountable financial barrier to many Americans. The overwhelming majority of security deposits are a month's rent or more. In a city like New York or San Francisco, where the average rent is thousands of dollars,[6] that security deposit is more than most people can afford. Half of America has less than $400 in savings, so upfront move-in costs bar renters from accessing stable, quality housing.[7]

In response, many cities and states across the country—including Cincinnati [8], Philadelphia [9], and Atlanta [10], have passed or are exploring passing "Renter's Choice" legislation. Millions of renters across the country are already using security deposit alternatives. Rhino's low-cost insurance program is used in over one million homes. "Renter's Choice" legislation gives renters the choice to use low-cost alternatives in place of burdensome cash security deposits to lower the cost of renting.

6. https://www.rentcafe.com/average-rent-market-trends/us/ca/san-francisco/
7. https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf
8. https://library.municode.com/oh/cincinnati/codes/code_of_ordinances?nodeId=TITVIIIBURE_CH871LANARE
9. https://phila.legistar.com/LegislationDetail.aspx?ID=4574799&GUID=73A86AD7-4FE5-4B1C-A742-89EA6292639C&FullText=1
10. https://saportareport.com/atlantas-new-renters-choice-rule-could-boost-housing-accessibility/

The Big Idea Alternatives to high upfront move-in costs for renters, such as security deposit insurance and other cost-saving options.

Why This Makes Sense

Lowering this barrier to entry will allow renters to have more choice in where they live and offer owners more potential applicants to fill their available housing. These programs leave owners with the same—or even better—protections all while lowering the costs for renters.

- Rhino knows these insurance programs save renters money—in 2020 alone, renters using our program will save over $200 million dollars.
- High barriers hurt renters and owners alike. They bottleneck the potential pool of applicants—including millions of recent graduates and households living paycheck to paycheck—and drive many renters to sub-optimal living situations.

Expanding Damage Mitigation Funds

Even if a renter can afford a security deposit, other move-in fees, and rent, lower-income renters are still perceived by many property owners to be a risk. The prevailing assumption is that if damages were to exceed the security deposit, these renters would be unable to cover the difference. The ecosystem needs incentives for property owners to rent to these populations, but the programs must accommodate cash-strapped state and local budgets.

Los Angeles County, California launched a program to address homelessness that could be replicated in other cities and states across the country. As a part of their Homeless Incentive Program, which offers property owners incentives to rent to homeless applicants, they created a damage mitigation fund—essentially an insurance policy that would cover damages for renters without the means to pay out of pocket.[11]

A similar program was implemented statewide in Washington. The state created a program that reimbursed property owners up to $5,000 for two weeks' unpaid rent and any damages caused by renters to whom the property owners had not previously rented.[12]

> "Survey data indicates that costs associated with 'high risk' renters, experienced or perceived, are a significant barrier to housing availability for certain populations. By identifying and helping address barriers like uncovered damage expenses, policymakers can meaningfully improve access to housing for communities they serve."
>
> **— Kimble Ratliff, Vice President, Government Affairs, NMHC**

11. https://www.hacla.org/HIPIncentives
12. https://www.commerce.wa.gov/serving-communities/homelessness/landlord-fund-programs/landlord-mitigation-program/

The Big Idea Local damage mitigation funds that cover damages beyond the scope of security deposits for low-income individuals and people experiencing homelessness.

Why This Makes Sense

This solution provides property owners with additional security and peace of mind and offers homes to swaths of renters previously barred from housing. These funds are a cost-effective way for localities to increase access to stable, high-quality, affordable housing, which in turn has been shown to lead to better outcomes for mental health, employment, and food security.[13] These funds also offer an additional layer of protection for property owners.

Offering State and Local Rent Assistance

Existing government housing assistance programs primarily support people in poverty, making 50% of their county's median income. However, housing remains unaffordable for far too many Americans—commonly referred to as the "working poor"—whose income levels exclude them from government assistance but still lack the means to afford rising rents. Increasing cities' housing stock, reducing move-in fees, and incentivizing property owners to rent to populations they might not otherwise consider can accomplish a great deal of good, but in some localities and states, additional government resources could make a significant difference for reducing costs.

The Big Idea A new tax credit for middle-class, cost-burdened individuals ineligible for government assistance that covers housing costs that exceed 30% of take-home income.

Why This Makes Sense

This idea wouldn't impose any additional costs onto property owners and they would see no decrease in the rent they collect, and it would help renters avoid eviction, afford other necessities, and rebuild their savings. This policy will also allow millions of Americans to save more for homes, which will in turn free up more rental units. It's already been supported by leading national candidates, like former Vice President Joe Biden [14], and experts at the Center on Budget and Policy Priorities.[15]

13. https://www.usich.gov/resources/uploads/asset_library/Housing-Affordability-and-Stablility-Brief.pdf
14. https://joebiden.com/housing/#
15. https://www.cbpp.org/research/housing/renters-credit-would-help-low-wage-workers-seniors-and-people-with-disabilities

Expanding Housing Stock and Opportunity

Housing costs are often related to the amount of housing available in communities; often, the more units are vacant, the lower rents will drop. The status quo in most of America's cities—where there is a distinct lack of supply and rapidly surging demand—is detrimental to renters. If we want to improve access to affordable housing, our cities need more habitable units. But to achieve that goal, we need reforms that restore America's existing housing stock and build new units for a growing population.

What do we mean by habitable?

Health and safety codes vary from place to place, but when we refer to habitability, we mean that the residence is safe, reasonably comfortable, and provides reliable access to clean, drinkable water, heating, and electricity. [16]

Constructing New Units

Most Americans don't think about their local zoning ordinances. Yet overlapping—and, at times, confusing or even contradictory—restrictions often slow or prevent construction. States and localities have to cut the red tape to allow for more residential construction.

Housing experts across the political spectrum agree that adopting common-sense, statewide zoning ordinances for rural, suburban, and urban areas is the path forward.

"There is often a tension between reducing the per unit cost of affordable housing and ensuring that the housing we are funding for some of our most vulnerable citizens is quality housing and fits into the character of the communities where it is built. This tension can cause either the production of less quality products or the over-design of the product which negatively impacts cost and reduces the leverage of public sector investments in affordable housing. But this does not have to be an either / or proposition. When I was at the LACDA, we worked with the County Planning Department, the City of LA and the tax credit guidelines to create a universal set of transparent, design criteria that yielded consistency, cost containment and ensured quality design that benefited affordable housing developers, prospective tenants and the surrounding community."

— Monique King-Viehland, Urban Institute

16. https://www.hud.gov/program_offices/housing/rmra/mps/mpshome

"Local governments must reduce regulatory barriers that limit the market's ability to build small, lower-cost homes on expensive land."
— Jenny Schuetz, Fellow, Metropolitan Policy Program, Brookings[17]

The Big Idea Statewide standards for zoning based on population density.

Why This Makes Sense

Zoning reform has already been successfully adopted by cities and states across the country. These reforms have opened the door to new construction, accommodating a growing population, and reducing costs for renters in the long run:

- Minneapolis, MN reduced and eliminated zoning laws limiting multi-family units.[18]
- Oregon allowed construction of multi-family dwellings in single-family zoned areas—two-unit dwellings on single-family plots in cities with 10,000 residents or more, and four-unit dwellings on single-family plots in cities with 25,000 residents or more.[19]
- California allowed property owners to build two accessory dwelling units on their property by-right, functionally eliminating single-family unit zoning across the state.[20]
- Houston reduced the minimum-required lot size for a house to 1,300 sq ft, leading to the construction of thousands of new townhouses and a steady median home price well below the national median despite explosive population growth.[21]

These types of reforms are only effective if they are accompanied by changes to rules that otherwise restrict or prohibit the construction of multi-family dwellings, like requirements to dedicate square footage to balconies and parking spaces.

Additionally, localities and states can ease costs for developers and builders looking to carry out these sizable projects. In cities and counties where the average rental costs exceed 30% of the average income, thought leaders, like Monique Viehland from the Urban Institute, have suggested it is worth considering making all affordable housing construction by-right. This change would guarantee developers a streamlined permitting and approval process, and bring relief to renters.

17. https://www.brookings.edu/policy2020/bigideas/to-improve-housing-affordability-we-need-better-alignment-of-zoning-taxes-and-subsidies/#:~:text=First%20leg%3A%20zoning%20reform,cost%20homes%20on%20expensive%20land.
18. https://www.pbs.org/newshour/show/how-minneapolis-became-the-first-to-end-single-family-zoning
19. https://www.curbed.com/2019/7/1/20677502/oregon-yimby-single-family-zoning-nimby-rent-control
20. https://reason.com/2019/09/19/did-california-just-abolish-single-family-zoning/
21. https://www.houstontx.gov/planning/Min-Lot_Size-Min_Bldg_Line.html

All of these reforms, most of which are drawn from existing local initiatives, aim to grow the housing supply by either lowering costs for new construction or allowing property owners to fit more units on finite amounts of land. In cities where demand for affordable housing is surging, smart strategies like these lower the cost of doing business—supporting developers' and owners' bottom lines while making housing more accessible for renters.

What do we mean when we say by-right?

Typical construction projects have to go through a public approval process, which can take months or even years to complete and, in many cases, have led to projects being scaled down or scrapped entirely. When construction is "by-right" it only has to go through an administrative review, which is faster and far more likely to succeed.

Reinvesting in Existing Housing

In the wake of the 2008 housing crisis, vacancies in America surged, leaving large amounts of dilapidated or unfinished housing: nearly six million temporarily vacant housing units that are off the market, being held for future occupancy, or are used seasonally.[22]

In recognition of this issue, localities have stepped up. In Phoenix, AZ, Mayor Kate Gallego expanded her city's rental rehabilitation program and began offering low-interest and zero-interest loans to property owners who rehabilitated their property if they agreed to limit rents.[23] This is exactly what government programs should accomplish and be—transparent, pragmatic, and a win-win that renters and property owners alike can agree on.

The Big Idea A zero-interest loan program for developers who agree to rehabilitate their property and cap rent at 30% of the average local income once the property is restored.

Why This Makes Sense

The foundations are in place, the land is already residentially zoned, and many local officials are aware that this land needs to be developed. All that remains is offering an incentive for both developers and property owners to act. Incentivizing redevelopment alongside new construction offers long-term savings to owners, which are then passed on to renters.

22. https://www.bloomberg.com/news/articles/2018-07-27/the-disturbing-rise-of-housing-vacancy-in-u-s-cities
23. https://www.phoenix.gov/housingsite/Documents/Final_Housing_Phx_Plan.pdf

Smart Approaches to Eviction Diversion

Roughly three out of every four Americans have less than $1,000 in savings.[24] When an economic crisis hits, and millions find themselves out of work, most of the newly unemployed will struggle to scrape together enough cash for more than a month's living expenses. COVID-19 has created a perfect storm for mass evictions—mass unemployment and limited federal efforts to provide long-term renter protections in a time when more people are homebound than at any point in history.

Local and state governments need to treat the impending wave of evictions as the crisis that it is and proactively act to reduce the rate of evictions. For example, as the COVID-19 pandemic challenged localities, Salt Lake City, UT Mayor Erin Mendenhall took action, deferring business license fees for property owners who didn't evict renters following the state of emergency.[25] As a result of Mayor Mendenhall's policy, fewer renters had to experience housing instability because of dire economic circumstances, and property owners were given a sensible financial concession, incentivizing them to support their renters while they found their financial footing.

Mayor Mendenhall's approach should serve as an example to all local and state leaders. As evictions become a growing concern for households recently unemployed and without savings, creative solutions are required. Many jobs and industries are unlikely to recover in the near future— cities and states need renter protections that encourage property owners to keep renters or empower evicted renters to find alternative housing.

The Big Idea Local incentives for property owners to keep renters in their homes.

For the renters who have lost their jobs and work in industries unlikely to recover any time soon, these local- and state-level protections are a necessity. Similar to Mayor Mendenhall, local and state governments can offer incentives—including, but not limited to, waived licensing and permitting fees, low-interest loans, tax credits, and more—to property owners who agree to defer or suspend evictions for the duration of the economic crisis.

24. https://www.gobankingrates.com/saving-money/savings-advice/americans-have-less-than-1000-in-savings/
25. https://patch.com/utah/salt-lake-city/salt-lake-mayor-erin-mendenhall-issues-7th-emergency-proclamation

The Big Idea Prohibit questions on rental applications about evictions.

Renters that get evicted need help getting back on their feet. Limiting questions on rental applications about evictions for economic circumstances outside their control, such as the COVID-19 recession, could go a long way toward keeping roofs over Americans' heads.

Renters would still have to show property owners they can afford rent, but this change would allow applicants to recover and secure new housing rather than be punished for economic circumstances outside of their control.

The Role of Housing Costs in Evictions

The cost of housing plays a significant role in evictions. The solutions listed throughout this paper will be instrumental in keeping renters in their homes, because greater access and affordability will allow renters to better plan, save, and, in turn, pay. Property owners and management companies also benefit when renters can afford their homes—it reduces the risk that units will empty out, offering no return on investment to their owner.

Wrap-Up

It remains clear to renters, homeowners, property owners, and operators across the country, not to mention practitioners and companies in the multifamily space, that national housing reforms and relief have failed to meet the needs of our current climate. That lack of action does not make the impending crisis any less urgent. Renters need relief now, not in years.

Without reimagining our housing ecosystem, millions of Americans could find themselves facing housing instability, causing serious economic strain and putting property owners across the country in a precarious financial position as units sit empty.

In the absence of meaningful federal rental assistance, state and local governments are left to develop solutions for their constituents—renters and property owners alike. There are already county, city, and state officials along with businesses who recognize the gravity of the situation and are leading the charge to tackle this crisis head on. Other leaders should follow their innovative approaches to lowering the cost of renting.

The solutions laid out in this paper demonstrate that we already have the tools to solve this crisis in hand. They're fiscally conscious, predominantly costing governments very little, but could reduce rental costs and housing insecurity for millions if adopted. They are pragmatic—built on common ground that renters and business interests alike can agree on. Most importantly, the policies in this paper have already been successfully implemented in states and cities across the country. Expanding on these efforts to collectively reimagine housing solutions will bring down the cost of renting for all Americans.