

Subsidizing the Middle: Policies, Tradeoffs, and Costs of Addressing Middle-Income Affordability Challenges

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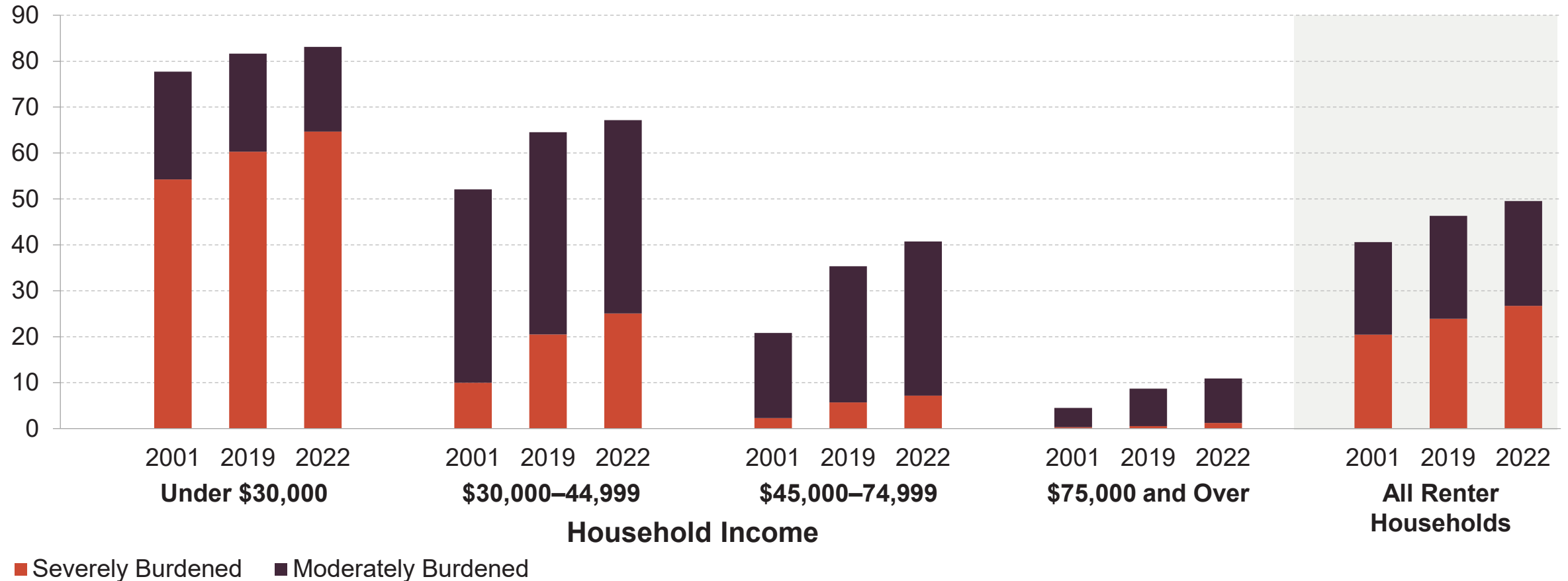
JCHS Housing Research Seminar
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Summary

- Affordability challenges have grown to record levels across the US and especially for middle-income renters; these burdens vary significantly across the country depending on market conditions
- In response, a growing number of state and local governments have created policies and programs to address these challenges
- But affordability challenges remain greatest and most pervasive for lower-income households
- As a result, need to consider the tradeoffs and benefits of this growing emphasis on middle-income housing needs

Renter Cost Burdens Are Rising Fastest Among Middle-Income Households

Share of Renter Households with Cost Burdens (Percent)



Notes: Household incomes are adjusted for inflation using the CPI-U for All Items. Moderately (severely) cost-burdened households spend more than 30% (more than 50%) of income on housing and utilities. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be unburdened.

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Growing Interest in Middle-Income Housing Programs

- Workforce Housing Tax Credit Act
 - First introduced in 2016, reintroduced in 2023
- Various state and local efforts
- Often pitched as “workforce housing” programs
 - Common goal that people who work in a community should be able to afford to live there
- But such programs are controversial
 - Potentially detract from the greater housing needs of low-income renters
 - Potentially stigmatize affordable housing recipients

Roadmap

- Introduction
- Middle-income housing policies and programs
- Assessing middle-income renter affordability challenges
- Problematizing the concept of “workforce housing”
- The tradeoffs and potential benefits
- Policy implications



State and Local Middle-Income Housing Programs

Identifying State and Local Programs

- Began with an initial scan of potential programs
- Criteria for inclusion
 - Explicitly motivated by middle-income or “workforce” housing challenges
 - Programs must involve direct (grants, loans, in-kind donation of land) or indirect (property tax exemptions, construction loan guarantees) public subsidy
 - Rental housing
- Excludes some related programs
 - Those exclusively focused on for-sale housing
 - Mixed-income housing programs
 - Other programs without a public subsidy (inclusionary housing, ADU programs, etc.)
- Resulting 11 programs illustrative but not exhaustive

Research Questions

- **What state and local middle-income housing programs exist to support the housing needs of middle-income renter households? What are the characteristics of these programs and whom do they intend to serve?**
- What are the characteristics and affordability challenges of households typically eligible for middle-income housing programs? How do affordability challenges vary geographically?
- What are the characteristics of middle-income renters with cost burdens? How do they differ from lower-income households?
- Given limited available resources devoted to housing programs, what would it take to close the affordability gap for middle-income households with cost burdens? How does that compare to the cost of addressing the affordability challenges for lower-income households?

Themes

1. Many middle-income housing programs have come into existence only recently.

Location	Program Name	Year Created
Florida	Missing Middle Property Tax Exemption	2023
Georgia	Rural Workforce Housing Initiative	2023
Michigan	Missing Middle Housing Program	2022
Breckenridge, CO	Workforce Housing Five-Year Blueprint	2022
Colorado	Middle-Income Housing Authority	2022
Rhode Island	Middle Income Loan Program	2021
California	CSCDA Workforce Housing Program	2020
Minnesota	Workforce Housing Development Program	2017
Philadelphia, PA	Workforce Housing Credit Enhancement	2017
Massachusetts	Workforce Housing Initiative	2016
Kansas	Moderate Income Housing Program	2012

Themes

2. Middle-income housing programs are geographically diverse.

Location	Program Name	Year Created
Florida	Missing Middle Property Tax Exemption	2023
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Philadelphia, PA	Workforce Housing Credit Enhancement	2017
Massachusetts	Workforce Housing Initiative	2016
Kansas	Moderate Income Housing Program	2012

Themes

3. Nearly all middle-income housing programs use a percent of AMI threshold to determine eligibility.

Location	Program Name	Renter Eligibility
Florida	Missing Middle Property Tax Exemption	81-120% AMI
Georgia	Rural Workforce Housing Initiative	Up to 100% AMI
Michigan	Missing Middle Housing Program	60-120% AMI
Breckenridge, CO	Workforce Housing Five-Year Blueprint	Varies
Colorado	Middle-Income Housing Authority	80-120% or 80-140% AMI
Rhode Island	Middle Income Loan Program	80-120% AMI
California	CSCDA Workforce Housing Program	80-120% AMI
Minnesota	Workforce Housing Development Program	NA
Philadelphia, PA	Workforce Housing Credit Enhancement	Up to 100% AMI
Massachusetts	Workforce Housing Initiative	60-120% AMI
Kansas	Moderate Income Housing Program	60-150% AMI

Themes

4. Middle-income housing programs are primarily focused on new construction.

Location	Activity Funded
Florida	Adopt affordability requirements for new or recent construction
Georgia	Funds infrastructure development for local governments partnering with a developer
Michigan	New construction and rehabilitation
Breckenridge, CO	New construction , preservation
Colorado	New construction primarily but also acquisition and rehabilitation
Rhode Island	New construction , adaptive reuse, rehabilitation
California	Acquisition and conversion
Minnesota	New construction , acquisition, rehabilitation, adaptive reuse
Philadelphia, PA	New construction
Massachusetts	Strong preference for new construction , but also acquisition and rehabilitation
Kansas	New construction , rehabilitation, adaptive reuse, and infrastructure development

Themes

5. Most programs directly fund middle-income housing development through grants and loans.

Location	Subsidy Type/Funding Mechanism
Florida	Property tax exemption
Georgia	Grants and loans for infrastructure development
Michigan	Grants
Breckenridge, CO	Grants, utility hookups, fee waivers, land donations, others
Colorado	Bond financing
Rhode Island	Deferred loans
California	Bond financing
Minnesota	Deferred loans
Philadelphia, PA	Partial loan guarantee
Massachusetts	Loans
Kansas	Grants, loans

Themes

6. A few middle-income programs create or enable opportunities for public ownership of housing while others leverage publicly owned land.

- California CSCDA Workforce Housing Program and the Colorado Middle Income Housing Authority
- Philadelphia Workforce Housing Credit Enhancement requires purchase and use of public land

Themes

7. Affordability periods for property developers and owners also vary but are generally modest.

Location	Affordability Period
Florida	3 years
Georgia	Unknown
Michigan	10 years
Breckenridge, CO	Varies up to permanent affordability
Colorado	Unknown
Rhode Island	30 years
California	Permanent (Duration of CSCDA ownership)
Minnesota	None (Market-rate housing)
Philadelphia, PA	15 years
Massachusetts	15-40 years
Kansas	5 years in 2023

Themes

8. The impact of middle-income housing programs is still uncertain but evolving.

- Kansas Middle Income Housing Program awarded \$27 million to build just under 1,000 new units in 2023
- Georgia Rural Workforce Housing Initiative provided \$24 million in infrastructure development grants to build just over 1,000 new units (for-sale and for-rent)
- Michigan Missing Middle Housing Program used about \$110 million to support 90 developments (for-sale and for-rent)

Themes

9. Per-unit funding varies but is generally modest.

- Massachusetts Workforce Housing Initiative provides loans for up to \$100,000 per affordable units
- Michigan Missing Middle Housing Program provide \$70,000-80,000 per unit
- Rhode Island Middle Income Loan Program provides \$60,000-80,000 per unit

Themes

10. Many middle-income housing programs focus on production in rural areas or difficult-to-develop places where labor challenges make it harder to build housing.

- Programs in Georgia, Kansas, Michigan, Colorado, and Minnesota all emphasize (or exclusively fund) housing development in rural areas
- Breckenridge, CO

Themes

1. Many middle-income housing programs have come into existence only recently.
2. Middle-income housing programs are geographically diverse.
3. Nearly all middle-income housing programs use a percent of AMI threshold to determine eligibility.
4. Middle-income housing programs are primarily focused on new construction.
5. Most programs directly fund middle-income housing development through grants and loans.
6. A few middle-income programs create or enable opportunities for public ownership of housing while others leverage publicly owned land.
7. Affordability periods for property developers and owners also vary but are generally modest.
8. The impact of middle-income housing programs is still uncertain but evolving.
9. Per-unit funding varies but is generally modest.
10. Many middle-income housing programs focus on production in rural areas or difficult-to-develop places where labor challenges make it harder to build housing.



Affordability Challenges Facing Middle-Income Renters

Research Questions

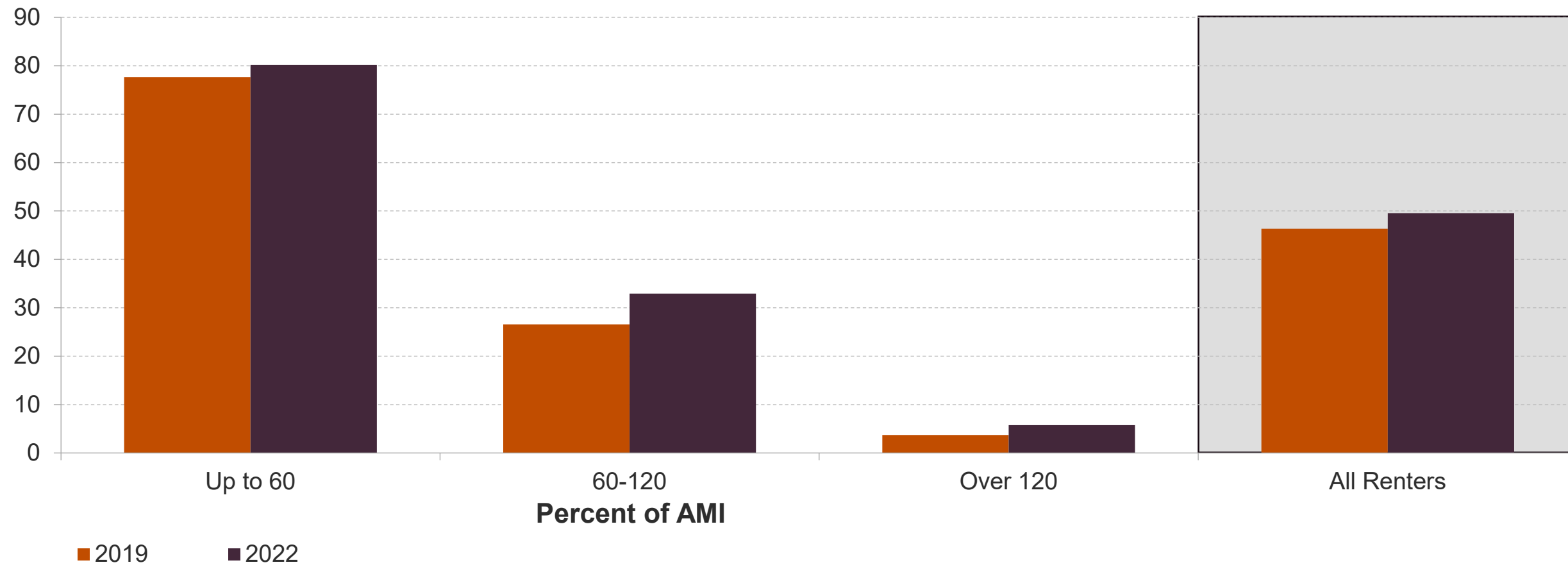
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- **What are the characteristics of middle-income renters with cost burdens? How do they differ from lower-income households?**
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Operationalizing One Common Definition of Middle-Income

- Use one common eligibility criteria in our state and local programs: **60-120% of AMI**
 - Lower-income renters earn up to 60% of AMI
- Identify households earning in 2019 and 2022 **American Community Survey**
 - NLIHC method for identifying Area Median Income
- By the above middle-income definition, there were 14.4 million middle-income renters in 2022,

Relative to Lower-Income Renters, Middle-Income Burdens Are Modest But Have Climbed Rapidly In Recent Years

Share with Housing Cost Burdens (Percent)

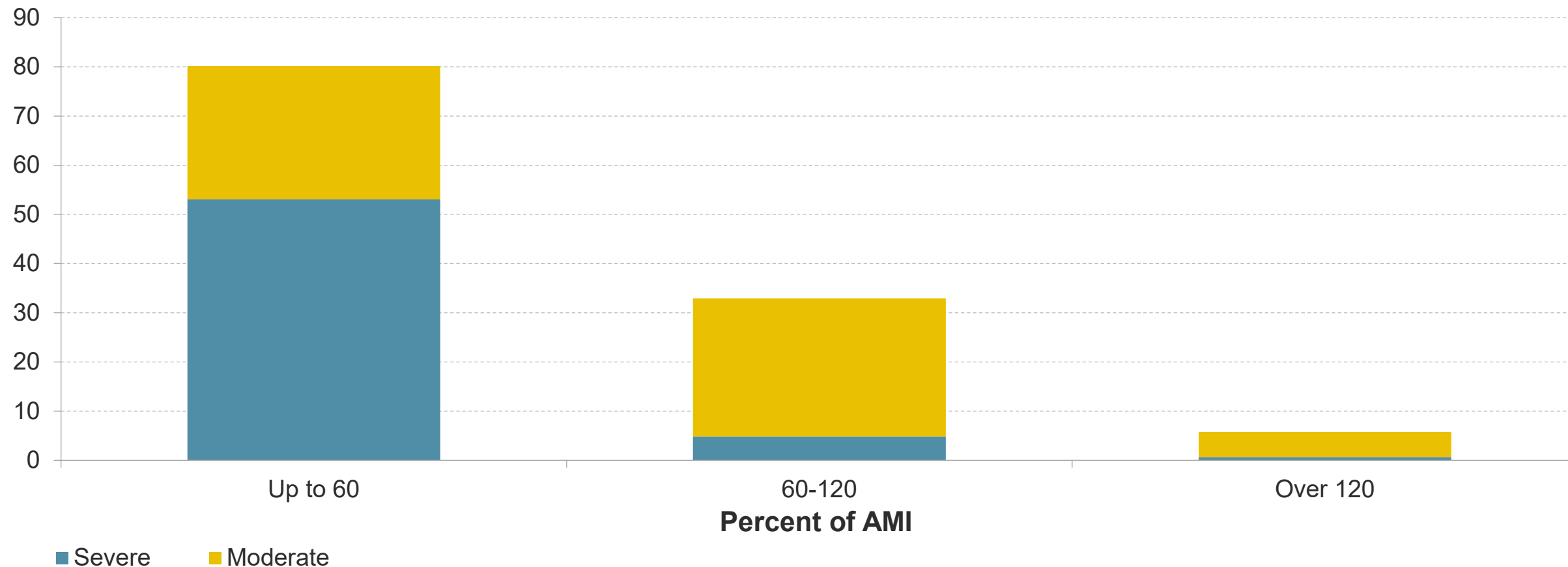


Note: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities.

Source: Author tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

But Middle-Income Renters Are Much Less Likely to Have Cost Burdens Relative to Lower-Income Renters

Share with Housing Cost Burdens (Percent)

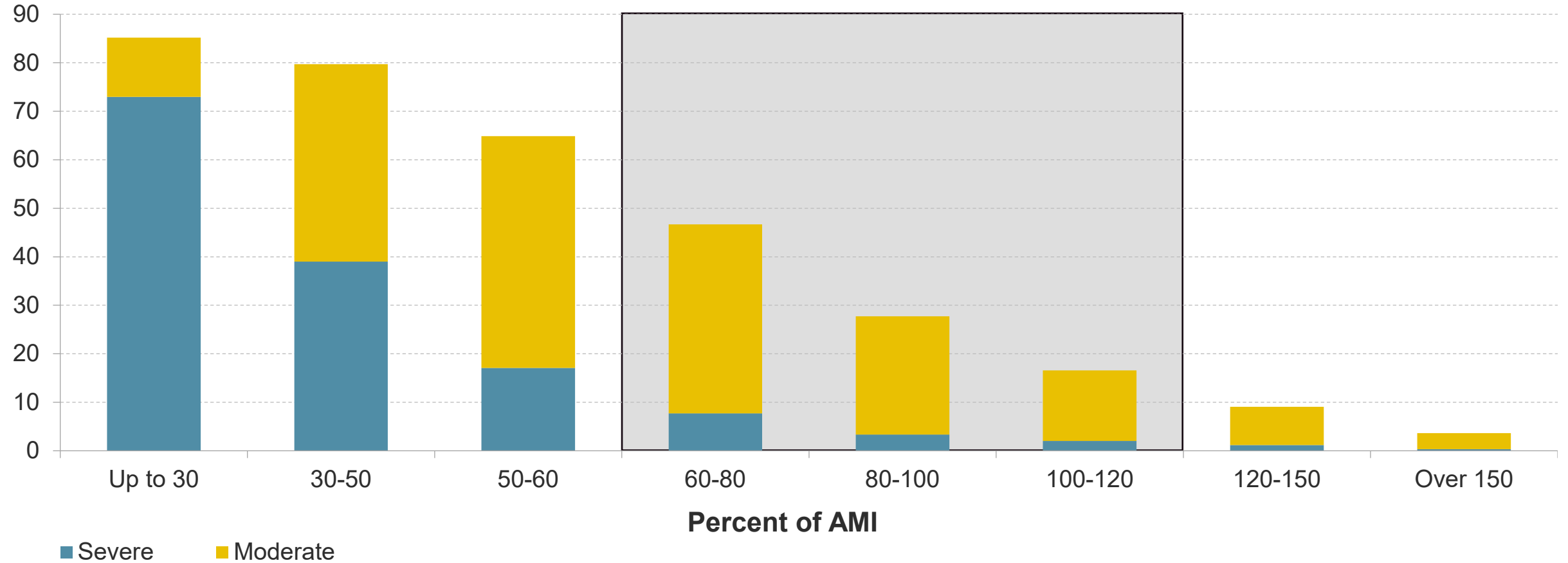


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Renter Affordability Challenges Decline Rapidly with Income

Share of Renters with Cost Burdens (Percent)

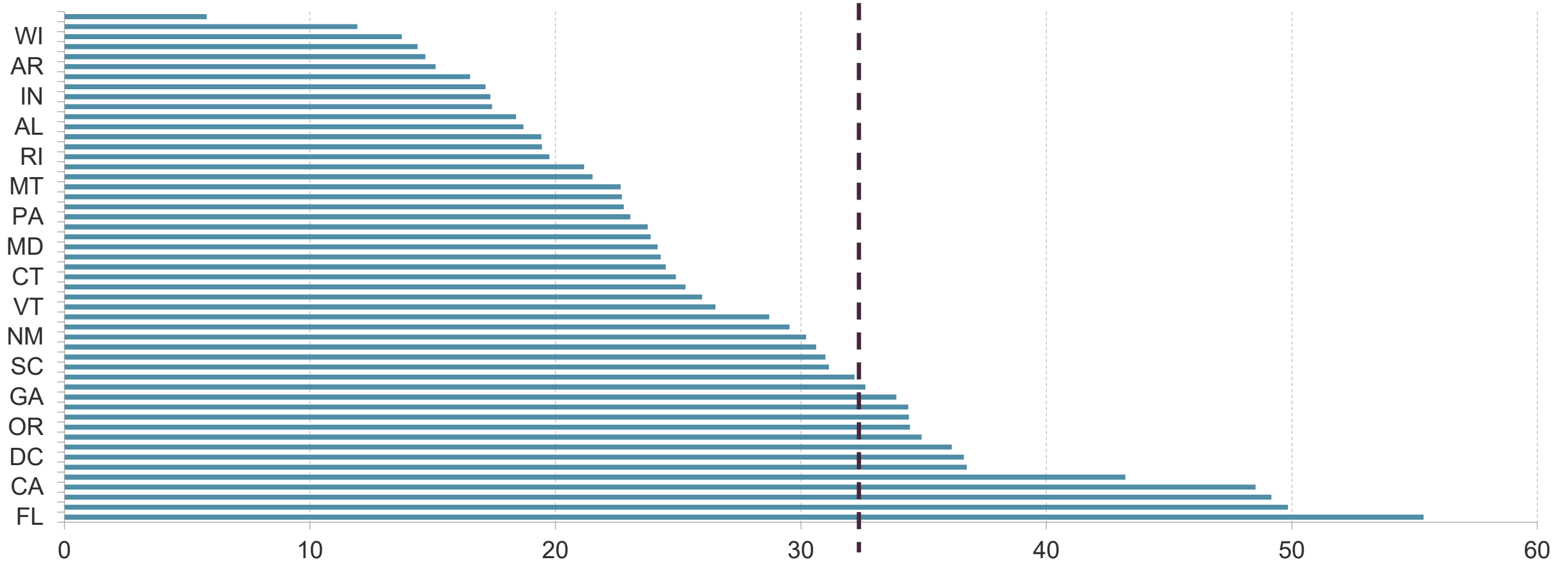


Note: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities.

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Middle-Income Renters Burdens Vary Widely Across States

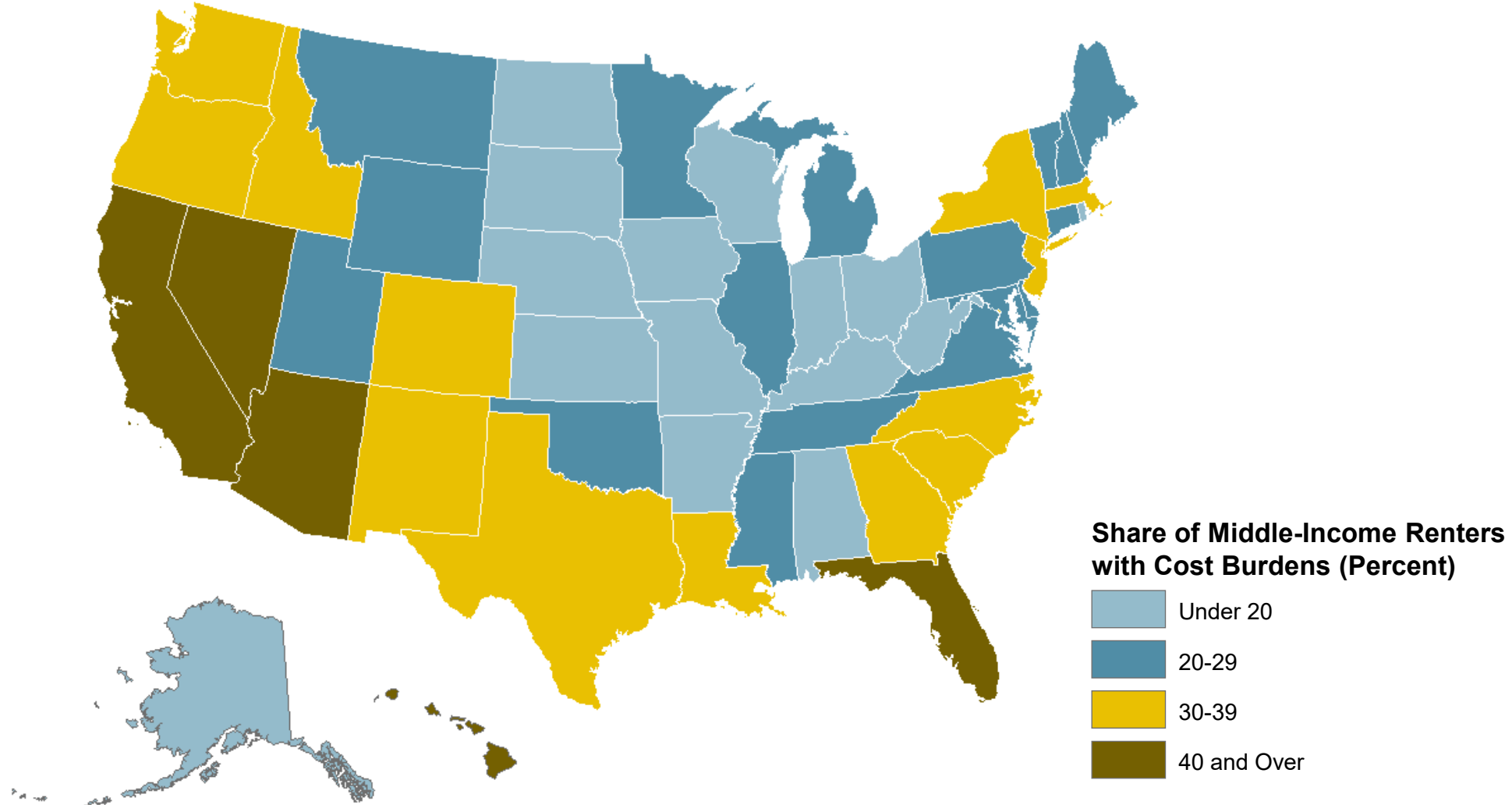
Share of Middle-Income Renters with Cost Burdens (Percent)



Notes: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities. The dashed line represents the US cost burden rate for middle-income renters.

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Middle-Income Renter Burdens Are Especially High in Florida and the West and Lower in the Midwest



Note: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities.

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Characteristics of Renter Households with Cost Burdens

	Up to 60%	60-120%
Median (Dollars)		
<i>Household Income</i>	20,000	57,000
<i>Gross Rent</i>	1,170	1,856
Column Share (Percent)		
<i>Household with Children</i>	28	22
<i>Bachelor's Degree</i>	19	41
<i>Disability</i>	27	13
Age		
Under 35	34	41
35-64	45	45
65 and Over	21	13
Race/Ethnicity		
White	43	51
Black	24	17
Hispanic	23	22
Asian	5	5

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.



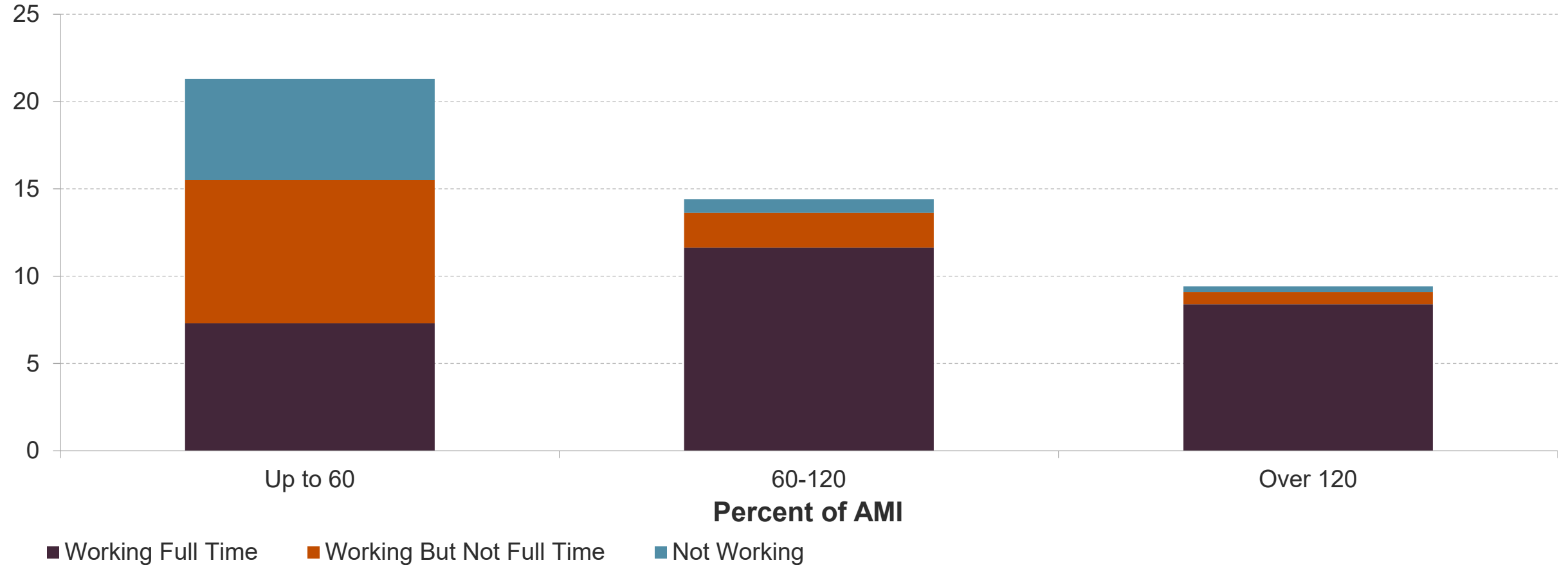
Problematizing the Concept of “Workforce Housing”

Motivation of Middle-Income Programs

- Middle-income housing programs are often motivated by the desire to address the affordability challenges of the workforce
 - For example, the Michigan Missing Middle Housing Program “seeks to **increase the supply of workforce housing** to support the growth and economic mobility of employees by providing grant funds to developers...”
- At the same time, most of these programs define eligibility based on some income definition

Working Lower-Income Renters Outnumber Middle-Income Renters

Number of Renter Households (Millions)

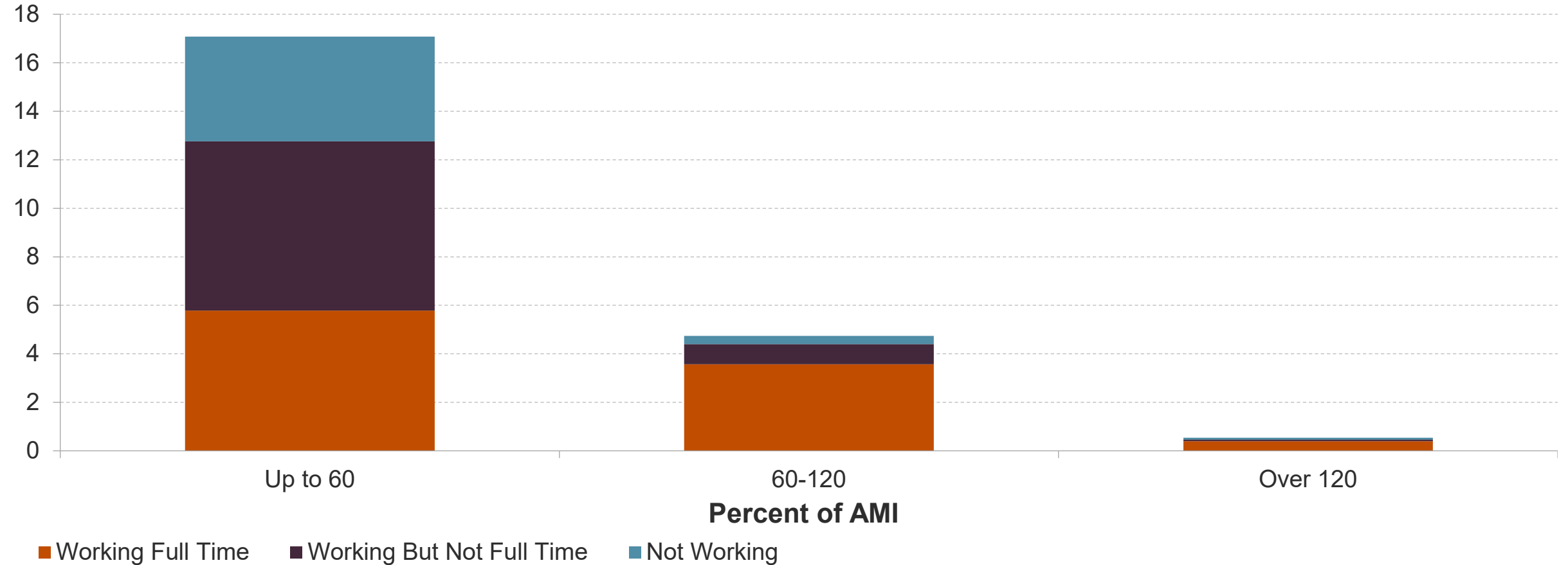


Note: Households working full time means at least one member of the household worked at least 35 hours per week and 48 weeks in the prior year.

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Most Employed Renters Facing Affordability Challenges Are Lower Income

Number of Renters with Cost Burdens (Million)



Notes: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities. Households working full time means at least one member of the household worked at least 35 hours per week and 48 weeks in the prior year.

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Tradeoffs and Potential Benefits

Concerns

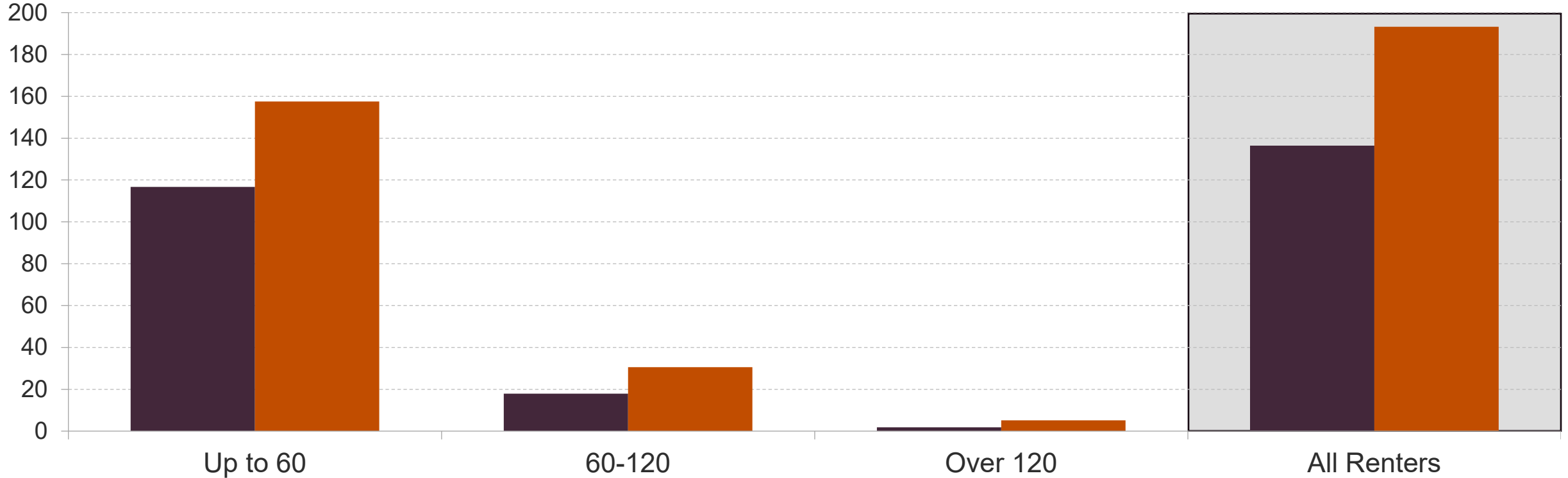
- Concern that focusing on middle-income renters directs resources away from low-income renters with greater affordability challenges and less choice
 - 3-in-4 income-eligible renters do not receive a housing subsidy
- Middle-income renters have fewer economic vulnerability
 - More people in their prime earning years
 - Higher levels of education
 - Less likely to have a disability
 - Less likely to have children
- Middle-income renters are more likely to be non-Hispanic white and less likely to be people of color

Potential Benefits of Middle-Income Housing Programs

- Garner greater attention for housing affordability issues
- Address affordability challenges of middle-income renters
- Help build longer-term savings
- Incentivize new construction
- Mixed-income communities
- Bridge the gap
- Relatively low cost

Burden Gaps Have Increased Significantly Since Before the Pandemic, Especially for Middle-Income Renters

Aggregate Annual Renter Cost Burdens (Billions)



Percent of AMI ■ 2019 ■ 2022

Notes: Moderately (severely) cost-burdened households spend 30–50% (more than 50%) of income on rent and utilities. Aggregate renter cost burdens are the amount needed for a household's housing costs to equal exactly 30 percent of their household income.

Source: Author tabulations of US Census Bureau, American Community Survey 1-Year Estimates.



Policy Implications and Conclusion

Key Takeaways

- Affordability challenges have grown to record levels across the US and especially for middle-income renters; these burdens vary significantly across the country depending on market conditions
- In response, a growing number of state and local governments have created policies and programs to address these challenges
 - Program characteristics vary, but are geographically diverse, focus on supply (especially new construction), and largely targeted based on AMI
- But affordability challenges remain greatest and most pervasive for lower-income households
- As a result, need to consider the tradeoffs and benefits of this growing emphasis on middle-income housing needs

Policy Implications

- In many cases and in many communities, liberalizing local zoning ordinances and allowing the construction of a range of housing types would be more cost effective
 - Eliminate or reduce exclusionary single-family zoning, allow and encourage ADUs, expedite permitting processes, etc.
- Middle-income housing programs might work in places where middle-income renters are not being appropriately served
- But middle-income housing policies should never come at the expense of lower-income housing programs where the need is greatest, and should be designed in a way that complements these programs
 - Focus on the low end of the middle-income distribution
 - Sufficiently long affordability requirements
- More research and evaluation is needed

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Extras

Program Summary

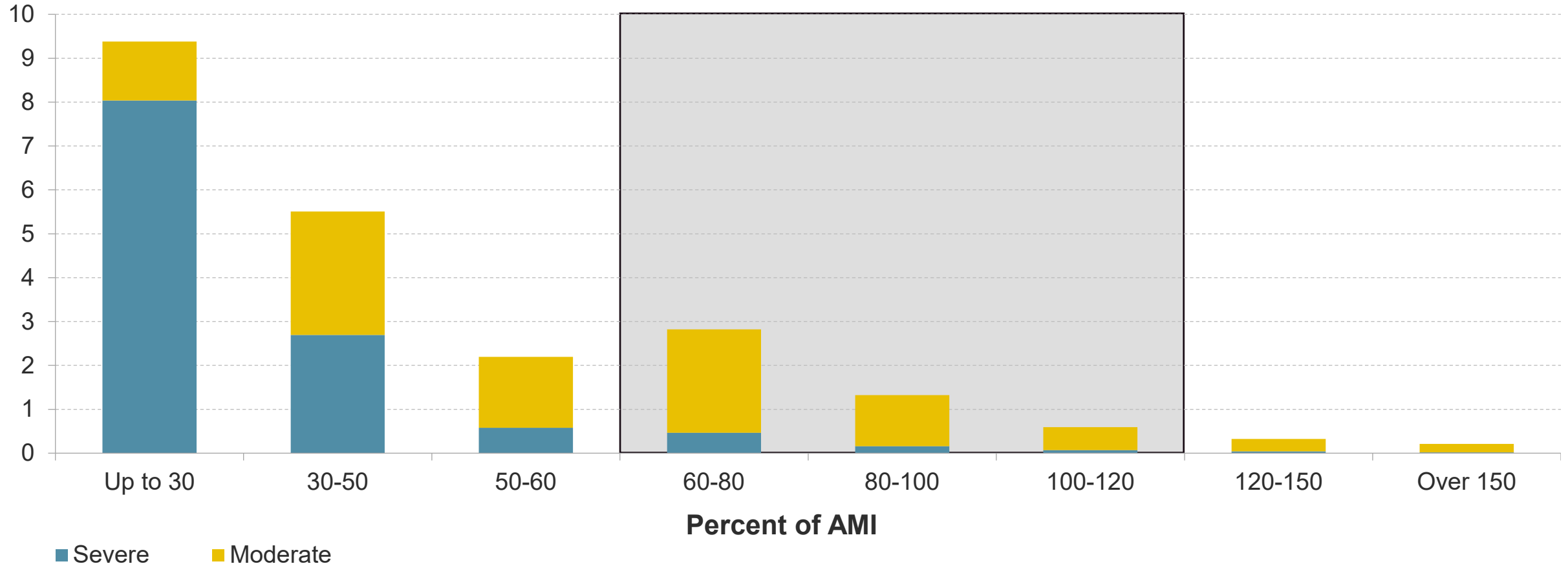
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California	CSCDA Workforce Housing Program	2020	80-120% AMI
Minnesota	Workforce Housing Development Program	2017*	NA
Philadelphia, PA	Workforce Housing Credit Enhancement	2017**	Up to 100% AMI
Massachusetts	Workforce Housing Initiative	2016	60-120% AMI
Kansas	Moderate Income Housing Program	2012	60-150% AMI

*Amended in 2023

**Pilot program; expanded in 2019

Lower-Income Households with Cost Burdens Far Outnumber Middle-Income Households

Number of Renters with Cost Burdens (Percent)

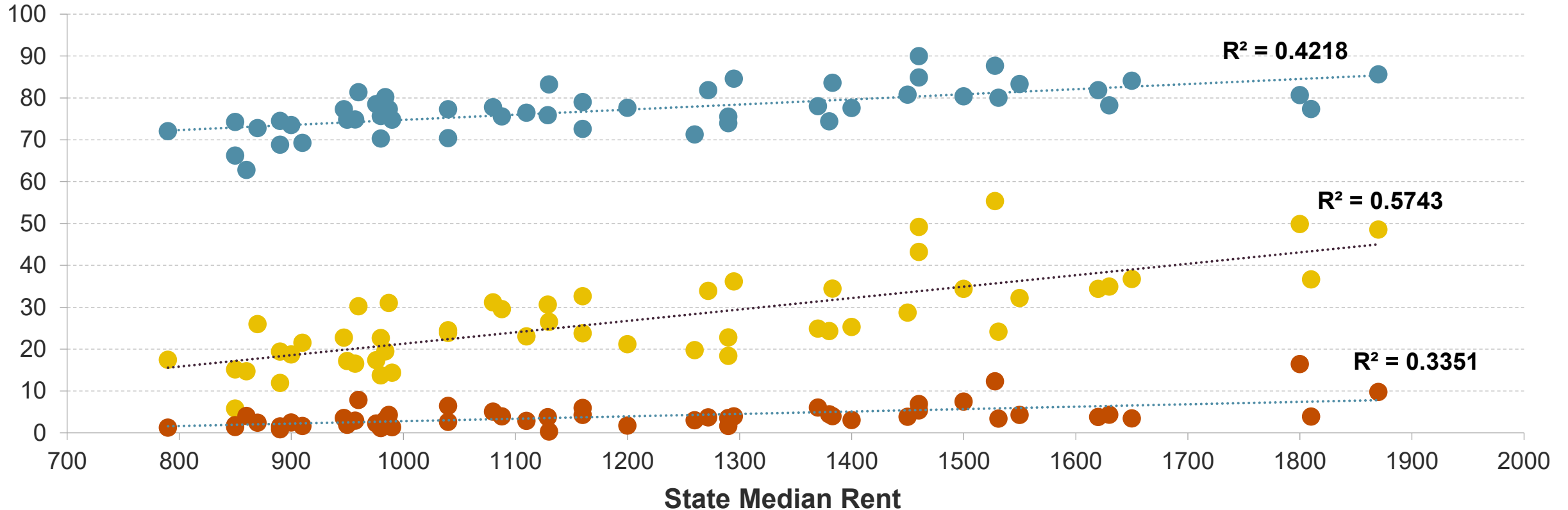


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Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Middle-Income Renter Burdens Are Better Explained By Differences in State Median Rent

State Share of Renters with Cost Burdens (Percent)



Percent of AMI ● Up to 60 ● 60-120 ● Over 120

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Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Characteristics of Renter Households with Cost Burdens

	Up to 60%	60-120%	Over 120%	All Renters
Median (Dollars)				
<i>Household Income</i>	20,000	57,000	107,000	26,700
<i>Gross Rent</i>	1,170	1,856	3,420	1,350
Column Share (Percent)				
<i>Household with Children</i>	28	22	16	27
<i>Bachelor's Degree</i>	19	41	68	24
<i>Disability</i>	27	13	14	24
Age				
Under 35	34	41	34	36
35-64	45	45	45	44
65 and Over	21	13	21	20
Race/Ethnicity				
White	43	51	65	45
Black	24	17	8	22
Hispanic	23	22	15	22
Asian	5	5	7	5

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

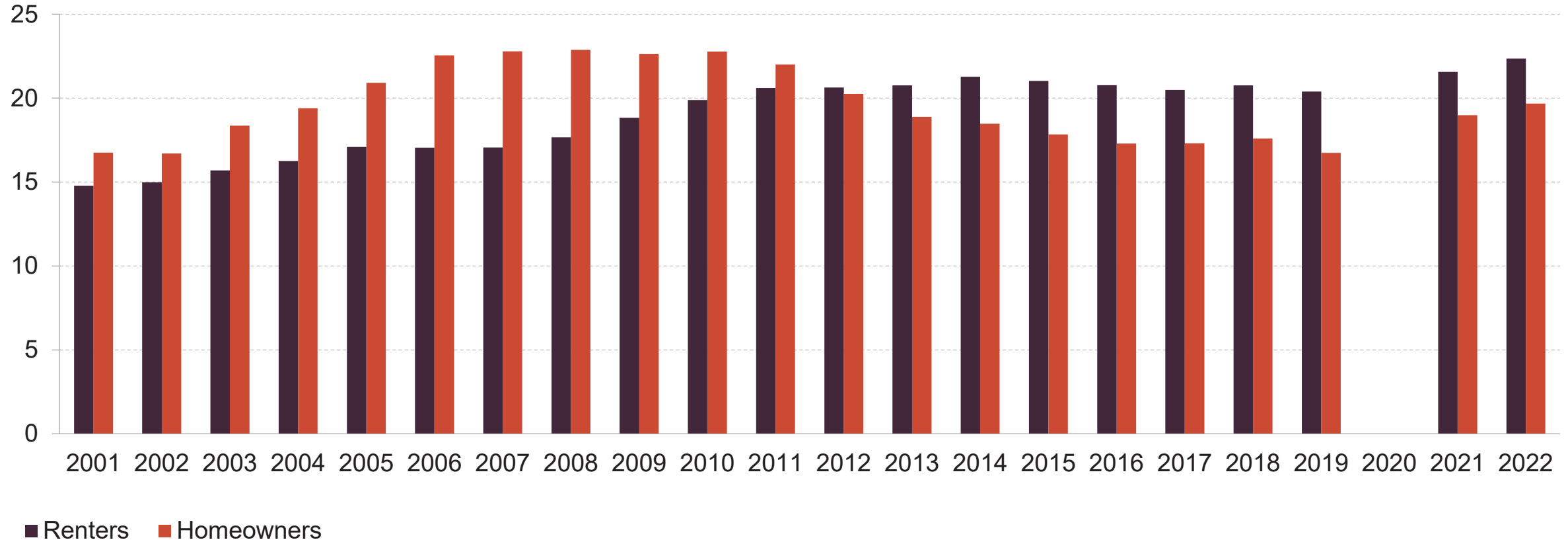
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65 and Over	21	13	20
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Black	24	17	22
Hispanic	23	22	22
Asian	5	5	5

Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Cost Burdens Hit New High for Renters While Also Rising for Homeowners

Cost-Burdened Households (Millions)



Notes: Cost-burdened households spend more than 30% of income on housing and utilities. Estimates for 2020 are omitted due to data collection issues experienced during the pandemic.

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.