THE STATE OF MEMPHIS HOUSING 2020

Rising to Respond to Crisis

September 2020

City of Memphis

Division of Housing and Community Development

INNOVATE MEMPHIS
DELIVERING CIVIC SOLUTIONS

CONTENTS

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INTRODUCTION

Memphis is in the midst of a crisis which calls for unprecedented levels of collaboration and communication. To answer this call and to facilitate the hard but necessary conversations throughout the Memphis housing and community development field, the City of Memphis Division of Housing and Community Development (HCD) in partnership with Innovate Memphis, has put together the first housing report of its kind: 2020 State of Memphis Housing: Rising to Respond to Crisis.

Purpose

This report serves three primary purposes, discussed in more detail below:

1. To inform and stimulate local housing conversations among often siloed stakeholder groups (i.e. bankers and community leaders);
2. To establish a credible source of facts and data related to housing/neighborhood conditions in the City of Memphis; and
3. To democratize, popularize, and disseminate the housing expertise found within the city of Memphis HCD, as well as throughout the local housing field.

In addition to these primary purposes, this report should start many secondary or tangential conversations related to the future of housing in Memphis. Memphis is fortunate to have various groups from different sectors and backgrounds interested in participating in a comprehensive housing solution which is crucial, especially now during the COVID-19 crisis. Since March 2020, we are already seeing key stakeholder groups collaborate at a higher degree. We hope that this report will play a role in continuing to support this strengthened cooperation.

There are many data points included in the report that provide a clear image of the challenges that we face. However, this report does not attempt to prescribe solutions for all of the challenges identified herein. There are still some important takeaways for the reader:

- The City has changed dramatically over the past 50 years, with an increased geography, persistent residential segregation, and a shift from ownership to rental in many neighborhoods.
- There are similarities and differences between the 2008 housing crisis and the current COVID-19 pandemic, but we can use lessons learned to identify successful interventions that will help with the future recovery.
- The City has taken a significant step forward through Memphis 3.0 to assess existing conditions and leverage this information for neighborhood revitalization, including the realm of housing.

The broader housing crisis is seeing increased attention across the local, state, and national levels. This report should be a tool to provide insight into the primary housing challenges confronting Memphis for those looking to gain a deeper understanding. More than anything, we hope you view this as the beginning of a city-wide dialogue and call to action to get involved at any capacity to build stronger neighborhoods and to grow as a stronger city.

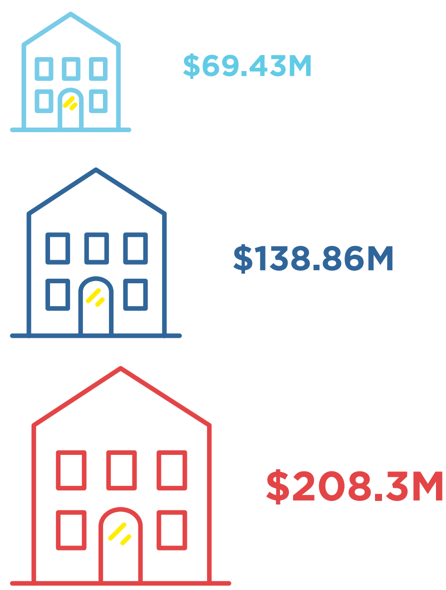
Report Theme: Rising to Respond to a Crisis

A pandemic the size, scale, and scope of the novel corona virus is never a good thing. Yet in the months following its initial outbreak, Memphians of all backgrounds are taking action. Whether this means driving to get groceries for elderly neighbors, making masks for families and friends, or passing out food at neighborhood community centers and foodbanks, Memphians have answered the call. As we as a city brace for the long haul, it is becoming more apparent that, in addition to the already immense health impacts, there will be long-term social economic impacts. Experts predict that the pandemic could cause a housing crisis similar in some ways to what Memphis experienced during the Great Recession.

No two crises look the same. To date, the way these two economic crises have played out are significantly different. Nevertheless, there is much we can learn from a look back to 2008. Here are a few reasons we should. First, as unemployment claims are staying high due to extended and permanent business closings and with initial federal support phasing out, high rates of non-payment of rent or mortgages could have lengthy and deeper damaging impacts. One month where 20% of Memphians are unable to pay mortgages or rents could lead to a nearly $70M impact in the local economy.[1] That much of a ripple in just one month could lead to larger macroeconomic problems throughout the metropolitan economy if extended for several months or if repeated over the next couple of years – lasting longer than the mortgage crisis.

1

FIGURE 1: COVID-19 HOUSING IMPACT COSTS



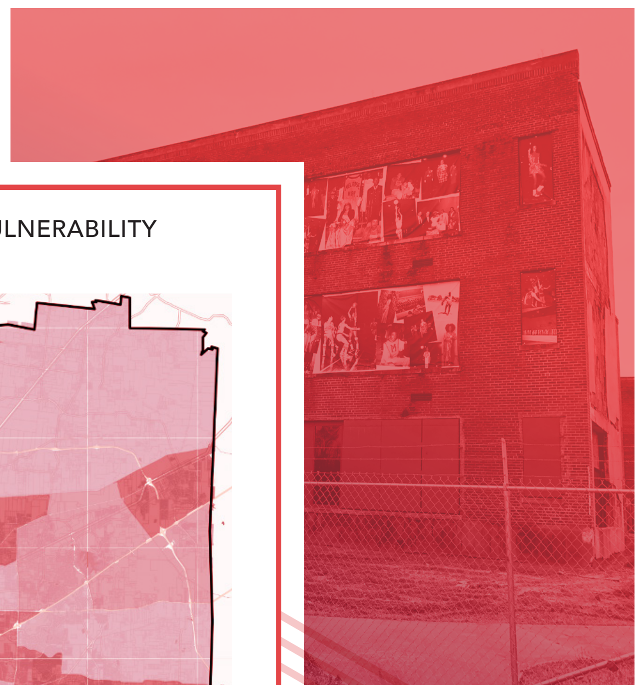
Estimated direct economic impact if 20% of Shelby County residents are unable to pay housing costs for 1 month, 2 month, and 3 months. Source: Census Bureau

[1] Calculated using 2018 IPUMS ACS Median Housing Cost in Shelby County plus 20% non-payment, which is likely a conservative estimate

Second, many of the foreclosure crisis policy responses were aimed at stabilizing the housing market at the local level. That same market stabilization will likely be key to remedying a COVID-19 related housing fallout. Third and finally, local and national data shows that COVID-19 is having disparate impacts in communities of color, similar to the impacts of the sub-prime mortgage crisis.

The map below shows the pandemics impact on Memphis neighborhoods along social, racial, and economic lines. As a result, our local response needs to be mindful of these social and racial inequities we are seeing in the data.

The remainder of this report will be structured as follows. We begin by setting the context of this report in larger housing and neighborhood trends. The current housing market has not developed in a vacuum; therefore, historical trends should be considered first. Following this, we dive deeper into the local response to the 2008 subprime mortgage crisis, its impact, and how those responses apply to the current crisis. This report will conclude with a discussion of best practices and collaborative efforts aimed at addressing the issue already underway in our city.



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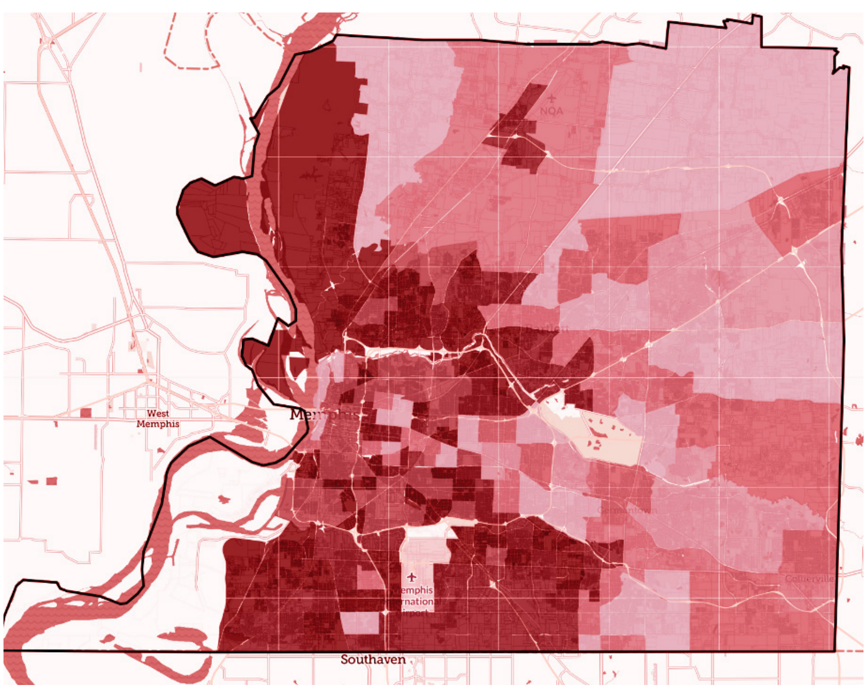
MAP 1: COVID-19 NEIGHBORHOOD VULNERABILITY



Darker red areas show neighborhoods with higher vulnerability to social and economic impacts of COVID-19. Source: Innovate Memphis

MEMPHIS AREA NEIGHBORHOOD TRENDS

Neighborhood Demographics 1970 - Present

When examining changes and trends of a city's neighborhoods there is no exact science to choosing the starting point. Memphis' neighborhoods have been changing constantly since the city's founding over 200 years ago. For the purposes of this report, we will begin our analysis in 1970. The reason being, the end of the 1960s was marked with extensive unrest and upheaval, especially in Memphis, Tennessee. From the 1970s on, our neighborhoods and our city in its current form began taking shape.

Map 2 below shows what Shelby County looked like in 1970 in terms of race and ethnicity at the neighborhood level.

For present-day Memphians, the area of predominantly White neighborhoods may potentially be surprising. Neighborhoods currently predominantly African American such as Whitehaven, Frayser, Raleigh, and Hickory Hill were predominantly White from 1970-1980. However, two primary areas of the city and county have consistently been predominantly African American. The two areas are directly north and south of downtown including neighborhoods such as Soulsville, Longview Heights, and Castalia Heights to the south, and Hyde Park, New Chicago, and Douglass to the north. Interestingly, the more rural parts of the county near the northeastern and southwestern corners have been relatively diverse with a slight African American tilt. Another key takeaway here is how stark the divide was at this time. In many sections of the city, there has been a very White area (80% White or more) next to a very Black area (80% Black or more), particularly within the I-240 loop.

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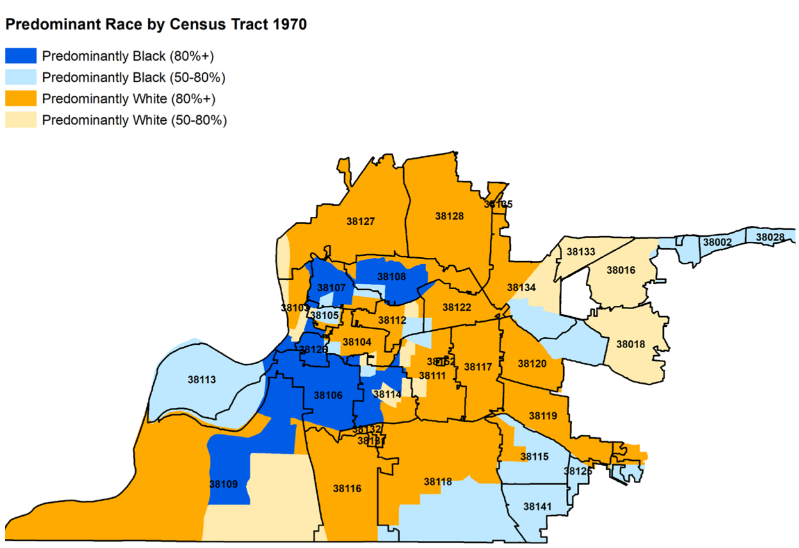
MAP 2: 1970 NEIGHBORHOOD RACE/ETHNICITY



Source: IPUMS NHGIS, University of Minnesota, nhgis.org

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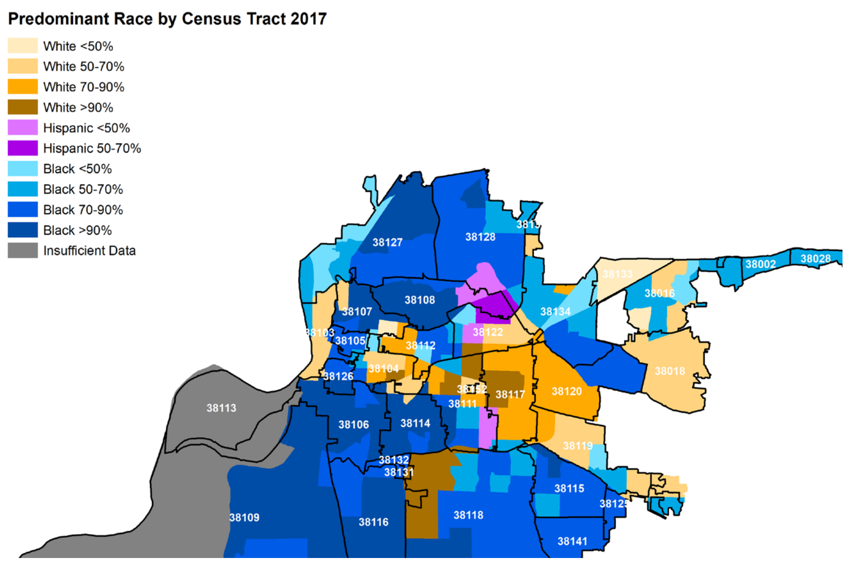
MAP 3: PRESENT NEIGHBORHOOD RACE/ETHNICITY



Source: IPUMS NHGIS, University of Minnesota, nhgis.org

When comparing what these neighborhoods looked like racially and ethnically in 1970 to what they look like in the present day, a larger story of neighborhood change begins to emerge. The most noticeable change is the emergence of predominantly Latinx or Hispanic neighborhoods in the Mitchell Heights, Graham Heights, Berclair, and Nutbush neighborhoods (38112 and 38108) as well as, one tract in the Winchester/Parkway Village area (38111). Memphis is often thought of as a racial or ethnic binary, but the recent growth in the Latinx community is taking Memphis beyond Black and White.

The racial and ethnic changes in Memphis neighborhoods are also very pronounced in the urban core of the city. Downtown has become racially diverse but is slightly whiter according to the data, due in large part to the expansion of Downtown and Mud Island in recent years. Parts of Midtown have also become more diverse, most noticeably in the eastern sections flowing into Binghampton.

The aforementioned inner-ring suburban neighborhoods of Raleigh, Whitehaven, Frayser, and Hickory Hill saw significant change as well going from being almost all White to now almost also all predominantly Black or Latinx.

While diversity has increased in many parts of the city, residential segregation is evidenced by the predominance of racial types in certain communities.

This is shown by the very dark blues and purples next to very dark oranges in Map 3. Research has shown that the racial demographics of neighborhoods play a key role in all aspects of daily life, especially in the way public policy responses impact communities (Galster, 2019; Ellis et al, 2004).

Growth of City Size

The second key factor impacting the way Memphis neighborhoods have changed in recent decades is how and where our city has grown. The expansion and annexation that marked the 1960s to the 2000s grew our city boundaries, stretching public resources thin and encouraging movement away from urban neighborhoods.

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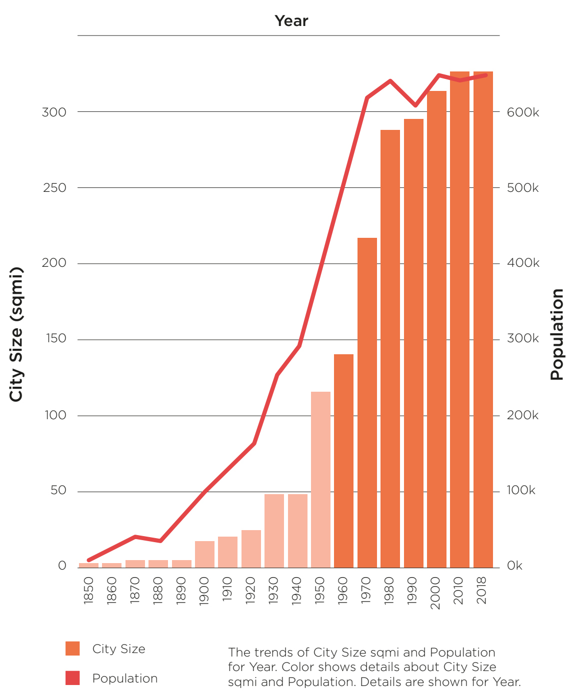
FIGURE 2: POPULATION GROWTH AND LAND GROWTH 1850 - 2018



Source: Census Bureau and Strategic Economics

Figure 2 shows how Memphis' population grew through most of its history, from 1850 to the present. Beginning in 1960, Memphis' land area experienced rapid growth, doubling between 1960 and 2010. Meanwhile, the population plateaued in 1970 with a slight decline in 1980. To put this into perspective, within its 300+ square mile city limits, Memphis can fit the cities of Atlanta, Seattle, and Orlando combined.

The consequences of this land growth without complementary population growth are numerous. Many people left the urban core for the suburbs, leading to increases in residential and commercial vacancies in these neighborhoods beginning in the 1980s. Second, jobs and economic output shifted to the outlying suburbs along with the households. This led to a phenomenon research calls "spatial mismatch" – when jobs are not close to where working-class families who need them are living (Kain, 2004). This problem is exacerbated by a public transportation system that is stretched thin, as it was never intended to cover this expansive an area. These factors have contributed significantly to the recent growth in poverty and decline in household incomes.

From 2005 to 2018 Memphis' city wide poverty rate has increased from 24% to almost 28% and has one of the highest poverty rates of any large city in America.[2]

(Delavega, 2020).

[2] Read Full 2019 Memphis Poverty Fact Sheet here

In recent years, Memphians and our city leaders have become more aware of the problems associated with sprawl and its contribution to neighborhood decline and increased poverty. This heightened awareness was the driving force behind the award-winning Memphis 3.0 plan approved in 2019, which seeks to guide how the city grows into our third century. Its primary vision for Memphis is to "build up, not out."[3] While the legacy of sprawl and reduced density has exacerbated the racial segregation and economic disparity that are now obvious problems for neighborhood preservation, a trend toward density will hold down the costs and increase the access to public services on one hand while, on the other, contributing to healthier, safer environments for residents.

Recent Housing Trends

The final aspect of understanding contextual neighborhood trends is the examination of recent housing market patterns over the last two decades. This topic relates directly to one of the focal points of this report: Memphis' response to the 2008 subprime mortgage crisis. Key questions guiding this section are:

1. How did housing values change from before the crisis to after (2000 – 2018)?
2. What are some of the immediate housing market impacts caused by the subprime mortgage crisis and the Great Recession that followed?
3. What do these trends tell us about different neighborhoods in Memphis, before and after 2008?

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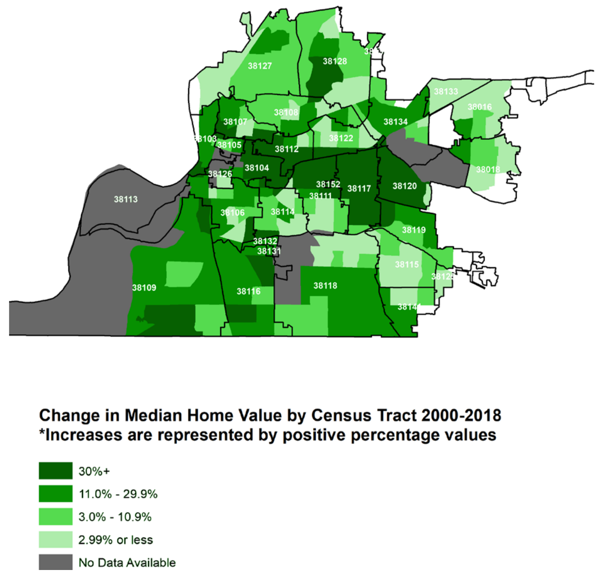
MAP 4: CENSUS HOME VALUE 2000 - 2018



Source: Policy Map policymap.com

First, we will seek to answer how home values changed from 2000 to 2018 at the neighborhood level. To do this we used census data for the median home value and calculated the change at the neighborhood level accounting for inflation. Map 4 depicts a complex story of the boom and bust in the housing market with scattered value growth in certain neighborhoods; a pattern which we will explore in more depth later in this report. East Memphis and Midtown have experienced consistent growth in property values. Certain parts of Raleigh, Whitehaven, and areas surrounding Downtown saw increases as well.

[3] Read Full Memphis 3.0 Plan here

Historically disinvested areas like neighborhoods in North and South Memphis, saw a relative increase from 2000-2018, but that may be more of a reflection of how low the real property values in the 38106, 38126, and 38114 zip codes were in 2000, as opposed to direct market growth. When looking at this map, it is also important to keep in mind that this measurement does not take into account gross rents or rental property costs. Instead, it focuses primarily on home sale values as reported in the Census. This is especially important given the high increase in rentership following the housing market crash, which is arguably the most important immediate impact noticeable during the housing market recovery period.

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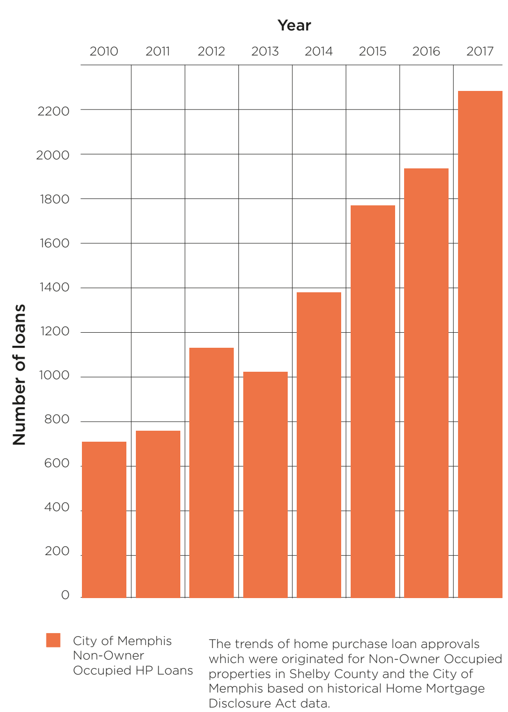
FIGURE 3: NON-OWNER LOAN TOTALS 2010 - 2017



Source: Housing Mortgage Disclosure Act Data

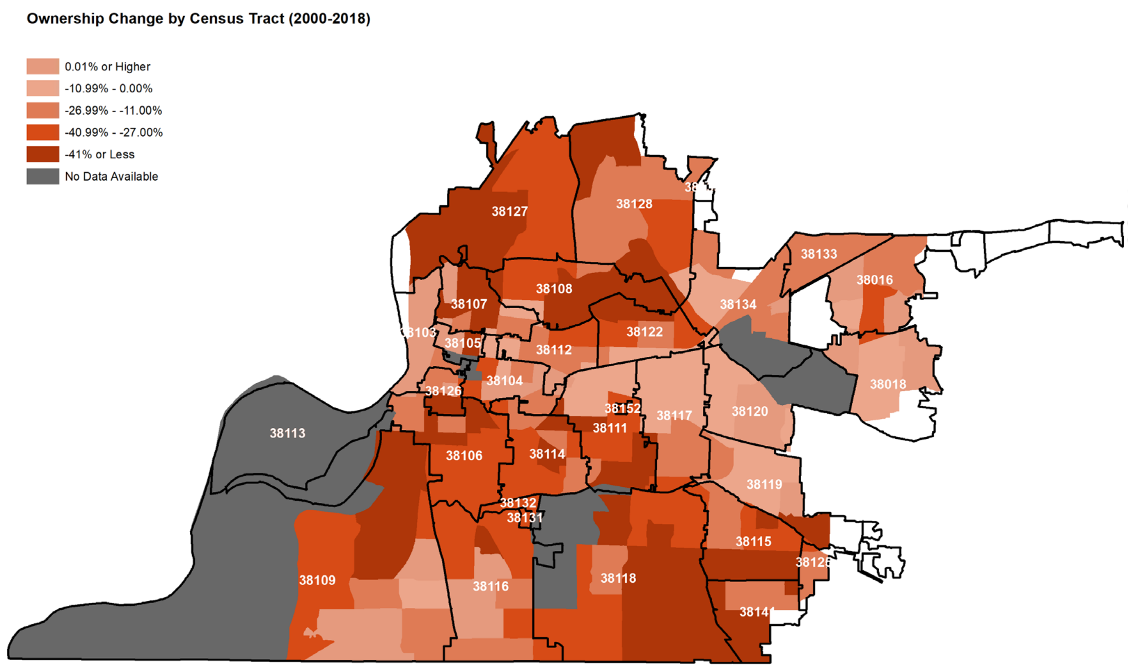
To examine these rental market dynamics more, Figure 3 looks at non-owner-occupied mortgage originations during post-recession recovery (2010 to 2017) using loan-level data under the Housing Mortgage Disclosure Act. These are loans that are likely going to potential rental property investors, landlords, or the like.

In the span of just 7 years, the total number of these loans originating in the city of Memphis increased by over 300%.

Most notably, during the 2013 to 2017 period total non-owner-occupied mortgage loan originations more than doubled. This has been, and continues to be, an important national trend as the rental housing market experienced a boom during the recovery period across the country. A 2018 Zillow report claimed that this was true in Memphis more than anywhere in the country, citing Memphis as the fastest-growing rental market in America.[4] We will explore this rental boom more in the next section when we look closer at how Memphis recovered from the subprime mortgage crisis.

[4] https://www.bizjournals.com/memphis/news/2018/08/09/renting-is-on-the-rise-in-the-u-s-and-memphis-is.html

5 **MAP 5:** CHANGE IN OWNERSHIP OCCUPANCY RATES 2000 - 2018



Source: Policy Map policymap.com

What did this owner to rental transition look like at the neighborhood level during the 2000 to 2018 time period? To answer this question, Map 5 shows the change in owner-occupancy rates at the neighborhood (census tract) level across the city. Out of all the neighborhoods in Memphis, 89.6% of the city's neighborhoods saw an increase in rental housing. The same areas that saw increases in home values, Downtown, Midtown, and East Memphis, also saw less decrease in ownership than the rest of the city. Neighborhoods that were once strong homeowner communities like Whitehaven, parts of Southeast Memphis, and Raleigh saw some of the highest decreases in ownership. Frayser and parts of North and South Memphis also saw stark decreases in ownership. This is arguably one of the most important takeaways from this section, especially as it relates to Memphis neighborhoods in the COVID-19 Era. High rates of rentership fosters the potential for increased instability in housing during times of crisis.

To better understand how Memphis can promote housing stability, foster neighborhood growth, and create stronger, more resilient communities in the face of a pandemic, we will examine the immediate and long term impacts of the most recent housing crisis.

Our hope here is to apply key lessons learned from our response to the 2008 housing crisis, creating a data-driven template to start local conversations about how we can respond to the current COVID-19 housing crisis.

"Our hope here is to **apply key lessons learned** from our response to the 2008 housing crisis, creating a data-driven template to **start local conversations** about how we can respond to the current COVID-19 housing crisis."

RISING TO RESPOND TO CRISIS

The 2008 mortgage crisis is still relatively fresh in our minds here in Memphis – foreclosures skyrocketing, vacant properties popping up at unprecedented rates, and mass confusion with Americans trying to collectively figure out what was happening around them and why. In many ways, the economic fallout from this period in our city's history is still ongoing and the impact it had on our neighborhoods is still tangible over a decade later. Many things about COVID-19 are unknown, and ever-evolving, but from March 2020 on, one thing became clear quickly: the social and economic repercussions were going to be familiar to those who were impacted by the 2008 crisis.

While there are many similarities between COVID-19 and 2008, for example the rise in unemployment, market uncertainty, and decrease in consumer spending, there are also many more ways the two crises are different, such as health implications of COVID-19, social and economic shutdown, and lesser direct housing impacts to date due to the early imposition of eviction and foreclosure moratoriums. We acknowledge these differences and recognize this is not a perfect comparison, but in terms of economic impact, the 2008 economic crash provides many important lessons to establish a starting point for the important, but difficult dialogue our city must have around the current housing crisis.

In this section of the report we first start by explaining briefly what exactly happened during the foreclosure crisis. What were the causes and why did it have the impact it did? Next, we take a closer look at the housing recovery beginning in roughly 2011 or so and lasting through 2018. Next we look at two key features of Memphis neighborhoods resulting from the Great Recession: persistent housing vacancy and the implications of our city's rental market boom. To conclude this section, we examine policies enacted at the federal, state, and local level which responded to this housing crisis and what those policies can tell us about forming a response to the COVID-19 housing crisis.

What Happened?

Anyone who has tried to wrap their head around the numerous factors that played a role in the subprime mortgage crisis knows one thing is for certain: it is very complicated. To avoid contributing to this complication and duplicating the long list of movies, books, research articles, and reports focused specifically at detailing the causes of the 2008 crisis, we are going to keep it as simple as we can here and focus on the following four aspects:

1. The rise of mortgage market deregulation leading to the "innovation" of the subprime mortgage loan product;
2. Targeting of subprime loans in predominantly African-American neighborhoods;
3. The relationship between foreclosures and vacant properties; and
4. The increase in real estate owned by large national banks and other lending institutions of previously foreclosed homes did with these houses after the crisis.

In telling the story of what caused the subprime mortgage crisis, the story does not begin in 2008 or even in 2005; really you have to start in the 1980s and 1990s, if not even further back. The federal government became involved in the housing mortgage sector during the 1930s in response to the Great Depression. With the creation of the Federal Housing Administration (1934) and enactment of the Homeownership Loan Corporation Act (1933), the federal government began insuring and standardizing home mortgages. This led to the creation of a system of mortgage lending by calculating perceived loan risk based on location-based characteristics called the HOLC or "redlining" maps (Hays, 2012).

From the 1930s through the 1960s and 70s, the mortgage market remained tightly regulated by strong federal government involvement (Schwartz, 2014). Most loans were made by Federal Home Loan Bank branches or other traditional lenders. A period of mortgage deregulation began in the 1980s, and increasingly mortgage brokers and independent third-party actors, become more influential in the U.S. home mortgage market.

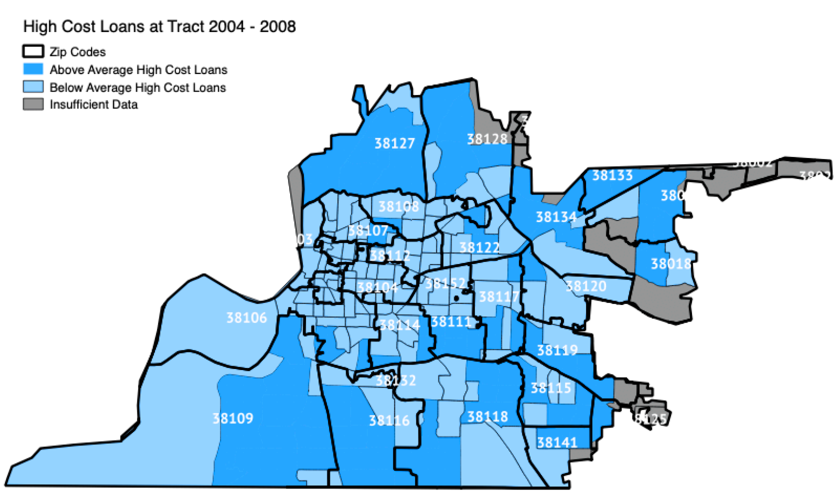
The increase in speculative lending by mortgage brokers ultimately led to the Savings and Loans Crisis (S&L Crisis) in the mid-to-late 1980s, having deleterious impacts on the S&L industry.

The first subprime loan boom occurred in the late 1990s, which focused primarily on refinancing loans targeted to older African-American households. This was followed by yet another expansion in reckless lending in the 2000s, which, while it led to a housing boom, also precipitated the crash of 2008. Both of these booms were driven by three key things: deregulation, increased global need for immediate reinvestment of capital, and the growing popularity of private-label securities (Immergluck, 2011).

These predatory loan products popular in the early 2000s, which we have been referring to as subprime mortgages, are commonly defined as any home loan product with higher interest rates, adjustable rates, balloon payments, or higher fees (Immergluck, 2011). Such loans put borrowers at higher risk of default, a factor that the loan originator who sold the loans immediately could ignore. This allowed a great deal of lending fraud, by lenders creating a situation where the borrowers were left incapable of paying off the loan. Research and data have discovered that these subprime loans targeted borrowers with lower credit scores, especially African Americans (Immergluck & Smith, 2005). To see what this looked like in Memphis, refer to Map 6 below. It may also be helpful to consult the Race/Ethnicity maps from the previous section as a reminder of where the predominantly Black neighborhoods were located at the time these loans were being originated.

To create these maps, we calculated the total number of "high-cost loans" or higher risk mortgages with rates and fees that exceeded prime mortgage standards, as defined in the Housing Mortgage Disclosure Act data, at the neighborhood (census tract) level from 2004 to 2008. Neighborhoods that had a total number of high-cost loans exceeding the Memphis average are colored dark orange, and neighborhoods with below-average numbers are colored light orange. It is important to note that the light orange neighborhoods still had a significant number of high-cost loans during this time. As other research has shown, the above-average amounts of high-cost loans were targeted in predominantly Black neighborhoods such as Frayser (38127), Raleigh (38128), Hickory Hill (38118 & 38115), Whitehaven (38109 & 38116), and Cordova (38134 & 38133), as well as many others. These loans were originated by non-traditional mortgage brokers who specialized in subprime lending, as well as large national banks.

6 **MAP 6:** HIGHER COST MORTGAGE LOANS 2004 - 2008



Source: Policy Map policymap.com

It is the primary role these predatory subprime loans played in the market crash that drives us to refer to this crisis as the "subprime mortgage" crisis, instead of the more common "foreclosure" crisis. If not for the deregulation and growth of subprime mortgages, accompanied by the securitization or bundling of these loans as investment products on the global capital market, the high rates of foreclosures that followed could have at least been mitigated. Figure 4 details the rise of foreclosures and vacant properties during and following the subprime lending boom.[5] Annual foreclosures more than tripled from 2000 to 2009, with vacant housing units growing to more than 25,000 total units by 2009.[6]

In the years following 2009, the growing number of these foreclosed homes remained the responsibility of large national banks and other lending institutions. In the housing field, we refer to these as "Real-Estate Owned" or REOs for short. These REOs were a financial liability for the entity that initiated foreclosure proceedings. Thus, some incomplete foreclosure proceedings led to "zombie" properties concentrated in neighborhoods with high subprime lending rates (Lind, 2015). These properties became difficult for cities across the country to deal with, Memphis was no different. Beginning in the early 2010s however; large portfolios of these REOs were sold to large private equity owners interested in using them as rental properties, a predominantly regional feature of the Sun Belt (Immergluck & Law, 2014). Researchers have credited this as one of the key factors contributing to Memphis' rental boom (Pierson, 2014). We examine further the increase in vacant property and rental market growth later in this section.

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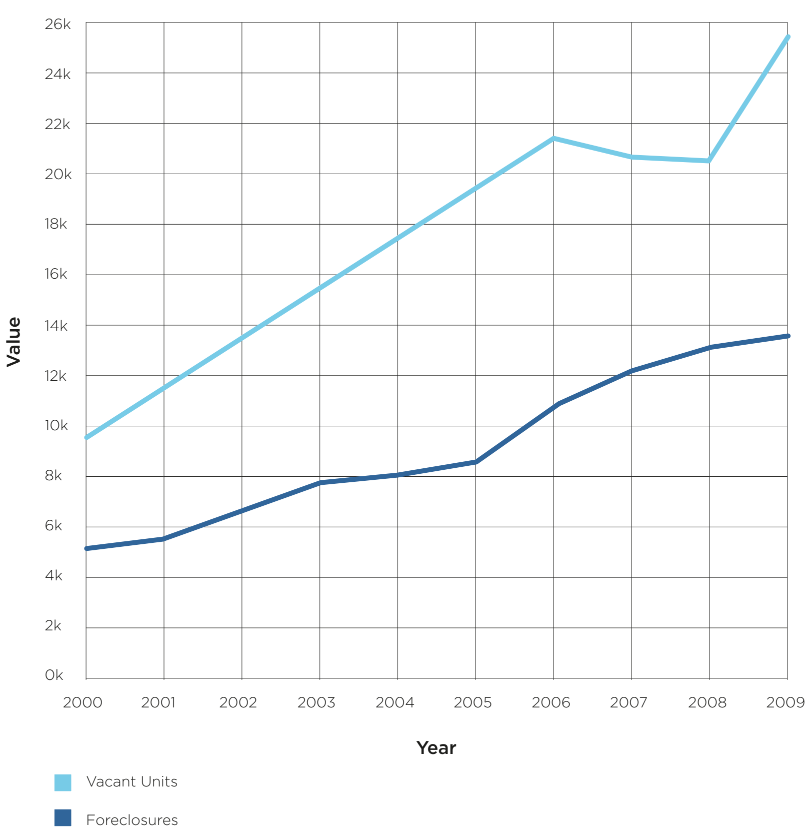
FIGURE 4: FORECLOSURE & VACANCY FROM 2000 – 2009



Source: Foreclosure Data from Memphis Daily News; Vacancy Data from Census Bureau

[6] Vacant Housing Units total includes multi-family and single-family (2000 Census, 2005 ACS, 2009 ACS)

Housing Recovery Period

Beginning around 2012 urban housing markets across the country, Memphis included, showed signs of recovery. Yet, there were certain factors which differentiated Memphis from the rest of the country. The three key takeaways we discuss here are:

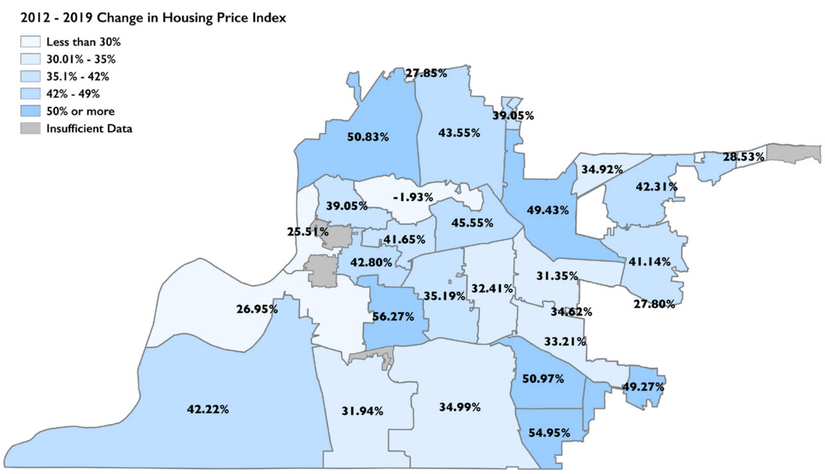
1. Housing market recovery looked very different in different neighborhoods,
2. Single-family housing market values became more rental market-driven, and
3. In most of the city, home values had dropped so low in 2010 or 2011 that the relative growth was in most cases a return to pre-crisis levels.

First, throughout the nation, a separate and unequal recovery of the housing market followed the Great Recession, as recently documented in Alan Mallach's *Divided City*. The existence of this same phenomenon in Memphis was captured by a 2018 New York Times article which proclaimed that Memphis had gone from “Blight to Bright Lights,” citing the city’s Downtown and Midtown renaissance (Krueger, 2018). The progress the article detailed was real and tangible and should not be ignored. This recovery and market appreciation were, however, limited to primarily Downtown, Midtown, the University District, and East Memphis. The rest of the neighborhoods in Memphis did not experience the same level of activity.

As discussed in the previous section, the primary driver of the Great Recession and housing market crash was focused primarily on the single-family housing market. In Memphis, the single-family housing market constitutes such a large part of the overall housing stock. Therefore, it makes sense to analyze housing price trends for the buying and selling of those same single-family homes. To do this, Federal Housing Finance Agency’s Housing Price Index was employed. The HFA creates a repeat sale index that allows observation of housing price change collectively across a specific area. The map below shows the housing price index change from 2012 to 2019 at the zip code level in Memphis.

7

MAP 7: HOUSING PRICE CHANGE 2012 - 2019



Source: Federal Housing Finance Agency

Considering the previous maps, this data shows a clear pattern: places where single family homes have sold at increased prices mirror some of the same places where rentership has increased the most. These places also happen to be some of the same areas where subprime or high-cost loans were most often originated. The data begins to tell a story here that starts with subprime lending; which led to foreclosures. As many of those REO or previously foreclosed properties were sold to rental investors, sales prices increased. We can infer that these price increases were being driven by the single-family rental market.

The third key takeaway here is that the relatively higher percent change in housing prices from 2012 to 2019 may be an indication that housing prices across the city in 2012 were abnormally low. This is especially true for the areas hit the hardest by the subprime mortgage crisis. The increase in sales prices in the single-family housing market, driven primarily by investors, was in many ways, more like a return to pre-recession housing values in many neighborhoods throughout the city. This is further evidenced by the relatively modest housing price changes noticed in East Memphis and Downtown, when compared to Southeast Memphis, Frayser, and others.

Map 7 also shows areas where the market did not rebound at all. In 38126 and 38105, from 2012 to 2019, there were not enough sales transactions to constitute an index rating for any year. This tells us something different entirely, which points to a larger reality of the housing market recovery period in Memphis, Tennessee: vacant and abandoned homes continue to disrupt housing sub-markets throughout the city.

"Vacant and abandoned homes continue to disrupt housing sub-markets throughout the city"

Vacancy Persists & Rental Market Boom

Figure 5 tells the story of the persistent vacancy levels from 2000 to 2018, at state and national levels as compared to in Memphis and in a subset of peer cities: Louisville, Birmingham, and St. Louis, as well as the state and national levels. In absolute terms, Memphis is the largest of the peer cities by total housing units.

While it does not have the highest vacancy rate, roughly 16% of all Memphis housing units is a significantly larger problem than 18-20% of Birmingham or St. Louis when looking at the raw numbers.

Additionally, Memphis' vacancy rate has stagnated since 2010 only dropping by less than one percent. St. Louis and Louisville are on a similar trajectory, as is Tennessee and the country at large. This is in contrast to most major U.S. cities. Here, the data tells a different story from the larger national media narrative of most U.S. cities. The remnants of the subprime mortgage crisis continue to be a challenge for Memphis and cities like it. This will be especially important to keep in mind in the COVID Era, as another economic downturn could contribute to increasing a stubborn vacant property problem.

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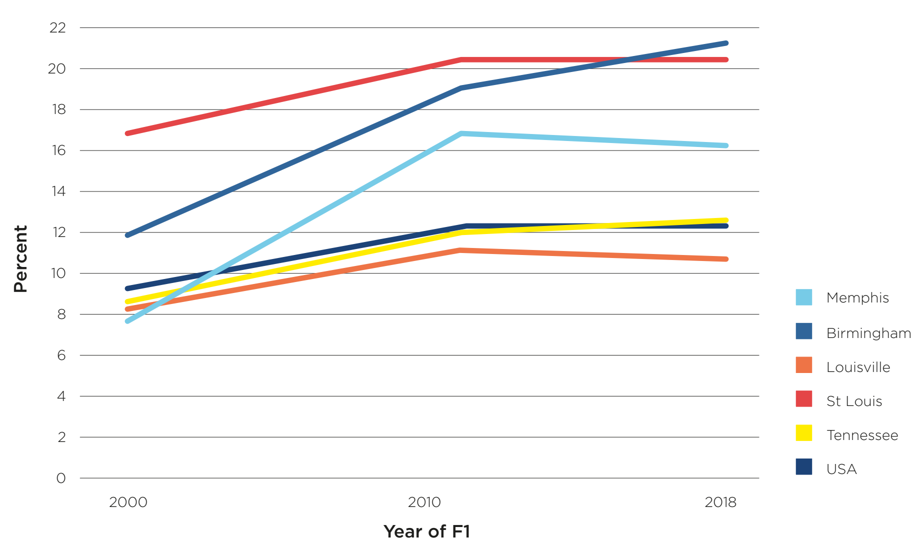
FIGURE 5: CHANGE IN VACANCY 2000 - 2018

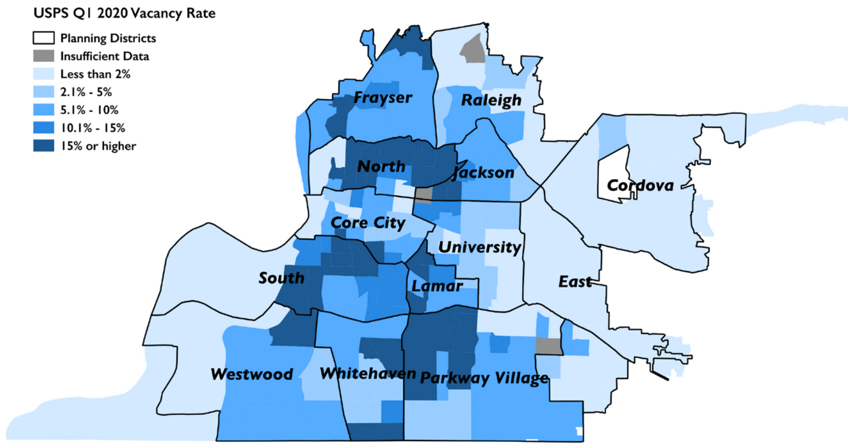


Source: Census Bureau "Other" Vacancy percentage

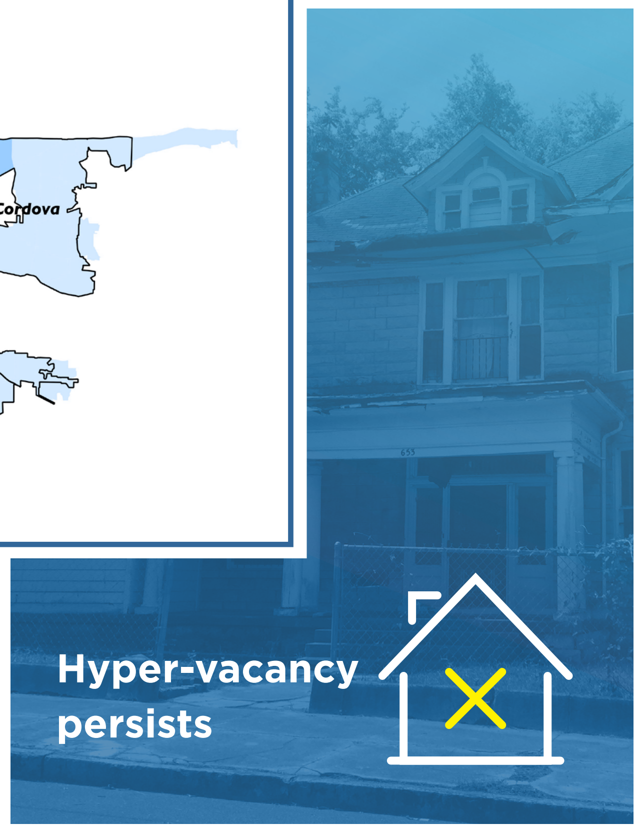
"The remnants of the subprime mortgage crisis continue to be a challenge for Memphis and cities like it."

8

MAP 8: 2020 VACANCY RATE



Source: Calculated using U.S. Postal Service data from Q1 2020



Map 8 calculates the residential vacancy rate at the neighborhood (census tract) level using these United States Postal Service data for the first quarter of 2020. Looking at Map 8 in the context of Map 7, it can be inferred that our assumptions regarding market activity in 38105 and 38126 are confirmed. Those two areas are the most concentrated areas of vacancy in Memphis, both with multiple tracts that are over 15% vacant and commonly referred to as “hyper-vacant” (Mallach, 2018b). Research has found 15% to be a tipping point, beyond which the negative impacts from vacancies on property values are compounded.

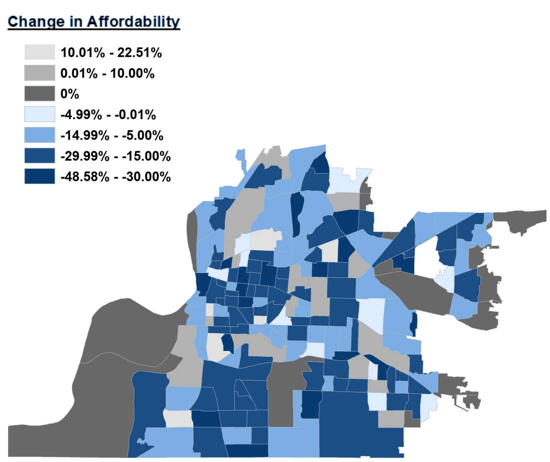
While a certain level of vacancy is essential for a healthy market and is necessary for creating supply, concentrated hyper-vacancy often results in higher levels of long-term vacancy (houses that are vacant for more than 6 months), which negatively impacts neighborhood market resiliency (Wang and Immergluck, 2018). Outside of North and South Memphis, pockets of hyper-vacancy are scattered throughout many neighborhoods in the city. This includes Whitehaven, Frayser, Orange Mound (Lamar), and The Heights (Jackson).

In addition to lowering surrounding housing prices, an increase in vacant properties also limits the amount of livable housing. This is a problematic result of hyper-vacancy combined with an increase in single-family rental investments. The result is a loss of quality affordable units offered at a variety of income types. It is not to say that all rental property investors are bad actors; the exact opposite is the case. Most property investors are still local “mom & pop” or small businesses that in some cases live pretty close to the property they manage. While this is becoming less and less the case, the vast majority of single-family rental properties are managed by individuals local to Memphis and Shelby County. However, the implicit incentives for the owner of a rental home are different than those for a homeowner, and the manner and degree to which the homes are maintained are significantly different.

The combination of increased single-family rental units and increased vacancy and abandonment culminate in the loss of quality affordable rental units through the "bottom of the market" (Immergluck et al, 2018). The impact this has on the rental market is similar to what is happening in cities like Nashville and Atlanta where rentals are becoming less affordable through the "top of the market." For example, according to the 2020 National Low-Income Affordable Housing gap analysis, Memphis needs nearly 30,000 more affordable units (at 60% AMI or lower) to meet the city's need than Nashville and New Orleans.[7]

9

MAP 9: % OF AFFORDABLE RENTAL UNITS (<$750) LOST FROM 2010 TO 2019



Source: Source Census Bureau

At the neighborhood level, Map 9 shows the loss of affordability (defined as less than $750/mo rent) from 2010 to 2018.

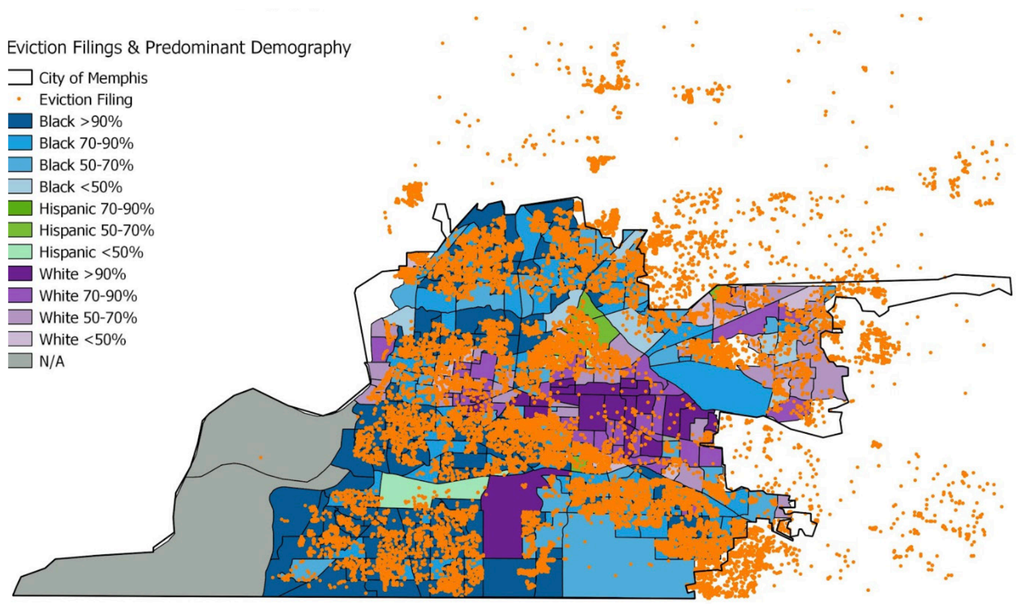
When examining the data in Map 9, the first thing that is unavoidable is the fact that the majority of the city is some shade of dark blue denoting the loss of affordable rental units across this area. How the neighborhoods are losing affordable units is likely different in different parts of the city, but the underlying takeaway is inevitable: Memphis has a serious affordable housing crisis. This crisis is likely to be exacerbated during the COVID Era and is another side effect of the Memphis post-recession housing boom.

In addition to vacancy persisting and the loss of affordable housing, another key aspect of the post-recession housing market in Memphis relates to housing stability. Since the COVID-19 outbreak, more attention is being paid to unstably housed Memphians facing eviction but the data shows that evictions have been on the rise in Memphis for some time. From 2016 to 2019, there were on average 31,633 evictions filed in Shelby County each year, which accounts for roughly 1 in 5 renters in Memphis and Shelby County (Harrison, 2019). Much like COVID-19 itself, the existing levels of housing instability pre-COVID were concentrated racially and ethnically. Map 10 shows the location of every eviction, from 2016 to April of 2019, overlaid by the predominant race/ethnicity map discussed earlier in this report. Latinx and Black communities have higher rates of evictions than their White counterparts, according to the data. We can again draw a through-line between subprime lending being concentrated in Black communities in the early-to-mid-2000s to some of those same areas being eviction hotspots today.

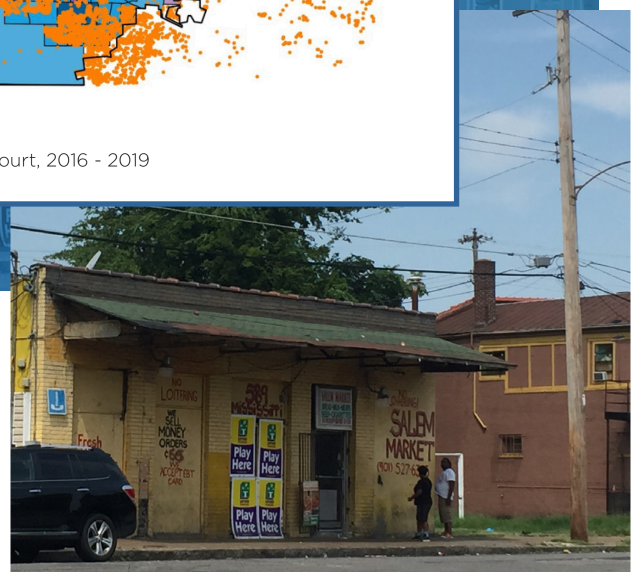
[7] https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2020.pdf

10

MAP 10: EVICTION FILING AND DEMOGRAPHICS



Source: Eviction Filings downloaded from Shelby General Sessions Court, 2016 - 2019



Policy Analysis

The final key to producing a policy framework for a COVID-19 housing crisis response is to take a closer look at the policies enacted in the years following the subprime crisis that had a noticeable impact in Memphis. Before diving in, there are a few key things to keep in mind when looking at this policy analysis. First, this list is not exhaustive and focuses on select policies targeted at some of the key aspects of the subprime mortgage crisis (i.e. vacant housing, housing stability, etc.). Second, most of the policies discussed were enacted at the federal level and were administered through the U.S. Department of Housing & Urban Development (HUD). Be that as it may, there is still much we can learn from what was attempted in response to the subprime mortgage crisis, and there are other ways we can model similar programs administered or started at the local, regional, or state level. Third and finally, the purpose of this matrix is not to put forward subjective opinions on programs or policies, but instead to briefly summarize the research on these policies to help frame a conversation around what we need to do during the COVID-19 crisis.

6

FIGURE 6: SUBPRIME MORTGAGE CRISIS POLICY MATRIX

	EQUITY	EFFECTIVENESS	POLITICAL FEASIBILITY	COMMUNITY ENGAGEMENT	TOTAL
NEIGHBORHOOD STABILIZATION PROGRAM	3	3	5	2	13
THE HARDEST HIT FUND BLIGHT ELIMINATION PROGRAM (BEP)	2	2	5	3	12
HOME AFFORDABLE MODIFICATION PROGRAM (HAMP)	1	2	2	3	8
HOME AFFORDABLE REFINANCE PROGRAM (HARP)	2	4	3	2	11
HOMELESS PREVENTION AND RAPID REHOUSING	3	4	4	5	16
KEEP MY TENNESSEE HOME PROGRAM (HHF)	4	4	3	4	14

To help frame this conversation, the policy analysis matrix in Figure 6 scored six different policies on a 1 – 5 scale across four categories: equity, effectiveness, political feasibility, and community engagement. For more details on the methodology, see Appendix A.

There are numerous lessons we can learn from the policies enacted following 2008, but for the purposes of responding to future housing crises we will attempt to distill this matrix down to 5 key lessons. First, promoting community involvement of people familiar or engaged with their neighborhoods on the design of housing relief programs is essential to promote equity and continuity (Lind, 2011). Collaboration is key, and this report is intended to create a common starting point to facilitate the partnerships needed to respond to this current crisis together. Second, mortgage modification programs like HAMP and HARP (not to be confused with the now-closed home repair program once administered by the City of Memphis) need to be as accessible as possible across a broad range of borrowers. Not allowing HARP to be accessed by private-label securities loan borrowers hurts the effectiveness of the program (Letdin, 2019). Third, loan reduction programs and federal bankruptcy court should be open to reducing principal mortgage rates or local/state programs should assist in principal mortgage reduction payments (U.S. Department of Housing & Urban Development, 2009).

The FHFA took a step in that direction in the early part of the COVID-19 outbreak with some of their loan deferment strategies, but still there has been little signs of principal reductions across all mortgage types.[8] Fourth, the relative success of the Homeless Prevention and Rapid Rehousing is often attributed to place-based partnerships between homeless service providers and the communities they serve (Piña & Pirog, 2019). This is an important blueprint to keep in mind for housing stability programs for the COVID Era. Fifth and finally, programs like Keep My Tennessee Home which was started with hardest hit funds were effective in helping families pay overdue and current mortgage payments.[9] In the absence of principal reduction of reforms in bankruptcy court, housing counseling combined with programs like these are even more necessary in shaping a COVID-19 housing response.

The market and policy landscapes can look daunting given our current situation. However, there are things that we know work and we are fortunate to have leaders like the staff of the City of Memphis Division of Housing & Community Development working with community members and partners alike to begin implementing these best practices in hopes of creating a more resilient and equitable Memphis.

[8] https://www.fhfa.gov/Homeownersbuyer/MortgageAssistance/Pages/Coronavirus-Assistance-Information.aspx

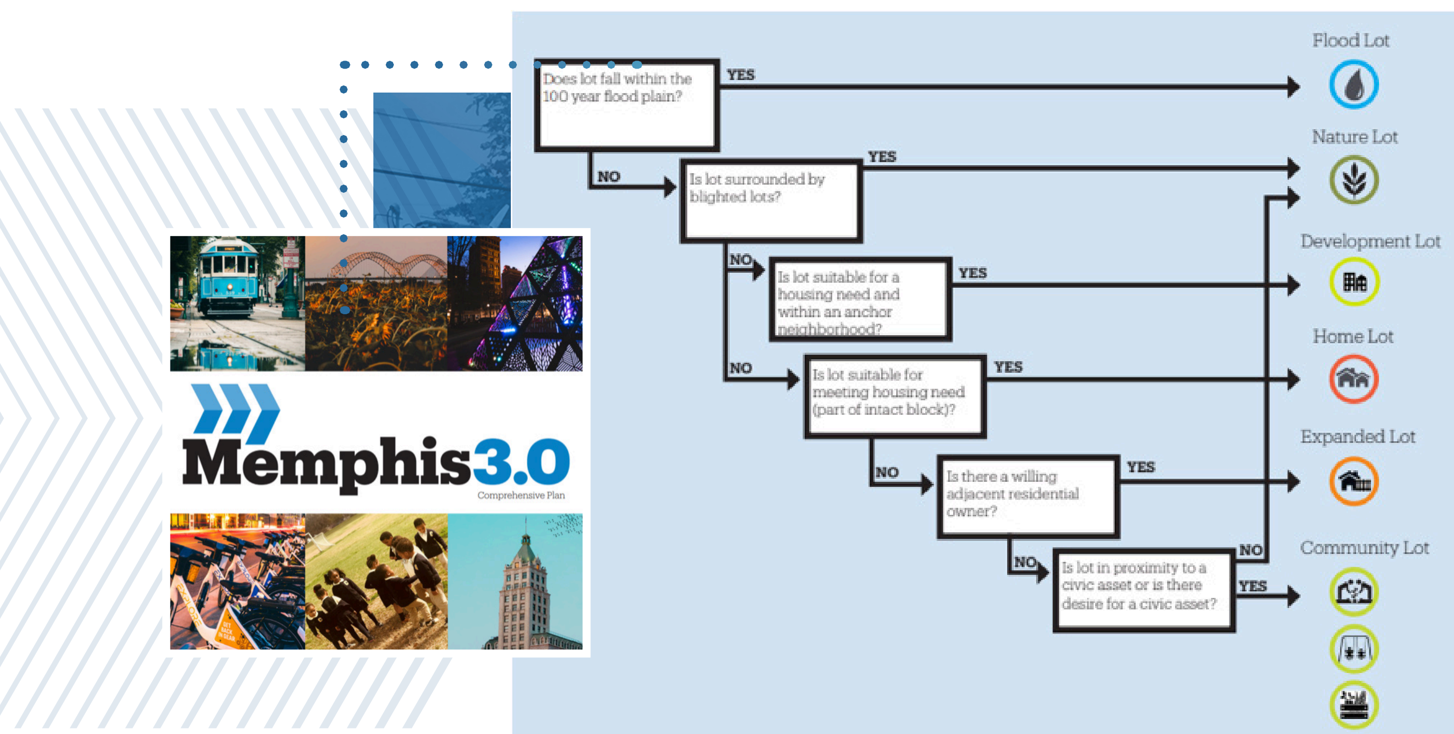
[9] Details on Keep My Tennessee Home can be found at http://www.keepmytnhome.org/. Links to all program details can be found in matrix

Leveraging Memphis 3.0

The City's first comprehensive plan in nearly 40 years, the Memphis 3.0 Comprehensive Plan, provides detailed policy guidance on addressing many of the issues identified in this report (Division of Planning and Development, 2019). Noting similar trends in rising vacancy, Memphis 3.0 contains an objective and 25 related actions aimed at providing strategies for reducing vacancy (see Objective 1.3). Many of these actions relate to the City's Vacant Lot Activation Toolkit (see image) developed to provide communities and the City strategic guidance on short, medium, and long term uses for vacant lots.

In addition to addressing vacancy, Memphis 3.0 places considerable attention on the need for blending policy and investment to promote mixed-income communities and affordable housing (see Objectives 1.4 and 7.1). The plan's approach to this is by encouraging a greater mix of housing types, a characteristic found in stable neighborhoods able to provide a broader range of housing options to more households (Parolek, 2020).

These objectives support the Memphis 3.0 plan's focus on anchors, or community centers, as the unit of change in neighborhoods across a city that has overextended its physical size relative to revenues available to support consistent and sustained community investment. These plan objectives are also highlighted in the following section on Success in Action. The City's actions to step in to address the blighted Tillman Cove in Binghampton will help to transform the property into an example of creating mixed-income communities and affordable housing.



SourceL

City of Memphis Division of Planning and Development. (2019). Memphis 3.0 Comprehensive Plan. Accessed https://mem30.s3.ca-central-1.amazonaws.com/02+Memphis+3.0+Comprehensive+Plan.pdf.

Parolek, D. (2020). Missing Middle Housing: Thinking Big and Building Small to Respond to Today's Housing Crisis. Island Press.

SUCCESS IN ACTION

Crafting a collaborative and data-driven response to a housing crisis is challenging to say the least. As detailed by the evidence, objective data, and previous research provided in this report, Memphis has a steep hill to climb as we work to stabilize our communities to create more resilient neighborhoods during and following the COVID-19 outbreak. There is good news to share. Steps are being taken by the City of Memphis Division of Housing & Community Development, alongside a variety of partners, to convene the necessary groups needed to accomplish these key objectives. This coalition is coming together to build more quality affordable housing, expand the homeless response and shelter system, and proactively seek ways to settle eviction cases, keeping low-to-moderate-income Memphians in their homes.

This section will focus on two key case studies. One will look at an ongoing catalytic development in Binghampton that will result in hundreds of new quality affordable housing units that this City, and specifically this neighborhood, need now more than ever. The second will look at two COVID-19 Housing Crisis intervention measures already started by HCD, both tackling different angles of housing stability in hopes of proactively mitigating the effects of a larger COVID related housing crisis.

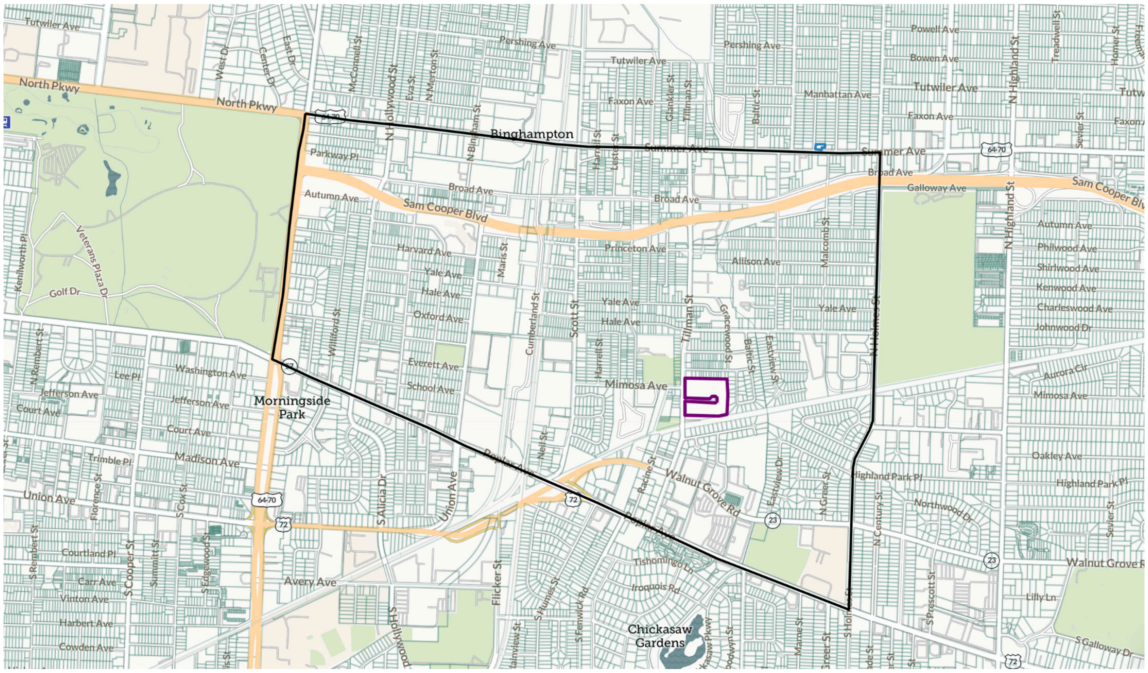
Tillman Cove: Closing the Affordable Housing Gap Where and When it is Needed Most[10]

Memphis has a high quantity of large, vacant, and abandoned multi-family properties that are difficult to redevelop, especially in times of financial crises and in markets that have experienced decades of disinvestment. Tillman Cove, located in the previously disinvested Binghampton Neighborhood, is one such example. Yet, despite its history of decline and stagnation, half of this community has seen a resurgence during the years following the Great Recession. West Binghampton, or roughly the area west of Scott Street in Map 14 below, also referred to by residents as "Blinghampton" has experienced relatively significant market appreciation in recent years.

[10] Unless when otherwise stated information for both cases studies was obtained by interviews with key stakeholders in each project.

11

MAP 11: BINGHAMPTON NEIGHBORHOOD & TILLMAN COVE



The story is very different, however, for the area east of Scott Street. Here, signs of abandonment and disinvestment are more noticeable, and market values have continued to stall or even decline.

As discussed in the previous section, Memphis lose quality affordable housing units from both the top and the bottom of the market, making the development of a mix of residential units at a variety of incomes necessary. This need has only increased in the COVID Era.

In 2018, the City of Memphis purchased this abandoned property and released a Request for Qualifications (RFQ 2019) for developers to submit redevelopment proposals. The goal was to produce a large quantity of affordable housing sufficient to reduce the quality affordable housing gap and prove to everyone that large mixed-use projects could be done in East Binghampton and other neighborhoods facing similar predicaments. Elmington Capital, an active affordable housing developer in the Memphis market, worked with the Binghampton Development Corporation (BDC) and many others to put forth their RFQ submission. The City of Memphis HCD sought this level of community collaboration between developers and local non-profits, which led them to select this proposal. Now, even during the COVID-19 shutdown, this project has been able to move on. There is much it can teach us about ways we can work together to create quality affordable housing and catalytic mixed-use development projects. We have distilled these lessons down to four key takeaways for this case study:

1 Proactive City Involvement

HCD took a leadership role in acquiring the abandoned Tillman Cove property and stewarding redevelopment. Their intentional and community-conscious RFQ process led to selecting an applicant team with multiple community-building oriented partnerships (Center for Transforming Communities, BDC, Nickson General Contracting, and many more).

2 Working through Recession Era Challenges

The need for affordable housing and housing at a range of incomes increases during economic recessions. Also, public-private partnerships become even more crucial as a result as financial markets tighten and traditional private lenders become more risk adverse.

3 Impacts of COVID-19

The development of 200+ units of housing and 4,000+ square feet of retail is always complicated. COVID-19 is not doing this project any favors, but to date, the project timeline has not been significantly impacted. All involved are taking the necessary precautions to move forward smartly and healthily.

4 Partnerships and Collaboration are Key

This cannot be overstated. Nickson General Contractors, the construction partner for the project, was founded and is led by Binghampton's own Octavius Nickson, showing the project's commitment towards engaging local businesses. The City's role in encouraging and stewarding community-driven projects and partnerships like this should not go unnoticed, as it shows what is possible when various partners come together with a common vision.

Proactively Addressing COVID-19 Housing Stability

Homelessness, evictions, and housing stability are some of the most pressing and complicated problems facing Memphis, along with other major US cities. It became clear to Memphis' housing leaders that this existing issue was being exacerbated quickly in March of 2020 when the COVID-19 crisis struck the city. In the following months, HCD and partners initiated two key responses to COVID related housing instability as a part of its work with the Memphis and Shelby County Mayors Joint COVID-19 Task Force. One response was more immediate and directly involved with the pandemic, while the other was more systemic and related to the long-term impacts of housing stability.

In the days and weeks following the COVID-19 outbreak, Memphis' homeless and precariously housed populations required an immediate and comprehensive response to ensure they had a safe place to shelter during quarantine. Many shelters that had been providing services closed, so the City through HCD used available resources to partner with local hotels, prioritizing women, children, and families, but also other vulnerable populations as well. Many individuals and families transitioned into stable housing situations following this brief shelter experience. In the event Memphis returns to full sheltering in place, there is now a model to provide shelter to those who need it most.

In addition to this immediate response, the array of homeless service providers began working together at unprecedented levels. Groups like The Hospitality Hub, Metropolitan Inter-Faith Association, Community Alliance for the Homeless, Shelby County Government, Memphis Union Mission, Room in the Inn and many others began working with HCD's team to design ways to leverage COVID-19 response funds to build out the entire homeless shelter system, from intake to providing key services to finding long-term living arrangements. The entire system is undergoing an upgrade, and collaboration is driving it.

"Homelessness, evictions, and housing stability are some of the most pressing and complicated problems facing Memphis, along with other major US cities."

One of the key drivers of homelessness in Memphis is evictions.

Before COVID-19, on average, one in five renting Memphians would face an eviction filing on average, resulting in over 30,000 eviction filings each year.

(Harrison, 2019)

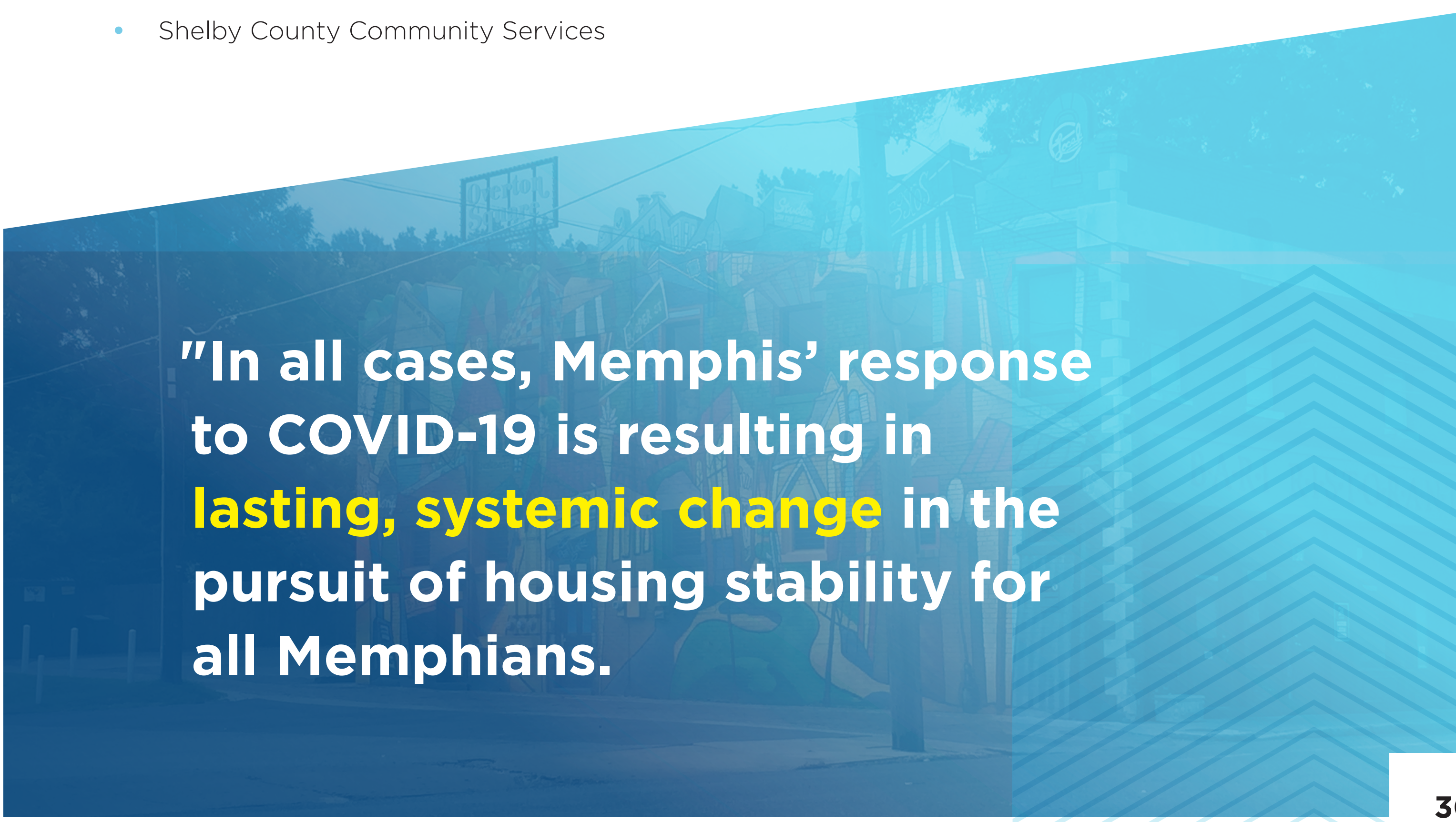
With unemployment on the rise across the country and the economic repercussions of COVID-19 still ongoing, local housing leaders knew a program designed to keep Memphians in their homes would be essential, now more than ever. Using the City of Memphis and Shelby County funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, HCD convened a working group to create the Eviction Settlement Program consisting of the following organizations:

- Memphis Area Legal Services
- Shelby County Community Services
- Shelby County General Session Court – Civil Division
- Neighborhood Preservation, Inc.
- University of Memphis Law School
- Innovate Memphis

Launched in July of 2020, the program is designed to provide rental assistance to tenants facing eviction, while also making legal defense in eviction cases more accessible to tenants than ever before.

The common thread in both of these case studies is the systematic focus of both programs. Eviction-related organizations are working with tenants and landlords to make eviction a last resort, while homeless service providers are working closer than ever to enhance the way our city serves its most vulnerable homeless populations.

In all cases, Memphis' response to COVID-19 is resulting in lasting, systemic change in the pursuit of housing stability for all Memphians.



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APPENDIX A

Subprime Mortgage Crisis Policy Matrix Methodology

Each policy alternative was judged by the following criteria as defined below: equity, effectiveness, political feasibility, effectiveness and community engagement. These qualities have been determined by this policy analysis to be the four most relevant to measure the impact of foreclosure crisis response policies. Each criterion was evaluated on a scale 1 to 5, which is valued as follows:

1 = very low
2 = low
3 = moderate
4 = High
5 =Very High

Evaluative Criteria #1: Equity

Equity is defined as the sociopolitical allocation of burdens and benefits. Scoring: A policy will score a five if it:

- Does not impose burdens on the grantees or targeted population in terms of accessibility and eligibility
- Does not have a negative economic impact on the targeted group
- Does not encourage displacement.

The policy will score a one if it imposes burdens on grantees, has a negative impact on the targeted population and/or encourages displacement.

Evaluating Criteria #2: Effectiveness

For the purposes of this report, effectiveness is defined as the capability of producing a desired result or the ability to produce desired output. This one measures how the program is doing based on the original goal.

Scoring: A policy option was scored as a five if it achieves its original goal and as one if it is unlikely to satisfy the aforementioned criteria.

Evaluating Criteria #3: Political feasibility

Political feasibility is crucial to determining how willing local authorities are to implement programs. There are a lot of programs that are still active in the City of Memphis and receive great support for government and local agencies. Yet, there are some programs that are already closed but at their time, were implemented in the City.

Scoring: A policy option was scored as a five if it:

- Was considered as acceptable among the involved stakeholders and is still active.
- Did meet the real or perceived needs of the target group, public and main stakeholders.
- The option will be scored as one if it is unlikely to satisfy either metric of feasibility.

Evaluating Criteria #4: Community Engagement

Different terms are used to describe the concept of community engagement, including public participation and community consultation.

Scoring: A policy option will have scored as a five it had

- Participation from local government, non-profits or financial agencies and targeted population in the design or implementation of the program

Or

- Participation from people familiar or engaged with what was happening in residential neighborhoods in the design or implementation of the program.

The option was scored as a one, if it is unlikely to satisfy the aforementioned criteria.


Overton Square