INSPIRED LEADERS
SHAPING CITIES

POLICY BACKGROUND: WORKFORCE HOUSING

INTRODUCTION

In recent years, there has been a growing awareness about the challenges for working- and middle-class Americans in financing housing.

The problem often is referred to as the "missing middle": the gap in available housing between luxury, market-rate properties and affordable lower-income housing facilities. As the Multifamily Real Estate News noted, "Often, working families and young professionals, such as mechanics and public employees, don't qualify for affordable housing because they 'make too much' of the local AMI, but they can't afford market-rate or luxury apartments."[1]

The challenge has grown over recent decades. During most of the second half of the 20th Century, housing was affordable to most middle-income workers as wages remained relatively correlated with costs of living, and homeownership became more affordable through the introduction of the 30-year amortizing mortgage loan. During the late 1990's and early 2000's, incomes began to lag behind rising costs of living, and housing supply for middle-income workers grew stagnant.

The Great Recession of 2007 to 2009 further exacerbated the issue of housing affordability for middle-income workers by significantly reducing the production of new housing units across the nation that cater to people who are not eligible for housing assistance but not able to afford market-rate housing.

As of 2014, according to the U.S. Census Bureau, 63 percent of the nation's 117 million occupied housing units were detached homes. Another 13 percent were apartments in buildings with 10 or more units. Only about 19 percent of America's housing stock is composed of all the types in between, from attached single-family townhouses up to nine-unit multiplexes.[2]

The increased awareness of the "missing middle" challenge has been accompanied by a growing view that cities benefit from having more middle-class residents. As the Brookings Institution notes, "Property taxes make up the largest source of local government revenue for most cities. When more middle-income residents move into a jurisdiction, renting or purchasing homes, cities can collect more property tax revenues from a broader cross-section of households. Middle-class residents also hit the sweet spot for consumer spending: they have more disposable income than poor households to spend on groceries, restaurants, movies, and dry cleaners – all items that are consumed locally. . . .middle-class residents can generate more pressure on local officials to invest in transportation, parks, libraries, and shared community assets. If middle-income families send their children to public schools, they bring to those schools greater financial resources, as well as social and human capital."[3]

However, as Brookings notes, hitting that sweet spot is difficult: "[A]an influx of more affluent households can drive up housing costs, leading to displacement of existing lower-income residents, especially if local governments impose regulations that limit new housing development."[4]

Workforce Housing Defined

According to the Urban Land Institute (ULI), workforce housing is defined as housing affordable to households earning between 60 and 120 percent of area median income (AMI). It has also been defined as affordable if the housing costs are no more than 30-40 percent of income.

Workforce housing generally targets middle-income workers; traditionally it referred to housing for public employees like teachers, police officers, firefighters, and others who are integral to a community, yet who often cannot afford to live in the communities they serve. However, workforce housing is also targeted to young professionals, workers in the construction trades, retail salespeople, office workers and service workers – people who do not qualify for housing subsidized by federal affordable housing programs, but can't afford many market-rate properties.[5]

While the ULI definition is widely accepted, the AMI levels can vary depending on region. Some communities use 80 percent of area median income as the lower threshold, and some com munities, particularly higher cost places, use a higher percentage, such as 140 percent of area median income as the upper threshold.[6]

Some advocates have pushed back against the definition of workforce housing, arguing that it implies that people who earn below 60 percent of AMI are not part of the workforce, when in fact there are millions of Americans working (at times, multiple) jobs who

[1] https://www.multihousingnews.com/housing-missing-middle-comes-into-focus/
[2] https://nextcity.org/features/cities-affordable-housing-design-solution-missing-middle?gclid=CjwKCAjwy_aUBhACEiwA2IHHQD2Yicegoi_gnN1BhEGwkvlSV5shmkqMnRapPbZan1I9RR4GxZ7OHRoCF9QQAvD_BwE
[3] https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/
[4] Ibid.
[5] https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/
[6] https://www.nar.realtor/home_from_work.nsf/files/PG%20Module%201.pdf/$FILE/PG%20Module%201.pdf

do not earn a living wage.[7]

Causes of Workforce Housing Shortages

As noted above, workforce housing shortages have grown in recent decades due to stagnant wages and the Great Recession. However, a number of recent trends have exacerbated the problem.

- *Zoning Restrictions.* Zoning codes tend to be based on residential density, which is measured in dwelling units per acre, and most prioritize single-family housing. In 2019, The New York Times found that "it is illegal on 75 percent of the residential land in many American cities to build anything other than a detached single-family home." Not only are large multifamily buildings banned from many neighborhoods, but so are smaller housing types that cost less than a single-family home, such as side-by-side and stacked duplexes, triplexes, townhouses.[8]
- *The Role of Investors.* Recent years have seen an increase in large investors stepping up real estate purchases, including of single-family homes in urban and suburban areas. According to the White House, "One out of every six homes purchased in the second quarter of 2021 was acquired by investors, and reports indicate that in some markets, that number is one in four. . . Large investor purchases of single-family homes and conversion into rental properties speeds the transition of neighborhoods from homeownership to rental and drives up home prices for lower cost homes, making it harder for aspiring first-time and first-generation home buyers, among others, to buy a home. At the same, these purchases are unlikely to meaningfully boost supply in the lower-cost portions of the rental market, as investors charge more for rent to recoup higher purchase costs."[9]
- *Increased Costs to Build.* According to the Bureau of Labor Statistics, the price of raw materials has risen 23.9 percent since the 2008 financial crisis. In particular, the price of lumber has fluctuated wildly in recent years. Up to third of the lumber used for residential construction in the U.S. comes from Canada, whose supply has been damaged by mountain pine beetles and by wildfires. As a result of higher costs, many developers eschew moderately priced housing in favor of higher-end and luxury housing.[10]
- *COVID-19.* The pandemic has exacerbated the challenge in some parts of the country as people have left cities and moved to less expensive places, which in turn has driven up costs in places that typically were more affordable.[11]

Missing Middle Housing

Missing Middle Housing is a concept that has rapidly gained traction since it was first coined by Opticos Design founder Daniel Parolek in 2010. It refers to house-scale buildings with multiple units in walkable neighborhoods. According to Parolek, "These building types, such as duplexes, fourplexes, cottage courts, and courtyard buildings, provide diverse housing options and support locally-serving retail and public transportation options. We call them 'Missing' because they have typically been illegal to build since the mid-1940s and 'Middle' because they sit in the middle of a spectrum between detached single-family homes and mid-rise to high-rise apartment buildings, in terms of form and scale, as well as number of units and often, affordability."[12]

Advocates of this building type argue that it can help cities address affordability issues, and that it is cheaper to build than larger and taller buildings, can be a financial windfall for cities due to its combination of more taxpayers and lower infrastructure, and hits a "sweet spot" for people who can't afford a single-family detached home but are not eligible for public assistance.[13]

However, zoning laws in many jurisdictions make Missing Middle Housing hard to achieve, because "in places where zoning allows for a large building, maxing out on height and footprint yields a better, safer return."[14]

FEDERAL ROLE IN WORKFORCE HOUSING

Federal housing policy has its origins in the post-World War II era but accelerated in the Great Society era of the 1960s. As the Community and Economic Development Program at the University of North Carolina notes, "Starting with the Housing Act of 1949, and up to the Housing and Community Development Act of 1974, affordable housing was largely driven by supply-side measures from the government. In this supply-side approach, local governments built, maintained, rehabilitated and owned public housing for low-income individuals."[15] However, by the 1970s, federal policymakers began moving from a government-led approach to private sector-led affordable housing efforts, including the creation of the Low-Income Housing Tax Credit (LIHTC)

[7] https://shelterforce.org/2014/10/06/workforce-housing-is-an-insulting-term/
[8] https://www.planning.org/planning/2022/winter/5-practical-zoning-hacks-for-missing-middle-housing/
[9] https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/
[10] https://archive.curbed.com/2019/5/15/18617763/affordable-housing-policy-rent-real-estate-apartment
[11] https://www.multihousingnews.com/housing-missing-middle-comes-into-focus/
[12] https://missingmiddlehousing.com/about
[13] https://www.strongtowns.org/journal/2019/7/19/5-ways-to-make-the-missing-middle-less-missing
[14] https://nextcity.org/features/cities-affordable-housing-design-solution-missing-middle?gclid=CjwKCAjwy_aUBhACEiwA2IHHQD2Yicegoi_gnN1BhEGwkvlSV5shmkqMnRapPbZan1I9RR4GxZ7OHRoCF9QQAvD_BwE
[15] https://ced.sog.unc.edu/2018/07/what-exactly-is-workforce-housing-and-why-is-it-important/#:~:text=in%20their%20communities.-,Definition,area%20median%20income%20(AMI).

program in 1986, the HOME program, and the Homeownership and Opportunity for People Everywhere (HOPE) program.

Because federal affordable housing programs typically focus on serving households making 60 percent or lower of AMI, middle-income workers have been left with fewer housing options available to them in the cities where they worked.

Federal Programs

Despite the growing challenges of workforce housing, most federal programs set eligibility at or below 80 percent AGI (although some state and local programs may set eligibility for their programs higher). Among federal housing programs that end eligibility at 80 percent AGI are the Community Development Block Grant (CDBG),Tenant-based rental assistance programs, Section 8 Project-Based Rental Assistance program, HOME Investment Partnerships Program (HOME), National Housing Trust Fund, Choice Neighborhoods, and the Low-Income Housing Tax Credit (LIHTC).

That said, there are some federal programs that allow for eligibility above 80 percent AGI. These include:

- *HUD Good Neighbor Program.* HUD's "Good Neighbor Next Door" offers discounted home prices to teachers, police, firefighters, emergency medical technicians in designated "revitalization areas." The goal is to encourage households with stable employment to become homeowners in lower-income neighborhoods.[16]
- *Capital Magnet Fund.* The Capital Magnet Fund is a competitive grant program administered by the Treasury Department. Community Development Financial Institutions (CDFIs) and qualified nonprofit housing organizations are eligible to compete for program funds, which may be used to finance housing for low- and moderate-income households (at least 70 percent of a grantee's award) and for related economic development and community service facilities. Every dollar from the Capital Magnet Fund must leverage at least $10 in private and other public funds. Eligible uses include the creation of revolving loan funds, risk-sharing loans, loan guarantees, and other activities that can be used to attract private capital to economically distressed and underserved cities, towns, and counties. Although the program is focused on low- and very low-income families, the maximum income for CMF-supported housing is 120% of AMI.[17]
- *Opportunity Zones.* The Opportunity Zones tax incentive, created by the Tax Cuts and Jobs Act of 2017, was designed to spur investment in nearly 9,000 economically distressed census tracts. An Opportunity Zone is composed of "low-income" census tracts that have a poverty rate of at least 20% and median family income no greater than 80% of the area median income (AMI). A census tract that is not "low-income" may be designated as part of an OZ if it is contiguous to low-income tracts that make up an OZ and it has a median household income that does not exceed 125% of the median income of the contiguous low-income census tracts that form an OZ. The Opportunity Zone program has been criticized for failing to adequately target its benefits to helping low-income individuals and families. According to the National Low Income Housing Coelutions notes, "Anecdotal evidence from the first three years suggests that extremely wealthy individuals and corporate investors are the beneficiaries. Anecdotes point to luxury hotels and apartments, parking lots, storage facilities, luxury student housing in census tracts next to major universities, and mostly projects long in the works or ready to go before the OZ capital gain tax break existed."[18]

ORGANIZATIONS

Many stakeholder organizations and stakeholder groups touch on issues related to workforce and affordable housing, including:

- *Urban Land Institute (ULI).* The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, ULI has more than 36,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI's Terwilliger Center for Housing conducts research, performs analysis, and develops best practice and policy recommendations that reflect the residential development priorities of ULI members across all residential product types. (*https://americas.uli.org/research/centers-initiatives/terwilliger-center-for-housing/)*
- *Bipartisan Policy Center (BPC)* is a Washington, DC-based think tank that "actively fosters bipartisanship by combining the best ideas from both parties to promote health, security, and opportunity for all Americans." Its J.Ronald Terwilliger Center for Housing Policy works to advance public policies that support broad access to affordable housing. Achieving this goal requires comprehensive, sustained action at all levels of government to address the severe shortage of affordable homes for both rent and sale, while ensuring that America's lowest-income families can obtain the housing assistance they need. (*https://bipartisanpolicy.org/policy-area/housing-terwilliger/)*
- *National Low Income Housing Coalition.* The National Low Income Housing Coalition is dedicated to achieving racially and socially equitable public policy that ensures people with the lowest incomes have quality homes that are accessible and affordable in communities of their choice. (https://nlihc.org)
- *National Housing Trust.* The Trust is a national organization that advocates for preserving, improving and maintaining affordable housing, with the goal of ensuring that privately owned rental housing remains in our affordable housing stock and is sustainable over time. Using the tools of real estate development, rehabilitation, finance, policy advocacy in conjunction with sustainable practices, the Trust is responsible for saving more than 36,000 affordable homes in all 50

[16] https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/
[17] https://www.cdfifund.gov/programs-training/programs/cmf
[18] https://nlihc.org/sites/default/files/A_Critical_Explanation_of_Opportunity_Zones.pdf

states, leveraging more than $1.2 billion in financing. (https://www.nationalhousingtrust.org/)

- *Affordable Housing Tax Credit Coalition (AHTCC).* The AHTCC is a trade organization of housing professionals who advocate for affordable rental housing financed using the Housing Credit. Its for-profit and non-profit members—including syndicators, investors, lenders, developers, legal and accounting professionals, state allocating agencies, public agencies, and coalitions—seek to preserve, expand and improve the Housing Credit and complementary programs through legislative and regulatory outreach and education. (https://www.taxcreditcoalition.org/)

POLICY SOLUTIONS

Experts have identified a number of federal policy approaches they believe can lead to more workforce housing:

Updating zoning codes and land use regulations.

Many advocates argue that the most immediate barrier to constructing workforce housing is zoning codes that require single-family homes, minimum per-unit lot area requirements and floor area ratio requirements, minimum lot sizes and setback requirements, and parking and open space requirements. There have been numerous efforts at the local level to reform such zoning laws, although they often face pushback from NIMBY-type opposition. At the federal level, legislation has been introduced in both chambers of Congress – the "Yes in My Backyard (YIMBY) Act" – that would require certain CDBG program recipients to submit to HUD information regarding their implementation of certain land-use policies, such as policies for expanding high-density single-family and multifamily zoning.

Creating a dedicated housing trust fund.

Housing trust funds (HTFs) are funds established by local or state governments to provide dedicated, ongoing public revenue to support affordable housing.[19] While such trust finds often are targeted at low-income earners, some have argued that they can be used for those in the middle: When deciding on eligible uses of trust fund expenditures, some advocates argue that local jurisdictions should consider whether there are any high-priority housing needs that are difficult to fund with other sources, such as the creation of rental units for moderate-income households earning between 80 and 100 percent of area median income who aren't eligible for federal housing programs. [20]

Creating a middle-income housing tax credit.

In 2021, Senate Finance Committee Chairman Ron Wyden (D-OR) introduced legislation that both enhances the low-income housing tax credit (LIHTC) and introduces a new middle-income housing tax credit (MIHTC). The bill would create a 5 percent and 2 percent MIHTC for rental properties serving tenants with incomes between 60 and 100 percent of the area median income (AMI).

Streamlining the development process.

Recognizing that workforce housing developments face the same regulatory barriers as other construction projects like high impact fees, cumbersome permitting processes, and lengthy approval timelines, some advocates have called for strategies to streamline the development process. One such strategy would be to offer reduced impact fees for projects that meet specific criteria, such as projects that provide housing below a certain price point or infill projects near transit.[21]

Building the capacity of small-scale developers.

Workforce housing, particularly so-called "missing middle housing," is less costly to construct than large multifamily projects, creating an opening for small-scale developers, including community development corporations, small minority- and women-owned contracting firms, and owner-occupants. However, these developers often have limited capacity, fewer resources, and less experience managing complex projects than larger developers. Advocates support efforts to help these smaller developers in taking on workforce housing projects, such as offering technical assistance from planning and permitting offices, creating user-friendly guides and resources to help developers understand relevant requirements, and working with small business development agencies to connect developers with financing and additional training opportunities.[22]

Increase support for the Low-Income Housing Tax Credit.

The Low-Income Housing Tax Credit (LIHTC) is the largest federal program that encourage the development and rehabilitation of affordable rental homes. Increasing the income limits for the LIHTC could lead to an increase in workforce housing for people caught between government-subsidized housing and higher-end developments.[23]

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[19] https://allincities.org/node/46991/print#:~:text=In%202007%2C%20Workforce%20Housing%20Trust,units%20for%20low%2Dincome%20households.
[20] https://localhousingsolutions.org/housing-policy-library/housing-trust-funds/
[21] https://localhousingsolutions.org/housing-policy-library/missing-middle-housing/
[22] https://localhousingsolutions.org/housing-policy-library/missing-middle-housing/
[23] https://bipartisanpolicy.org/policy-area/housing-terwilliger/

Build and rehab owner-occupied housing in distressed neighborhoods.

Some advocates have proposed a federal tax incentives to spur private investment to build and rehabilitate homes in distressed neighborhoods for low- and middle-income families. Legislation has been introduced in the House and Senate (The Neighborhood Homes Investment Act, S.98/HR 2143) that would establish such a credit with the goal of building and rehabilitating 500,000 homes over the next 10 years. Each $1 billion in NHIA investment is estimated to support 25,000 homes built or rehabilitated.[24]

CURRENT LEGISLATION

- S. 2820 - Decent, Affordable, Safe Housing for all (DASH) Act
  Introduced by Sen. Ron Wyden (D-OR)
  S. 2820 would enhance the Low-Income Housing Tax Credit and create a new Middle Income Housing Tax Credit, among other provisions.

- S.1614/HR 3198 - Yes In My Backyard (YIMBY) Act
  Introduced by Sen. Todd Young (R-IN) & Rep. Derek Kilmer (D-WA)
  S. 1614/HR 3198 would require certain CDBG program recipients to submit to HUD information regarding their implementation of certain land-use policies, such as policies for expanding high-density single-family and multifamily zoning.

- S. 98/HR 2143 - Neighborhood Homes Investment Act
  Introduced by Sen. Ben Cardin (D-MD) and Rep. Brian Higgins (D-NY)
  S. 98/HR 2143 would establish a new business-related tax credit to finance home building and rehabilitation in neighborhoods that meet certain eligibility criteria relating to poverty rates, income, and home values. The credit is limited to 35% of the lesser of the qualified development cost (i.e., the cost of construction, substantial rehabilitation, demolition, and environmental remediation of residential properties) or 80% of the national median sale price for new homes. The credit applies to single family homes containing four or fewer residential units, condominiums, or houses or apartments owned by cooperative housing corporations.

ABOUT IDA

IDA is the premier organization for urban place professionals who are shaping and activating dynamic city center districts. Our members are city builders and downtown champions who bring urban centers to life, bridging the gap between the public and private sectors. We represent an industry of more than 2,500 place management organizations, employing 100,000 people throughout North America and growing rapidly around the world. Founded in 1954, IDA is a resource center for ideas and innovative best practices in urban place management. For more information, visit downtown.org.

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[24] https://bipartisanpolicy.org/policy-area/housing-terwilliger/