

housing affordability

AND WORKFORCE HOUSING INITIATIVES

By Ronald J. Gunderson, Ph.D.



Rio Homes offers affordable townhomes as part of a public-private partnership with the city of Flagstaff. Units are deed restricted to keep them permanently affordable.

affordable housing is typically defined to occur when families do not need to spend more than 30 percent of their incomes to meet their mortgage or rental payment plus utilities. In many markets today, this threshold is not met by large numbers of the working population. Nevertheless, the words 'affordable housing' often conjure up images of a low income, unstable population that is prone to move in and out of homes quickly

accompanied by a fear that property values will be negatively impacted both by their presence and by their actions. The increasing use of the phrase 'workforce housing' instead of affordable housing is designed to alleviate part of the negativity surrounding this issue. In this article, these terms are used interchangeably and are meant to express the same intent.

These and other myths regarding affordable and high density housing are the subject of a report published by the California Planning Roundtable in May 2002.¹ The report points out that in many

Ronald J. Gunderson, Ph.D. is a professor of economics, College of Business Administration, Northern Arizona University, Flagstaff, AZ.

THE CHALLENGE IN TODAY'S ECONOMY AND A CASE STUDY OF THE ARIZONA MARKET

The housing market in Arizona has been fueled by low home mortgage rates and high levels of population growth. Home prices in Arizona have appreciated by 74 percent since 2000; however, median family income rose by only 15 percent. The problem is particularly acute in cities and towns that have a limited supply of privately held land. High home prices have impacted the ability of some localities to recruit and retain a sufficient workforce. This article addresses housing affordability topics across the U.S. and offers suggestions that have been proposed to address this issue in Arizona.



Railroad Springs offers newer manufactured homes as well as townhomes within a 142-acre master planned community in Flagstaff, AZ

locations housing production has lagged behind job and household growth since the 1970's while at the same time, the federal government has scaled back its support for local governments thus shifting a greater portion of the burden from the federal to the local governments. The situation has become critical in localities where voters have approved expenditure limitations and/or frozen the level of property taxes at current levels.

Given today's fiscal realities as well as public perception surrounding affordable housing, there is little mystery as to why this issue has become one of the top concerns in the profession as well as for communities, businesses, and households in many localities.

DEMAND AND SUPPLY SIDE FACTORS

Although the market for affordable housing worsens when the difference between income levels and the amount of income needed to obtain adequate housing widens, the differential is most often attributable to the pre-existing value of land in many communities. The California Roundtable

Report states that "the truth is the single most significant factor affecting property values is the pre-existing value of the land in a given community or area. This in turn is based on supply and demand, proximity to major urban centers, nearby attractions (beachfront property, panoramic views), and negative factors such as environmental contaminants, and availability of adequate infrastructure and services."²

Thus the market for housing is no different from the market for most goods. The supply of available land (both the quality and quantity of land) where people wish to live simply does not match existing demand, thus property values are bid up and an increasing number of households find that they cannot afford to either buy or rent properties under these circumstances.

CHALLENGES FACING TODAY'S MARKET

In addition to the perception problem regarding who we are talking about when we identify households in need of affordable or workforce housing, several additional challenges must be faced before this issue can be successfully addressed. A report released by the University of Georgia Housing and Demographics Research Center concludes that the lack of available workforce housing is influenced by a host of factors each posing their own challenges.³ The factors listed in the report are:

- Credit worthiness of potential buyers,
- Low profit margins in the development of affordable housing,
- Relatively small size of local housing markets,
- Inadequate infrastructure to support housing development,
- Lack of knowledge about housing assistance programs,



Entrance to Railroad Springs Development – a master planned community offering affordable housing in Flagstaff.

- Lack of available land, and
- Land development codes such as zoning and subdivisions.

The general unawareness of existing housing programs along with a lack of knowledge of available resources pose significant challenges, yet the Georgia report concludes that if workforce housing is not addressed many counties will fail to reach their economic development potential. Furthermore, existing market incentives are insufficient by themselves to attract private sector builders and developers, while publicly financed incentives are limited and inadequate.⁴ Similar conclusions may be drawn for localities across the nation. What can be done?

POTENTIAL STRATEGIES TO ADDRESS WORKFORCE HOUSING

Several states have engaged the participation of task forces or have relied upon various public or private agencies and partnerships to generate policy options that address workforce housing. Although individual situations and solutions have been proposed in different states and localities, a number of the task force reports focus on increasing the *supply* of quality low-to moderate-income owner occupied housing. The options presented in the Georgia study⁵ are typical of those proposed in other regions and include:

- Establishing a development fund to supplement existing public and private resources [to develop and redevelop] workforce single family housing in rural areas of the State.
- Encourage employer-assisted homebuyer programs through state down payment tax credits and matching down payment assistance funds.
- Establishing a public-private consortium to encourage the development of well-planned manufacturing housing developments.

The recommendation to establish employer-assisted housing (EAH) has surfaced in many regions and is touted as providing a significant means to address this issue. The Wisconsin Partnership for Housing Development released a study based on the outcomes of a series of round-table discussions held in November 2004.⁶ This report contains a description of demand-side and supply-side employer assisted housing mechanisms that can be extended to any community.

Some of the mechanisms proposed in this report were:

Demand-Side Mechanisms⁷

- Employers inform employees regarding housing options (marketing & outreach)
- Employers provide free meeting space and provide in-house counsel as well as engage non-profit agencies to provide additional services for

employees (homebuyer education and counseling)

- Employers pay points and closing costs on mortgages via grants, matching grants or deferred loans (down payment and closing costs)
- Employers work with lenders to provide large groups of people who want mortgages while lenders lend at lower interest rates for the group (group mortgage origination)
- Employers bridge the gap between mortgage cost and employee ability to pay using a gap financed second mortgage in order to reduce carrying costs (mortgage buy down)
- Employer guarantees repayment of loans in case of employee default (mortgage guarantees)
- Employers buy mortgage bonds at below-market rates, and upon sale of the bonds, offer employees below-market interest rates (purchase of securities)



Urban growth in Coconino County is nearing public lands currently maintained by the U.S. Forest Service.

Supply-Side Mechanisms⁸

- Employers provide equity in projects by offering low-cost loans for predevelopment cash grants (cash participation)
- Employers donate land, sell land below market rates or lease land for development (land)
- Employers donate in-house accounting, architectural, legal, and engineering services to developers (donation of services)
- Employers provide lower cost financing or financing guarantees (construction financing)
- Employers rent units and then lease them to employees as well as remaining responsible for making payments when units are vacant (master lease)

Each of the proposed demand and supply side mechanisms has associated benefits and costs (pros

and cons) that will vary with the size of the employers and the specific needs of the employees. Several of the pros and cons are presented in the Wisconsin report along with the results of the roundtable discussions in communities across the state that eventually lead to a series of recommendations made to the Wisconsin Department of Commerce. Those recommendations included a down payment assistance component, an education component, a grant or loan component for predevelopment costs, and a capacity building component to maintain programs once established.⁹

APPROACHES TO DEVELOP WORKFORCE HOUSING IN ARIZONA

The challenge to providing workforce housing in Arizona is summarized in two recently released reports – *The Final Report from the Arizona Incentives for Affordable Housing Task Force* (June 2006) and *Arizona's Housing Market...a Glance* prepared for the Governor's Housing Forum (September 2006.)

The fact that Arizona housing prices have skyrocketed over the past seven years is not surprising.



The Arbors is a 310 condo-conversion project in Flagstaff which includes providing assistance to qualified first time homebuyers.

These increases have been driven by both demand and supply side considerations. Arizona's year over year population growth is now the fastest in the U.S. and this increase in population has directly contributed to the greater demand for housing. At the same time, low mortgage interest rates have encouraged an increase in the number of second home purchases as well as generated increased sales activity resulting from heightened investor speculation in the housing market. On the supply side, the amount of land available to support affordable housing has been dwindling as increased pressures have already

Figure 1 Annual Home Price Increases (1st quarter 2005 – 1st quarter 2006)

State	Annual Price Increase
Arizona	32.81%
Florida	26.62%
Hawaii	24.99%
Oregon	20.96%
District of Columbia	20.84%
Maryland	20.46%
U.S. Average	12.54%

Source: Office of Federal Housing Enterprise Oversight; Reported in *Arizona's Housing Market...a Glance*, 2006. p. 4.

pushed development far into formerly uninhabited areas as urban sprawl and general population increases have transformed huge tracts of land from rural to urban uses in all directions.

The combination of these influences resulted in an annual price increase of 32.8 percent in the Housing Price Index (HPI) for Arizona in early 2006 when compared with prices a year earlier.¹⁰ Annual home price increases for selected states are shown in Figure 1. Arizona's increase was considerably above the change in Florida which was the second-ranking state in terms of home price increases and approximately 2.5 times the overall national increase of 12.5 percent.

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Arizona in 2006 would have been \$35.40. On the other hand, the average hourly wage across all Arizona occupations was \$13.31 during the same period.¹² In the period since 2000, the ratio of home prices to income levels in Arizona has increased from 2.94 to 4.44 – an increase of over 50 percent, thus putting the average priced home out

of reach of more and more workers across all industries in the state.

The affordable housing issue is a concern across all of Arizona – in urban as well as in rural areas. The problem also extends to the rental markets. Figure 2 provides information for renting a two bedroom apartment and compares the hourly wage needed to rent an apartment in selected Arizona counties using the generally accepted affordability standard when compared to the median hourly wages earned in these counties. In most regions, the hourly wage earned is less than 75 percent of the amount needed to rent a two bedroom apartment in these locations.¹³

The numbers presented above were influential in Arizona Governor Janet Napolitano creating a statewide task force in 2005 in order to identify solutions for creating affordable housing opportunities in Arizona. The task force was convened by the Arizona Department of Housing and the Arizona Housing Commission and included a wide range of stakeholders drawn from state and city governments as well as from private agencies across the state. The guiding principles for the task force were that 1) the burden of addressing the growing affordability challenge must be shared by multiple stakeholders and 2) all types of housing are important when looking at expanding available affordable housing opportunities.¹⁴

The task force met over the first half of 2006 and adopted 19 recommendations that were sent to Governor Napolitano. The recommendations were placed into four separate categories and were further classified as being of a short-term or a long-term nature. The four categories are:

- Finance,
- Barriers and Incentives,
- Education, and
- Land/Land Planning.

In the ensuing months, the Arizona Housing Commission presented the task force to numerous stakeholders around the state as a means to arrive at

a consensus regarding how to address affordable housing in Arizona. Their suggestions were shared at the Governor's Housing Forum in September 2006.

Five key suggestions that emerged from this process:

- Develop and expand Employer Assisted Housing (EAH) strategies throughout the state and institute tax benefits for participating employers and employees.
- Permit beneficiaries of the sale of State Trust Land to use the earnings to finance EAH programs for their employees. (Note: The primary beneficiary of these sales is the Arizona public schools system.)
- Create financial incentives for municipalities and counties as a means to encourage the establishment of local housing trust funds.
- Streamline procedures at the local level including processing time, development standards, and financial requirements in order to reduce housing costs.
- Permit the State Treasurer to authorize a portion of the state's Permanent Fund dollars to be invested into loans for affordable housing.

DISCUSSION

Employer Assisted Housing models are emerging as an increasingly popular means to address the issue of workforce housing. Examples of existing programs in several states were cited in the Task Force Report as well as specific recommendations for Arizona. These include employer assistance with down payments and closing costs of home purchases or payment of rent and utility deposits.

In order to encourage employer participation, tax relief would be granted similar to what has occurred in other states. In Illinois, employers are eligible for a \$.50 income tax credit for each \$1 dollar of cash, land or property donated for EAH purposes.¹⁵ Employee participation would be encouraged by

Figure 2 Hourly Wages Needed to Rent Compared to Hourly Wages Paid Selected Arizona Counties, 2005

County	Hourly Wage Needed to Rent	Median Hourly Wage Paid in County
Coconino	\$17.44	\$ 8.41
Maricopa	\$14.81	\$10.04
Pinal	\$14.81	\$ 8.76
Yavapai	\$13.38	\$ 9.60
Pima	\$14.35	\$ 9.72
Mohave	\$12.56	\$ 9.99
State Average	\$12.96	\$ 9.80

Source: Arizona Department of Housing and Arizona Department of Economic Security; Reported in *Arizona's Housing Market ...a Glance*, 2006. p.7.

eliminating the requirement that such assistance would be subject to state tax. In both instances, legislation would be required in Arizona to implement these policies.

Similar impacts can be generated by allowing school districts and other beneficiaries of the State Trust Land sales to use a portion of these earnings for EAH. Use of this approach would also require legislation but it would provide considerable assistance to teachers and staff employed in Arizona schools.

A longer term solution may occur with the establishment of local housing trust funds at the municipal and county levels. Industrial Development Authorities along with the Arizona Department of Housing or Arizona Department of Commerce could offer incentives to supplement local dollars. This recommendation states that "Incentives would scale down over time as adequate housing is secured. Cities, towns, and counties would receive such incentives if they established a dedicated source of revenue for the purchase, construction, or rehabilitation of affordable housing within their respective jurisdictions. The match could be on a sliding scale, as localities establish a steady funding stream."¹⁶

The Homes for Arizonans Initiative is the product of a joint effort between the Arizona Housing Finance Authority (AzHFA) and the Arizona Department of Housing (ADOH) and provides assistance to first time homebuyers in the form of down payment and closing cost assistance. The program is available to buyers in rural counties of the state (residents of the Phoenix and Tucson areas are not eligible).

Housing costs can be decreased by reducing barriers to construction that exist in numerous communities, particularly regarding the time it takes to process applications, and the processes which currently must be followed. Additional cost savings can be achieved by granting allowances for greater housing density as well as addressing other financial and market issues that are peculiar to each community. Voluntary changes by municipalities in these areas can generate savings both to the developer as well as to the home buyer.

Some of the primary recommendations in the report for places where cities and counties can implement specific strategies were to:¹⁷

- Defer development fees until certificates of occupancy are issued thereby increasing upfront cash flows to the project.

- Accelerate the processing and approvals procedures in cases where the housing project and the developer already meet certain established minimum performance requirements.
- Review existing regulatory and zoning processes as a means to identify their impact on housing affordability.
- Identify underutilized and vacant sites for the purpose of providing affordable housing.



This report was prepared for the Governor's Housing Forum in September 2006. Report cover, courtesy of the Arizona Dept. of Housing.

- Incorporate new technologies to facilitate the timeliness of the development process.
- Clarify the development process so all stakeholders fully understand the "ground rules" and other expectations with respect to development in an area.

Finally, following the example of California, the state treasurer could be authorized to invest portions of the proceeds of state land sales into loans for affordable housing. Currently, proceeds from state land sales are deposited into the state's Permanent Fund and the expectation of land sales continuing in future years provides a reliable source of financing for affordable housing. Care would be taken to insure comparable returns accrue to the Permanent Fund after accounting for the usual risk and security issues. This procedure is similar to the process in California where portions of the Public Employees Retirement System Fund have been invested in affordable housing activities.¹⁸

ONGOING ARIZONA INITIATIVES

The Homes for Arizonans Initiative is the product of a joint effort between the Arizona Housing Finance Authority (AzHFA) and the Arizona Department of Housing (ADOH) and provides assistance to first time homebuyers in the form of down payment and closing cost assistance. The program is available to buyers in rural counties of the state (residents of the Phoenix and Tucson areas are not eligible).

Funding sources are available from the Mortgage Revenue Bond (MRB) Program and the Mortgage Credit Certificate (MCC) Program. The MRB program offers qualified buyers mortgage financing at one percent below market rates while the MCC allows certificate holders to receive a tax credit of up to 20 percent of annual mortgage interest payments as long as the property is used as the principal residence of the borrower. Beneficiaries under each of these programs remain eligible for down payment and closing cost assistance at the same time.

Another program entails Fannie Mae working in partnership with the Arizona Association of REALTORS® and other entities to provide Employer Assisted Housing under the auspices of the Housing Arizona's Workforce campaign. Fannie Mae offers free technical assistance to participating employers. Under the program, employers then provide access to free home-buying workshops designed to help employees locate affordable housing as well as provide housing-related counseling and education along with direct financial benefits including loans and grants for the purchase of a home. Details of this program are discussed on the Fannie Mae Arizona Partnership Office website.¹⁹

Arizona universities are beginning to investigate employee housing programs that could be designed to increase retention rates among faculty and staff at their campuses. The University of Arizona Drachman Institute commissioned a survey of university faculty and staff in 2006 to assess interest levels in affordable housing. The survey found overwhelming support among respondents for a proposal that includes providing new housing on university-owned land near the campus. The plots would become part of a land trust which would allow buyers to purchase homes without having to purchase the land, thus removing a significant cost from the transaction.²⁰

Finding affordable housing is of particular importance in Flagstaff where housing costs have skyrocketed over the past few years. Northern Arizona University in Flagstaff is currently reviewing options that could assist in faculty attraction and retention.

An alternative to building university housing on Arizona's campuses could include the use of equity sharing. Under this type of program, a university would offer assistance with financing the purchase of a home and would assume an ownership interest in the property. If the property was later sold, the university would share in the capital appreciation at that time. The benefits of this type of program include a lower capital commitment than what is required for university constructed housing and it does not restrict employees in terms of the types and locations of homes from which they may choose to purchase.

Affordable housing remains a significant problem in Arizona and in many locations across the nation. The production of affordable housing is not confined to finding ways to increase the construction of affordable units, but must also incorporate alternative solutions on the demand side.

In other developments in Flagstaff, condo conversions are occurring at various locations within the city. Buyers of deed-restricted, owner occupied properties are eligible for down payment assistance from the developers who have established pools of money for this purpose.

THE FINAL ANALYSIS

Affordable housing remains a significant problem in Arizona and in many locations across the nation. The production of affordable housing is not confined to finding ways to increase the construction of

affordable units, but must also incorporate alternative solutions on the demand side. This can be accomplished through creation of partnerships to include the private sector as well as local governments and universities. Strategies have been proposed that include equity-sharing, down payment assistance, below-market interest loans, and providing better access to information.

The burden must be shared by multiple stakeholders as this is a problem that not only exists in more and more communities, but also impacts the ability of employers across all industries to attract sufficient numbers of workers to these communities due to an inadequate number of affordable housing units to support the labor force. It is here where the economic development profession is able to assist. Without a solution to this problem, we all lose.



Endnotes

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