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

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Abstract

Housing affordability challenges have crept increasingly up the income scale and have left a record-high share of middle-income renter households with cost burdens. In response, a growing number of states and localities have adopted policies and programs to address middle-income housing needs. These programs hold some promise for expanding the supply of affordable housing, especially in places with severe affordability challenges or in difficult-to-develop areas, but they face backlash from housing advocates who fear these subsidies will redirect resources away from lower-income households with the greatest need. In this research, we consider what these programs are intended to do, what the potential benefits are, whom they serve, and the policy tradeoffs that might occur if we prioritize addressing middle-income rental affordability. We examine eleven state and local programs addressing middle-income housing needs, finding that these programs have become increasingly prevalent in recent years, that they exist in geographically and politically diverse states, and that most focus on expanding the supply of middle-income housing. Many of these programs intend to address the housing challenges of the "workforce," though nearly all require middle-income rental housing to be kept affordable to households based on the area median income, rather than based on some occupation or employment requirement. However, we find that these programs, in operationalizing one common definition of middle-income, do not serve most working renters with affordability challenges, who are overwhelmingly lower-income. Nationally, about one-third of middle-income renters were cost-burdened, though the rate with burdens is especially high in more expensive states. Still, cost burdens are much higher for lower-income renters everywhere. Middle-income renters are also disproportionately white, which raises concerns about reinforcing racial inequities. We conclude by recommending that middle-income programs be designed in a way that does not divert resources away from the lowest-income households, that they operate in places where the market cannot adequately serve middle-income households, and that they have corollary benefits to lower-income households.

Introduction

Housing affordability in the US deteriorated rapidly during the pandemic, accelerating a longer-term rise in cost burdens. The number of cost-burdened renter households hit a new peak in 2022 at 22.4 million, an increase of 2 million households since the start of the pandemic. While all income groups have seen their cost burden rates increase in recent years, affordability challenges are rapidly climbing the income scale. Middle-income renters in particular have experienced the fastest increases in cost burdens over the last twenty years, a trend that accelerated during the pandemic. Fully 67 percent of renters earning between $30,000 and 44,999 had cost burdens in 2022, up 2.6 percentage points since 2019 and up an astounding 15.1 percentage points since 2001, after adjusting for inflation.[1] Likewise, 41 percent of renters earning $45,000 to 74,999 had burdens in 2022, up 5.4 percentage points since 2019 and more than double the rate from 2001.[2]

Growing affordability challenges among middle-class renters have sparked new programs and policies at the federal, state, and local levels. While the lowest-income renters still face the worst affordability challenges, an increasing number of programs subsidize middle-income and "workforce" housing. Despite varying definitions, these initiatives generally fund housing programs affordable to renters with incomes between certain area median income (AMI) thresholds, with lower limits largely between 60 and 100 percent of AMI and upper limits between 100 and 150 percent of AMI. At the federal level, a middle-income housing tax credit has become a perennial policy proposal. A middle-income housing tax credit would function like the Low-Income Housing Tax Credit program, allocating funding to states on a per capita basis to award to developers for the construction, redevelopment, or acquisition of rent-restricted apartments for middle-income tenants. Legislation was first introduced in 2016, with the most recent iteration, the Workforce Housing Tax Credit Act, fielded at the end of 2023.

Middle-income programs have not succeeded at the federal level but have been implemented in states and municipalities across the country. Colorado and Michigan notably have statewide policies that provide subsidies for middle-income housing. While historically unaffordable cities like New York have had middle-income and mixed-income housing programs on the books for decades, a growing number of cities—like Philadelphia and Breckenridge, Colorado—have also introduced subsidies in the last few years to address worsening affordability.

Middle-income housing programs are undoubtedly gaining momentum, but they are also facing backlash from housing advocates. Since lower-income households face the deepest affordability

[1] Joint Center for Housing Studies, "America's Rental Housing 2024."
[2] Ibid.

challenges, there is a legitimate fear that subsidies for middle-income households will divert scarce funding and resources away from households with the greatest need. The term "workforce housing," which can be taken to imply that people with lower incomes do not work, also further marginalizes lower-income households and perpetuates stigmas against affordable housing that serves them. The notion of serving middle-class renters and enabling people in certain, essential occupations to live in the communities where they work additionally suggests that some people are worthy or deserving of assistance while others are not.

Despite these criticisms, middle-income affordability challenges are growing, and policies to address the problem have also become more prevalent. Given this reality, it is worth considering what these programs are intended to do, what the potential benefits are, whom they serve, and the policy tradeoffs that might occur if we prioritize addressing middle-income rental affordability, especially over dedicating more resources to addressing lower-income challenges. In this paper, we specifically ask:

- 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?

Our scan of middle-income and workforce housing programs for renters and our empirical analysis of middle-income households highlight the potential benefits of these programs while also critically considering the tradeoffs. We find that state and local middle-income housing programs have become increasingly prevalent over the past few years, that they exist in a geographically and politically diverse array of states, and that most focus on expanding the supply of middle-income housing, though the means, mechanisms, and requirements for developers and localities vary greatly from program to program. While most programs encourage private development and ownership of middle-income housing, especially in rural or difficult-to-develop areas, a few—notably in California and Colorado—expressly encourage or enable public ownership and operation of middle-income housing. Though the exact range varies, nearly every program requires middle-income rental housing to be kept affordable to households based on the area median income, rather than based on some occupation or employment requirement.

Operationalizing one common definition of middle income used in state and local programs, we further find that 32 percent of renters earning 60 to 120 percent of area median income had cost burdens, a rate substantially below their lower-income counterparts. While lower-income households have high cost burdens everywhere, middle-income households have elevated burden rates in states with more expensive median rents. Compared to lower-income renters making up to 60 percent AMI, burdened middle-income households have fewer economic vulnerabilities, with higher levels of education, more potential income earners in the household, and a lower likelihood of being an older adult. These households are also disproportionately white, which raises concerns about reinforcing racial inequities. The cost of addressing lower-income cost burdens is $160 billion annually; the cost of addressing middle-income cost burdens is much lower, at $28 billion. However, funding affordable middle-income housing could take crucial dollars away from assistance for lower-income households, who often do not have enough money left after paying rent each month to meet other basic needs.

Taken together, these results point to the need to design middle-income programs in a way that does not divert resources away from the lowest-income households. Ensuring that these programs do not operate in places where the market can serve these households and that they have corollary benefits to lower-income households are important considerations.

This paper begins by discussing the potential benefits of middle-income housing programs and why they have become more popular in recent years. We then highlight the underlying issues with these programs, including controversy surrounding the term “workforce housing” and its inherently problematic nature. We then discuss this paper’s analytical approach, data, and methods, followed by an examination of state and local middle-income housing programs across the US. Next, we present an empirical analysis of middle-income housing affordability challenges, especially relative to lower-income households. We then follow with a discussion and conclude with policy implications.

Tradeoffs and Potential Benefits of Middle-Income Housing Programs

In a policy environment where budgetary support for rental assistance is limited, there is an understandable criticism that direct spending on middle-income housing programs redirects resources away from low-income households who have the greatest affordability needs.[3] These households have little choice but to live in housing that is unaffordable to them, whereas some middle-income households may be cost burdened because they choose to live in higher-quality housing or in more desirable locations but could find affordable options elsewhere. Despite the scarcity of affordable options for the lowest-income renters anywhere in the country, existing rental assistance programs are woefully underfunded, leaving three out of every four income-eligible renter households without a housing subsidy.[4] In light of the concern that middle-income housing subsidies will detract from the needs at the bottom of the income spectrum, the growing prevalence of middle-income housing supports makes it imperative to understand what these programs are and whom they serve in order to assess the potential tradeoffs and benefits of these strategies.

Beyond garnering greater attention for housing issues, middle-income programs could have value but need to be implemented in a way that complements and never replaces or detracts from essential programs for low-income households, including public housing, Housing Choice Vouchers, and the Low-Income Housing Tax Credit. To ensure that middle-income programs are not unduly wasting public dollars, they should not be implemented in places where the market can adequately provide housing for households in this income bracket. If designed properly, middle-income housing programs could have benefits for increasing supply beyond what the market would have otherwise produced and at lower price points, supporting mixed-income communities with a range of rent levels, and they could prevent a benefits cliff for low-income households able to increase their earnings.

The first potential benefit that middle-income housing programs can have is incentivizing housing development and construction, expanding the supply of housing in a way that that might not otherwise be practical. For example, programs can encourage development in places that do not have a lot of new construction activity but nonetheless have demand for quality housing affordable to middle-income households. With subsidy, these projects could offer below-market rents. Increasing production in places and segments that the market is otherwise not serving could have corollary benefits to low-income households by freeing up the lower-cost stock occupied by middle-income tenants, taking some pressure off the housing market in these communities.

Second, expanding affordable options for middle-income households can also encourage the creation and maintenance of mixed-income housing developments and communities by increasing the

[3] National Low Income Housing Coalition, "Middle Income Housing Tax Credit"; Ellen, "Fiscal Federalism and Middle-Income Housing Subsidies."
[4] Joint Center for Housing Studies, "America's Rental Housing 2024."

range of price points available. Such development could, instead of further increasing construction exclusively at the high end of the market, ensure that gentrifying areas or places near transit-oriented developments and other amenities have stably affordable options to prevent displacement. Retaining middle-income residents can be crucial for the economic health of communities,[5] possibly garnering greater political support for programs that assistthem. By providing a range of price points, especially in hot or desirable areas, middle-income housing programs can expand the options for people in community-based careers, for longtime residents, and for other households who would otherwise be priced out of specific towns or neighborhoods.

Existing rental assistance programs have income maximums, creating a benefits cliff when low-income households earn more and no longer meet the eligibility criteria, and a third benefit of middle-income housing programs is that they could bridge the gap between low-income rental assistance and market-rate housing.[6] Creating options for households up the income scale could help upwardly mobile households remain in housing that is still affordable to them.

Fourth, middle-income housing policies and programs address and alleviate the affordability challenges of middle-income households directly. In the process, reducing burdens for middle-income households would also increase their ability to save for a downpayment or retirement, a nontrivial benefit that would contribute to longer-term wealth building and improve their financial well-being.

Finally, because the affordability needs of middle-income households tend to be smaller, it is possible that these benefits could be accrued with a relatively small investment. The same amount of public investment could serve a larger number of households or produce a greater number of homes. At the same time, it is imperative that these programs are not detrimental to lower-income households, who should be afforded similar opportunities for affordable housing, upward mobility, and a quality standard of living.

Problematizing the Concept of "Workforce" Housing

"Workforce" housing programs have gained momentum in recent years, especially as housing cost burdens have worsened for households up the income scale and affected more than a third of fully-employed renter households across the country.[7] While these programs can vary in the type of subsidy

[5] Ford and Schuetz, "How Are Communities Making Housing More Affordable for Middle-Income Families?"
[6] Sard, "Waste of a Scarce Resource."
[7] Joint Center for Housing Studies, "America's Rental Housing 2024."

provided and the households targeted, they generally stem from a common goal of ensuring that people who work in crucial occupations can afford to live in the communities in which they work.

Despite the well-intentioned goal of increasing affordable options in otherwise exclusionary communities, the concept of "workforce" housing can be problematic along several dimensions.[8] At its core, the term is inaccurate. These programs tend to fundamentally be about affordability for middle-income households, not for employed households; as a label for such programs, the term "workforce housing" falsely implies that low-income households do not work. As we show later in the paper, many low-income households are in the workforce and still face even higher housing cost burdens but are not the target beneficiaries of "workforce" housing programs.

Nominally tying affordability programs to work further evokes the distinction in US social welfare policy between those who deserve help and those who allegedly do not. While notions of the deserving poor often encompass older people, people with disabilities, and people with chronic health challenges, work has been a key component for defining deservedness in policy terms.[9] For example, SNAP and TANF benefits are both conditional on meeting minimum work requirements, and proposals were raised under the Trump administration to apply work requirements to programs like Medicaid as well.[10] Work requirements and encouragement of work have also been part of housing policy discussions for several decades, partially due to concern that public assistance could discourage work for some households. Flexibility granted to select public housing authorities through the Moving to Work program enables these authorities to implement work requirements,[11] while other initiatives like the Jobs Plus program heavily encourage a "culture of work" in assisted housing.[12]

Along with underscoring that the programs would support working and thus "deserving" households, "workforce" housing programs further play off the stigma on deeply affordable subsidized housing programs and the people who live in them, which in turn carries racist undertones.[13] US Department of Housing and Urban Development rental assistance programs that serve the lowest-income households have been heavily stigmatized. Underfunding since the creation of the public housing program, for example, has meant that subsidized apartments were cheaply built,[14] undermaintained, and continue to suffer from poor quality in cases where redevelopment has not been

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[8] Axel-Lute, "'Workforce Housing' Is an Insulting Term."
[9] Lowrey, "The People Left Behind When Only the 'Deserving' Poor Get Help."
[10] Hahn et al., "Work Requirements in Social Safety Net Programs."
[11] Rohe, Webb, and Frescoln, "Work Requirements in Public Housing."
[12] US Department of Housing and Urban Development, "Jobs Plus Initiative Program."
[13] Tighe, "How Race and Class Stereotyping Shapes Attitudes Toward Affordable Housing."
[14] Goetz, "Where Have All the Towers Gone?"

possible.[15] Classism and racism have also led to the deep stigmatization of public subsidy programs, which serve the poorest renters and are disproportionately home to people of color. This stigma both fed and was reproduced through the narrative of the "welfare queen," a stereotype Ronald Reagan used to demonize the "undeserving" poor and justify federal retrenchment from crucial aid programs.[16]

At some level, the shift to "workforce" housing is a reaction to that heavy stigma. "Subsidized" and "affordable" housing carries the burden of decades of stigmatization that heightens NIMBY attitudes, obstructs new developments, and overturns calls for the expansion of existing rental assistance programs. Putting "workforce" in a program title can help overcome that stigma, making programs more politically palatable,[17] but it does so at the expense of further marginalizing low-income housing programs and the people who need them.

Given the problematic nature of "workforce" housing as a policy concept, including its erroneous use as a label for programs that exclude working lower-income households, we argue that it is important to push back on the terminology and think critically about what it means to develop and fund affordable housing programs for middle-income households when the lowest-income households with the deepest needs do not receive adequate resources. As middle-income housing is gaining ground in the policy sphere, it is also increasingly important to understand what these programs are intended to do, whom they serve, and what it means to potentially divert financial resources away from low-income households.

Analytical Approach, Data, and Methods

One goal of this paper is to document the existence of and better understand state and local middle-income housing policies and programs. We begin our analysis by examining state and local middle-income housing programs in the US. In the scan, we include programs or policies explicitly motivated by middle-income or "workforce" housing challenges and as a result include middle-income, moderate-income, or "workforce" specifically in the title or rationale. While there are other programs that create mixed-income housing, or extend into middle incomes but predominantly serve lower-income households, we include only programs that explicitly focus on middle-income households. Additionally, we consider only middle-income housing programs that provide a direct (grants, loans, or donation of

[15] Popkin et al., "An Equitable Strategy for Public Housing Redevelopment."
[16] Kohler-Hausmann, "Welfare Crises, Penal Solutions, and the Origins of the 'Welfare Queen'"; Spitzer, "Racial Politics and Welfare Retrenchment during the Reagan Presidency."
[17] Sills et al., "Affordable & Workforce Housing: A Public Opinion Study for New Hanover County & the City of Wilmington."

public land, for example) or indirect (property tax exemptions or government guarantees of construction loans, for example) public subsidy.

To identify programs, we searched state government websites, news articles, and the National Low Income Housing Coalition's Rental Housing Programs Database.[18] An initial scan identified over forty potential programs. For this analysis, we examine just eleven of those programs considered within scope, though we expect that this list is not exhaustive, especially at the local level. We consider the characteristics of these programs, including their location, when they were created, and their approach to addressing the housing challenges of middle-income households.[19] We also examine the tenant eligibility requirements: in other words, who are middle-income households as defined by these programs? Using one common eligibility criteria—households earning between 60 and 120 percent of AMI—we then aim to better understand the characteristics and housing challenges of renter households served by these programs and compare them directly to the characteristics and affordability challenges faced by lower-income households.

To identify qualifying households by this definition and examine their characteristics, we use data from the American Community Survey, fielded annually by the US Census Bureau. The ACS contains rich demographic data, including crucial information on household incomes and housing costs, plus the occupation and employment status of household members. We compare some characteristics between 2019 and 2022 using the 1-year public use microdata, which allows us to observe changes in housing affordability challenges over this period.

One limitation of these data is the limited geographical information, making it difficult to calculate area median incomes. The smallest geographical scale available using our data is the public use microdata area (PUMA), which is a geographical area created by the Census Bureau that contains over 100,000 people but does not necessarily conform to metropolitan area boundaries. At the same time, income limits are typically estimated according to the metro area or county. To address this mismatch, we use the National Low Income Housing Coalition's method[20] for calculating area median incomes based on the PUMA a household lives in. For PUMAs where more than half of the population lives in a metro area, we calculate area median income based on that metro area. For PUMAs where more than half of the populations falls outside of a metropolitan area, we calculate area median income based on

[18] See https://nlihc.org/rental-programs.

[19] One challenge of this research is the lack of consistent information across programs due to the diversity of the programs themselves, differences in reporting requirements, and the relative newness of many programs. As a result, details on programs are sometimes inconsistent or incomplete.

[20] National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Homes."

the rural remainder of each state. Following NLIHC, we also categorize any household with income below the poverty line as extremely low-income, or as earning no more than 30 percent of AMI. This process allows us to categorize household incomes relative to an estimated area median income. Using these categories, we can determine eligibility for middle-income housing supports as well as examine the characteristics and affordability challenges of lower-, middle-, and higher-income households.

Based on the program scan, we define middle-income households as those with a household income between 60 and 120 percent of AMI. Eligibility varies across programs, with lower limits largely between 60 and 100 percent of AMI and upper limits between 100 and 150 percent of AMI. Our chosen window includes eligibility for most programs without including renters on the upper end of the income spectrum. Renters earning up to 80 percent of AMI are eligible for some HUD subsidies, including public housing, but because HUD programs overwhelmingly serve households making no more than 50 percent of AMI and because of the inclusion of renters between 60 and 80 percent of AMI in many programs targeting middle-income renters, we include that range in our middle-income definition as well. To examine differences within broader AMI groups, we also include more granular income ranges in our analysis.

For the analysis of middle-income housing challenges, we focus only on renters. While several middle-income housing programs allow eligibility for homeowners, either alone or in addition to renters, we know from past evidence that renting households have greater affordability challenges in aggregate than homeowners, and renters specifically have seen extreme increases in both the magnitude and rate of housing unaffordability in recent years.

Generally, existing programs do not define eligibility by occupation, so we do not break down our analysis by occupation. However, we do examine occupation and employment status of households at different AMI levels to contextualize middle-income housing challenges and describe the households that would be eligible for a broader housing policy supporting middle-income renters.

We tabulate descriptive statistics on a variety of characteristics for households at different AMI levels, breaking down both into lower-, middle-, and higher-income groups and into more detailed AMI categories. This analysis employs several measures of housing affordability. If a household devotes more than 30 percent of their income to housing costs, that household is labeled as cost-burdened, consistent with convention. Any household spending more than 50 percent of income on housing is considered severely burdened. We also examine cost burden gaps, i.e. the difference between a household's monthly housing costs and 30 percent of their monthly income, to show the magnitude of affordability challenges for cost-burdened households. By including a measure of cost burden gaps, we highlight the significance of those gaps for cost-burdened households at every income level. We also sum the total cost burden gaps by income group to show the aggregate amount of additional funding that would be necessary to close all cost burden gaps – in other words, to make sure that no household pays more than 30 percent of their income on housing costs. Lastly, we calculate a household's residual income, or how much income is left over each month after paying rent and utilities. Consistent with work by Michael Stone and recent work by Airgood-Obrycki, Hermann, and Wedeen,[21] residual incomes allow us to better understand housing costs in the context of other household expenses – including childcare, transportation, and education, among others – and examine how residual incomes vary across income categories.

Middle-Income Housing Programs

A key objective of this paper is to document the existence of middle-income housing programs in the US and examine their scope, geographic coverage, and characteristics. In this section, we review eleven distinct policies and programs at the state and local level, many of them new in the last few years. For this research, middle-income housing programs are state and local government policies using a direct or indirect subsidy where the primary purpose is addressing the housing needs of the "workforce" or middle-income households. The middle-income housing programs identified here are not meant to be an exhaustive list of all such programs in the country, but instead illustrate and exemplify the variety of programs that have become increasingly common over the past several years.

Our scan excludes several related programs and policies, including some with similar characteristics, because they don't involve a direct or indirect subsidy or because they're not primarily motivated by the needs of middle-income renters. For example, we exclude inclusionary housing ordinances that target middle-income households, including those explicitly benefiting the "workforce," when those programs don't require direct or indirect spending from state and local governments.[22] Given our focus on renters and renter affordability, this research similarly does not examine programs that exclusively serve homeowners or moving households into homeownership—although it does

[21] Stone, "Shelter Poverty;" Airgood-Obrycki, Hermann, and Wedeen, "'The Rent Eats First.'"
[22] The Workforce Housing Development Program in Miami-Dade County, for example, explicitly addresses middle-income housing challenges for households earning 60-140 percent of AMI. But the program incentivizes new construction of housing affordable to middle-income households by allowing units to be built at higher levels of density but does provide any other direct or indirect subsidy. For more details, see the Miami-Dade County, Florida Code of Ordinances, Chapter 33, Article XIIA, Workforce Housing Development Program.

include programs that support either rental or homeowner units.[23] We also exclude mixed-income housing programs where addressing the housing needs of middle-income renters specifically is not the core purpose.[24] There are other public- and private- sector initiatives outside our scope, including attempts to expand the use of Accessory Dwelling Units and employer-driven efforts to increase housing supply, that don't entail a direct or indirect public subsidy or are not explicitly focused on addressing affordability issues for middle-income residents or the workforce.

Table 1 provides key characteristics of the eleven middle-income housing programs examined for this research, including the location and name of the program, the year created, renter eligibility criteria, subsidy type, activities funded, geographic preferences embedded in the program, and the affordability requirements. **Appendix A** provides a narrative description of each program's activities and impact, when available. The middle-income housing programs studied have varying characteristics such that none can be considered typical. But a careful examination of the programs helps illustrate the different policy strategies taken by state and local actors to address the needs of middle-income renters.

Most programs examined for this study are statewide programs that fund private-sector development, rehabilitation, or adaptive reuse of middle-income housing directly with grants or below-market-rate loans. The Michigan Missing Middle Housing Program, for example, was created in 2022 using American Rescue Plan funds. The program was created to "address the general lack of attainable housing and housing challenges underscored by the COVID-19 pandemic," but especially for employees in the state. Under the program, the state housing development authority provides grants to developers to build or substantially rehabilitate properties kept affordable for households earning 60-120 percent of AMI. In two competitive funding rounds, the grants are intended to cover labor and material costs of construction, and both for-sale and rental housing construction are eligible. At least 30 percent of funds are directed to projects in rural areas. For rental projects, income verification is required in affordable units during a ten-year compliance period.

The Massachusetts Workforce Housing Initiative similarly provides low-interest rate loans to developers for new construction or adaptive reuse of rental projects where units are affordable to households with incomes in the 60-120 percent of AMI range and at least 20 percent of units are affordable to households earning at or below 80 percent of AMI. Likewise, the Rhode Island Middle Income Loan Program finances construction of middle-income for-sale or rental housing, including new

[23] For example, Nebraska's Middle-Income Workforce Housing Investment Fund funds nonprofit development of homes affordable to middle-income households with an appraised value between $125,000 and $330,000.
[24] For example, New York City's Mixed-Income Programs finances the construction, rehab, and adaptive reuse of multifamily units for households earning up to 120 percent of AMI.

Table 1. Middle-Income Housing Programs Summary Characteristics

Location	Program Name	Year Created	Renter Eligibility	Subsidy Type/Funding Mechanism	Activity Funded	Geographic Priorities	Affordability Period
Florida	Missing Middle Property Tax Exemption	2023	81-120% AMI	Property tax exemption	Adopt affordability requirements for new or recent construction		3 years
Georgia	Rural Workforce Housing Initiative	2023	Up to 100% AMI	Grants and loans for infrastructure development	Funds infrastructure development for local governments partnering with a developer	Rural counties only	Unknown
Michigan	Missing Middle Housing Program	2022	60-120% AMI	Grants	New construction and rehabilitation	30% of funding dedicated to rural counties	10 years
Breckenridge, CO	Workforce Housing Five-Year Blueprint	2022	Varies	Grants, utility hookups, fee waivers, land donations, others	New construction, preservation		Varies up to permanent affordability
Colorado	Middle-Income Housing Authority	2022	80-120% AMI, or up to 140% AMI in rural resort areas	Bond financing	New construction primarily but also acquisition and rehabilitation	More flexible eligibility in rural resort areas	Unknown
Rhode Island	Middle Income Loan Program	2021	80-120% AMI	Deferred loans	New construction, adaptive reuse, rehabilitation		30 years

Table 1. Middle-Income Housing Programs Summary Characteristics (Continued)

Location	Program Name	Year Created	Renter Eligibility	Subsidy Type/Funding Mechanism	Activity Funded	Geographic Priorities	Affordability Period
California	CSCDA Workforce Housing Program	2020	80-120% AMI	Bond financing	Acquisition and conversion		Permanent (Duration of CSCDA ownership)
Minnesota	Workforce Housing Development Program	2017, 2023 amended	NA	Deferred loans	New construction, acquisition, rehabilitation, adaptive reuse	Small to medium-sized cities and tribal areas	None (Market-rate housing)
Philadelphia, PA	Workforce Housing Credit Enhancement	2017 pilot; 2019 expansion	Up to 100% AMI	Partial loan guarantee	New construction		15 years
Massachusetts	Workforce Housing Initiative	2016	60-120% AMI	Loans	Strong preference for new construction, but also acquisition and rehabilitation		15-40 years
Kansas	Moderate Income Housing Program	2012	60-150% AMI	Grants, loans	New construction, rehabilitation, adaptive reuse, and infrastructure development	Small cities and counties	5 years in 2023

construction, rehabilitation, or adaptive reuse, where at least 20 percent of units are affordable to renters with incomes between 80 and 120 percent of AMI. The Kansas Moderate Income Housing Program—in existence since 2012—provides grants and loans to fund development projects in cities and counties with a population of under 60,000 that increase the supply of housing affordable to households earning 60-150 percent of AMI.[25] The Minnesota Workforce Development Program awards forgivable loans to local governments, rural areas, and tribal lands to build new market-rate housing in communities with a demonstrated need for middle-income housing.

Two statewide programs in Colorado and California fund middle-income housing projects primarily through the issuance of tax-exempt bonds. Uniquely among our programs, both these initiatives offer opportunities for public ownership of middle-income housing. The Colorado Middle-Income Housing Authority was created in 2022 for the "purpose of acquiring, constructing, rehabilitating, owning, operating and financing affordable rental housing projects for middle-income workforce housing," or households earning 80-120 percent of AMI in most of the state but up to 140 percent of AMI in counties designated rural resort areas. The program is unique, however, as a public authority with the power to issue bonds to finance the acquisition, operation, or construction of rental projects. Unlike most other programs in our study, the program can own and operate rental housing directly. It also has the ability to negotiate public-private partnerships to meet its affordability targets. The authority and the properties are exempt from many state and local taxes. In California, the California Statewide Communities Development Authority (CSCDA) began working with local governments in 2020 to use bond financing to acquire existing market-rate rental housing, and income- and rent-restrict those units for middle-income households earning 80-120 percent of AMI. Unlike every other program considered, the CSCDA program does not fund new construction.

Other statewide programs indirectly subsidize middle-income housing production by funding local infrastructure development grants or by providing property tax exemptions for new rental construction. For example, Georgia's Rural Workforce Housing Initiative, created in 2023, funds land and infrastructure development grants to local governments with demonstrated and "ongoing workforce housing needs" and "a commitment to expand and improve existing housing stock." Working with a partnering developer, the program funds both for-sale and for-rent housing developments. Rental projects must be affordable to households earning up to 100 percent of AMI. In Florida, rental property owners of new or recent rental construction can apply for a property tax exemption if they hold more

[25] Though seemingly less common, the program also funds infrastructure development that enables middle-income housing development.

than 70 units affordable to lower-income households earning up to 80 percent of AMI (for a 100 percent property tax exemption) or middle-income households earning 81-120 percent of AMI (for a 75 percent property tax exemption).

Two municipal programs exemplify differing strategies for addressing middle-income housing needs at the local level. In 2022, Breckenridge, Colorado approved a Workforce Housing Five-Year Blueprint with a commitment to investing $50 million in workforce housing programs, including the funding of construction of deed-restricted units and preservation of the existing stock.[26] These efforts utilize a number of different policy levers and build on a longer history of middle-income housing efforts in Breckenridge that have resulted in the development or subsidization of 131 middle-income rental units since 1996. Through land donations, incentives for deed restrictions, subsidized utility connections, and other supports, Breckenridge plans to increase its middle-income housing inventory by 974 units by 2027.

Philadelphia, Pennsylvania has adopted a more targeted local strategy. The Philadelphia Workforce Housing Credit Enhancement (WFHCE), originally piloted in 2017 and expanded in 2019, provides a loan guarantee for the construction of middle-income housing built at least partially on land acquired from one of several public agencies in the city. The program funds both for-sale and rental housing development. The Philadelphia Housing Development Corporation (PHDC), the community development corporation that administers the WFHCE, guarantees up to 25 percent of construction loans up to $3 million. In 2018 and 2019, PHDC guaranteed over $2 million of middle-income housing construction loans, supporting the development of 46 units.[27]

The middle-income housing programs included here have a considerable amount of diversity. Still, several key themes emerge from our analysis of middle-income housing programs in the US:

- **Many middle-income housing programs have come into existence only recently.** Most of the programs examined for this research have been created since 2019, likely in response to the growing affordability challenges across the US. The CSCDA in California, for example, began its Workforce Housing Program only in 2020, when it would issue bonds allowing municipalities to acquire market-rate buildings and convert them to rent- and income-restricted units for middle-income households. Likewise, the statewide Michigan Missing Middle Housing Program was created in 2022 using American Rescue Plan funds. At the same time, however, these programs

[26] Town of Breckenridge, "Workforce Housing Five-Year Blueprint."
[27] Philadelphia Housing Development Corporation, "PHDC Report 2018-2020."

are not entirely new either. The Moderate Income Housing Program in Kansas has existed since 2012, while the Massachusetts Workforce Housing Initiative has existed since 2016.

- **Middle-income housing programs are geographically diverse.** These programs exist in states in all four Census regions and encompass a range of market conditions, housing costs, and political environments. Middle-income housing programs, for example, exist in states as diverse as Georgia in the South, Rhode Island in the Northeast, Kansas in the Midwest, and Colorado in the West. The relative recency of these programs along with their geographic diversity likely reflects the worsening and broadening housing affordability challenges in the aftermath of the COVID-19 pandemic.

- **Nearly all middle-income housing programs use a percent of AMI threshold to determine eligibility.** The precise threshold varies for programs across the country, but nine of the eleven middle-income housing programs in our sample use a percent-of-AMI threshold for determining which renters are eligible to live in middle-income or "workforce" housing, rather than employment status, occupation, or some other criteria. In this way, middle-income housing programs mirror most federally funded rental housing programs in their method of determining tenant eligibility. Minnesota's Workforce Housing Development Program provides the sole exception among state-level rental programs considered here: rather than a percent-of-AMI standard, the Minnesota program funds new construction of market-rate housing in difficult-to-develop areas with a documented need for middle-income housing (including low vacancy rates and letters of support from local businesses). The housing produced does not need to adhere to any income- or rent-eligibility requirements otherwise. Only Breckenridge has middle-income housing programs based on employment status and location. In addition to varying eligibility thresholds based on AMI, some of the middle-income housing programs in Breckenridge are reserved for seasonal workers or those employed for at least 30 hours per week in the surrounding county.

- **Middle-income housing programs are primarily focused on new construction.** The main impetus for nearly every program in our sample is expanding the supply of housing affordable to middle-income households through new development, though many projects also fund rehabilitation, adaptive reuse, or acquisition and conversion. For example, the Massachusetts

Workforce Housing Initiative funds the construction (preferred) or adaptive reuse of rental housing affordable to those earning 60-120 percent of AMI. The Michigan Missing Middle Housing program funds new construction or substantial rehabilitation, while the Colorado Middle-Income Housing Authority aims to subsidize the creation of 3,500 units affordable to middle-income renter households, including at least 80 percent of units that must be newly built. At the local level, Breckenridge's Workforce Housing Blueprint includes strategies for new construction and preservation of the existing stock affordable to middle-income households. The California CSCDA Workforce Housing Program is unique among programs considered for this study in that it funds only the acquisition of existing market-rate properties and converts them to rent- and income-restricted units.

- **Most programs directly fund middle-income housing development through grants and loans.** Most programs offer favorable or forgivable construction financing to developers of middle-income housing, including featured programs in Massachusetts, Minnesota, and Rhode Island. Some programs offer grant funding directly to developers, including the program in Michigan where grants cover construction and labor costs. At the same time, there is some variation in how middle-income housing programs are funded. In Georgia, the statewide program offers infrastructure development grants and loans to a local government, who partners with a developer to provide housing affordable to middle-income households. Uniquely in Florida, property owners of new or recent construction are afforded a property tax exemption in exchange for keeping units affordable to lower- and middle-income households.

- **A few middle-income programs create or enable opportunities for public ownership of housing while others leverage publicly owned land.** While most programs examined for this study incentivize private-sector development and ownership of middle-income housing, a few create opportunities for public ownership. As mentioned above, the California CSCDA, in conjunction with cities, counties, and special districts in the state, issues tax-exempt bonds to finance the acquisition of market-rate housing and convert it to rent- and income-restricted middle-income housing owned by the CSCDA. Similarly, the Colorado Middle-Income Housing Authority has not only the power to finance private-sector construction of middle-income housing, but also the ability to acquire, own, and operate middle-income housing directly. Lastly, the Philadelphia Workforce Housing Credit Enhancement requires housing developments funded by the program to be built on land partly or entirely purchased from one of several public agencies, including the redevelopment authority, land bank, housing authority, or housing development corporation. However, the resulting projects are not publicly owned. These programs suggest different models and strategies for public ownership or the utilization of public assets to address housing affordability challenges for middle-income households.

- **Affordability periods for property developers and owners also vary but are generally modest.** For the Michigan Missing Middle Housing Program, income certification is required for initial occupancy and verification is required over a ten-year compliance period. In Massachusetts, income certification is required annually and if a household's income grows beyond the program's income limit, the next unit to come available becomes an income-eligible unit. The program has an affordability term of fifteen to forty years and caps rent increases as well. The Rhode Island Middle Income Loan Program requires an affordability period of at least thirty years in order to fund the development of middle-income rental housing. Lastly, by acquiring properties directly in partnership with local governments, the California CSCDA Workforce Housing Program creates an opportunity for longer-term if not permanent affordability.

- **The impact of middle-income housing programs is still uncertain but evolving.** Given the relative novelty of most programs examined for this study, there has been minimal systematic evaluation of their impact. The Kansas Moderate Income Housing Program, the longest-running program in our study and in existence since 2012, had awarded $20.7 million dollars to 75 communities according to its 2021 annual report. Supplemented by the American Rescue Plan Act, the program provided an additional $27 million in funding for just under 1,000 new units in 2023 alone. In three rounds of funding, the Georgia Rural Workforce Housing Initiative estimated providing $23.7 million in infrastructure development grants and loans to support the construction of over 1,000 units (both for sale and for rent), while the Colorado Middle-Income Housing Authority operates as a pilot program, currently with the goal of bond financing 3,500 middle-income housing units, including 80 percent for new construction. In two rounds of funding, the Michigan Missing Middle Housing Program used about $110 million dollars to support about 90 for-sale and rental development projects. Philadelphia's Workforce Housing Credit Enhancement funded the construction of 142 middle-income housing units through early 2019.

- **Per-unit funding varies but is generally modest.** Per-unit funding amounts vary considerably depending on the subsidy types and activities funded, and are thus difficult to compare across programs. However, some programs that provide loans or grants for development directly cap per-unit funding. On the high end, the Massachusetts Workforce Housing Initiative provides loans for up to $100,000 per affordable unit. The Michigan Missing Middle Housing Program awards a maximum of $70,000 in grants per affordable unit in larger projects with at least twelve units, and $80,000 for smaller projects. The Rhode Island Middle Income Loan Program also lends up to $60,000 per affordable studio unit, $70,000 per affordable one-bedroom unit, and $80,000 per affordable two-bedroom unit. For some other programs, we can crudely estimate per-unit funding. For example, the Georgia Rural Workforce Housing Initiative has provided an estimated almost $24 million in infrastructure grants for local governments across three funding rounds that will enable the construction of just over 1,000 units, at a cost of roughly $23,000 per unit. Through the Moderate Income Housing Program, Kansas provided about $27 million in funding for the development of 992 for-sale or rental units in 2023 alone, or about $27,000 per unit.

- **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.** The middle-income housing programs in Georgia, Kansas, Michigan, and Minnesota all focus on funding housing development in rural areas. The middle-income housing program in Georgia, for example, funds projects only in rural counties with a population under 50,000, while the program in Kansas provides grants or loans to developers in cities or counties with populations under 60,000. In Michigan, at least 30 percent of awarded funds must be distributed to projects in rural areas as defined by USDA. In Minnesota, funding to build market-rate housing through the Workforce Housing Development Program is offered only in small cities, rural areas, and tribal lands, with a preference for places with fewer than 30,000 people. Lastly, as a wealthy ski town in Colorado, Breckenridge exemplifies a community with a large tourism industry and seasonal jobs where middle-income housing strategies have become increasingly popular as a way of providing affordable options for the workforce.

Assessment of Affordability Challenges Facing Middle-Income Renters

As middle-income housing programs become increasingly common across the country, it's important to understand the characteristics of the households these programs are intended to serve, the extent of their affordability challenges, how those challenges vary across the country, and what it would take to address those challenges. We find that there are about 14.4 million middle-income renters in the US earning between 60 and 120 percent of AMI, about one-third of all renters nationally. These renters have fewer economic vulnerabilities and greater earning potential relative to lower-income renters. Middle-income renter households are also more likely to be headed by a white person and less likely to experience racial discrimination in rental markets. At the same time, about one-third of middle-income renters have cost burdens, including just 5 percent with severe burdens. However, middle-income renter burdens vary significantly across the country and are more prevalent in higher-cost states. Given the motivation of middle-income housing programs in many states to address the housing challenges of the workforce, we also look specifically at the employment status of renter households at different levels of income, finding that employment (including full-time employment) does not at all predict housing affordability for either lower-income or middle-income renters. Furthermore, a large majority of cost-burdened households in the workforce are in fact lower-income.

Overview of Lower- and Middle-Income Renter Households

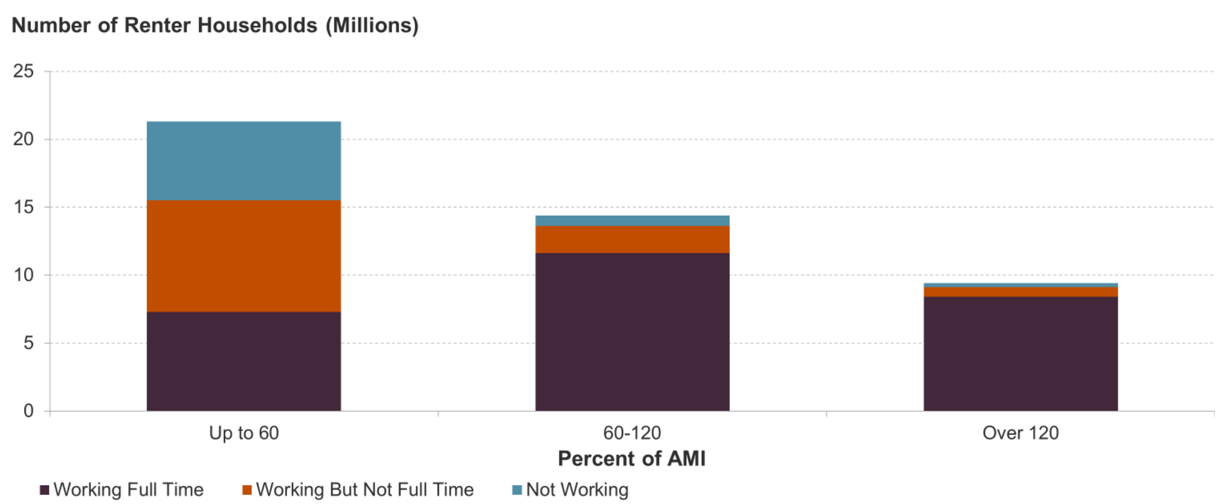
In 2022, about 14.4 million middle-income renters earned above 60 percent and no more than 120 percent of area median income (AMI), a definition common in state and local middle-income housing programs across the country that we operationalize for this paper. These households made up nearly a third of all renters. By comparison, an even larger share of renters—about half or 21.3 million renters in total—were lower-income, earning 60 percent of AMI or under, while the remaining one-fifth of renters (9.4 million in total) were higher-income, earning above 120 percent of AMI**.**

Among lower-income households, fully 15.5 million had at least one person in the labor force in 2022, including about half of those households—7.3 million—where someone worked full-time, meaning they worked at least 35 hours per week and 48 weeks in the prior year **(Figure 1).** In other words, about three-quarters of lower-income renter households had someone in the workforce, including about one-third with someone working full time. Among the 5.8 million lower-income renter households without someone in the labor force, the vast majority (4.7 million) were headed by someone age 65 and older, with a disability, or both. By comparison, there were 13.6 million middle-income renter households where an adult was in the labor force, or about 95 percent of middle-income renters, including 11.6 million where someone was working full-time.

By definition, middle-income renters have higher incomes than their lower-income counterparts. The median household income for middle-income renters nationally was $63,000 in 2022, nearly three times the median household income of lower-income renters ($21,000) and about half that of higher-income renters ($130,000). However, household incomes vary considerably across the country. The median household income for middle-income renters ranged from just $45,000 in West Virginia and Mississippi to nearly twice as much in Massachusetts ($80,000), Maryland ($81,000), and Washington, DC ($91,000).

Typical housing costs for middle-income households also vary. The median monthly rent was $1,380 for middle-income renters nationally, compared to $1,067 for lower-income renters. In the least expensive states, middle-income renters spend less than $900 per month on housing costs at the median, while rents reach upwards of $1,900 in the most expensive states.

Figure 1: Working Lower-Income Renters Outnumber Middle-Income Renters

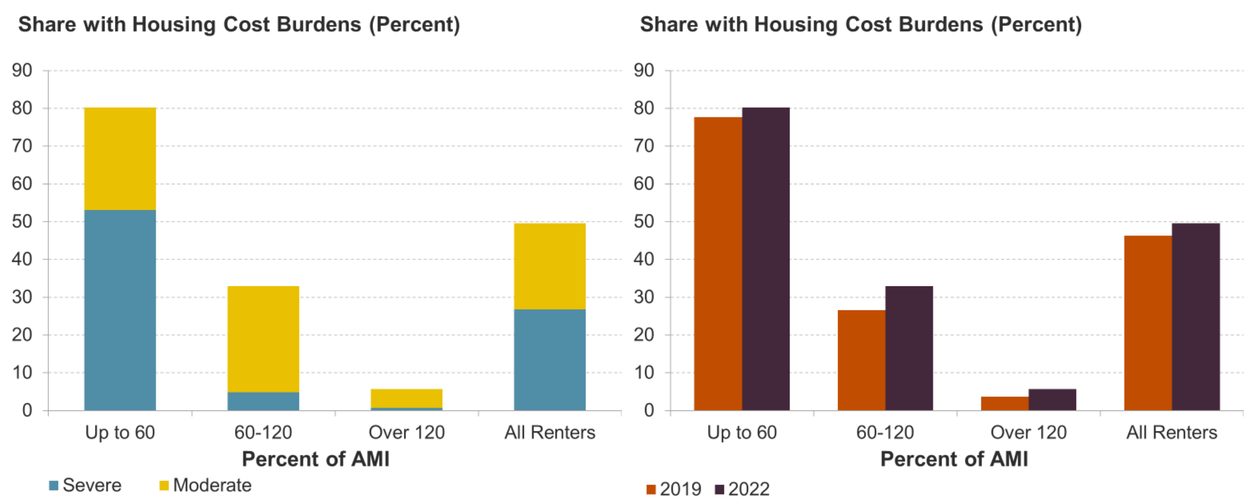


Note: Households working full time means at least one member of the household worked at least 35 hours per week and 48 weeks in the prior year.
Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Affordability Challenges of Lower- and Middle-Income Renters

Middle-income renter households face far less severe affordability challenges than lower-income renters. Still, nearly one-third of middle-income renters had cost burdens, meaning they spent more than 30 percent of their income on rent and utilities. Indeed, 33 percent of middle-income renters had cost burdens in 2022, including just under 5 percent with severe burdens (those who spent more than half of income on housing). By comparison, an astounding 80 percent of lower-income renters had cost burdens, including 53 percent with severe burdens **(Figure 2).** In other words, lower-income households faced cost burdens at more than twice the rate of middle-income households, but had severe burdens at more than ten times the rate. While middle-income cost burdens were considerably lower, they have risen quickly since the start of the pandemic. Middle-income cost burden rates were up 6.3 percentage points over 2019 levels, while lower-income rates increased by 2.5 percentage points.

Figure 2: Relative to Lower-Income Renters, Middle-Income Burdens Are Modest but Have Climbed Rapidly in Recent Years

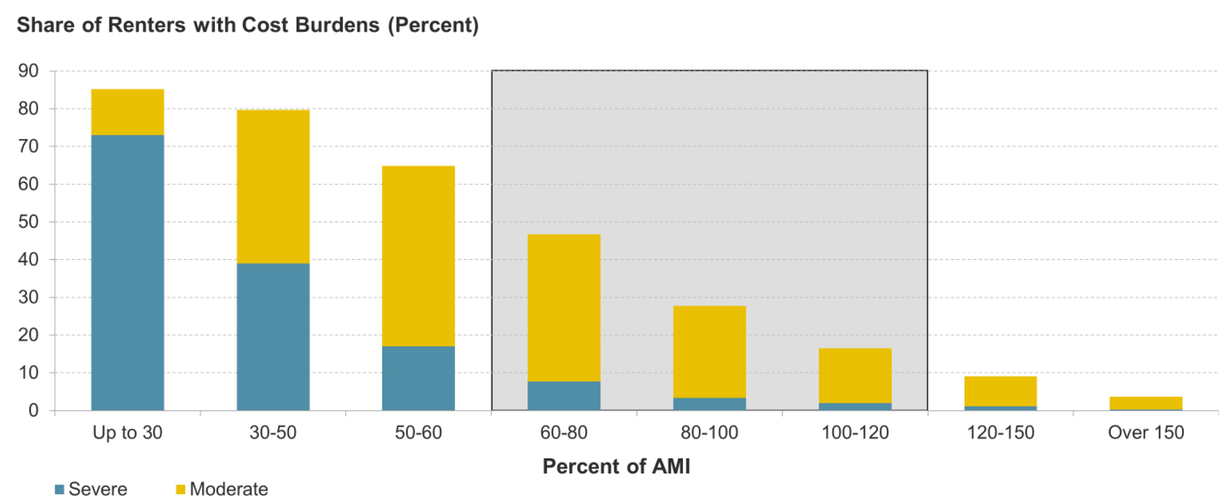


Note: Moderately (severely) cost-burdened households spend 30-50% (more than 50%) of income on rent and utilities.
Source: Author tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Despite these increases, middle-income households continue to face lower cost burden rates than lower-income households, and renter cost burdens within the middle-income group decline quickly as incomes rise. Cost burdens are more common just above the lower bounds of the middle-income threshold and taper off at higher income thresholds. A full 47 percent of renters earning 60-80 percent of AMI were burdened, significantly higher than the 28 percent of renters earning 80-100 percent of AMI or the 17 percent of those earning 100-120 percent of AMI who had cost burdens **(Figure 3).**

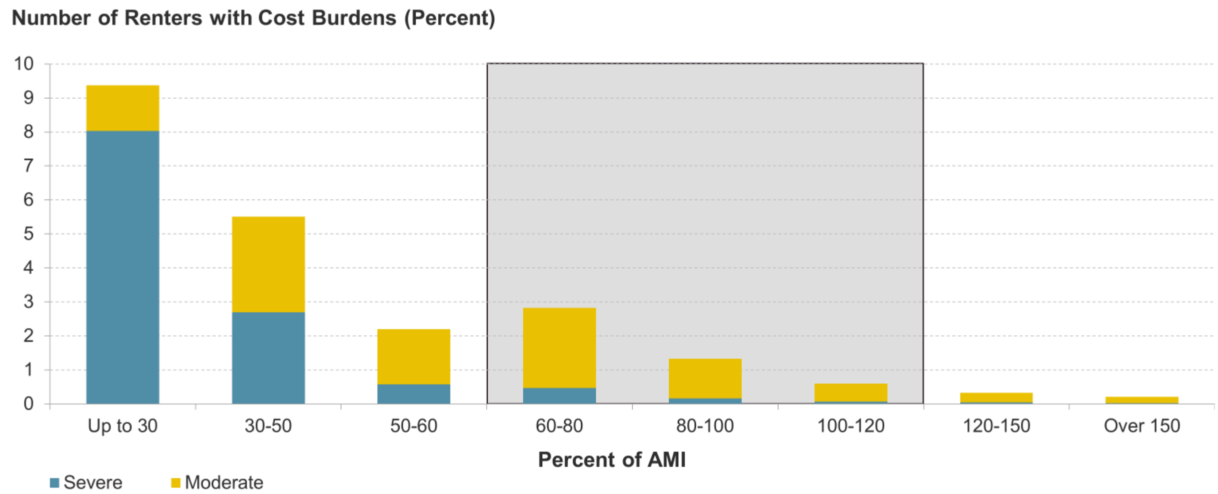
Considering the smaller number of households and their relatively low cost-burden rates, the number of middle-income renters with cost burdens also pales in comparison to the number of burdened lower-income renters **(Figure 4)**. Indeed, there were about 4.7 million middle-income renters with cost burdens in 2022, including just under 700,000 with severe burdens. By comparison, 17.1 million lower-income renters spent more than 30 percent of their income on housing, including 11.3 million with severe burdens. Of these, nearly 9.4 million extremely low-income renters had cost burdens, the vast majority of whom (8.0 million) were severely burdened. Given the magnitude of lower-income affordability challenges, lower-income households made up 76 percent of all cost-burdened renters and 94 percent of all severely burdened renters. Meanwhile, middle-income households accounted for just 21 percent of cost-burdened renters and 6 percent of severely burdened renters.

Figure 3: Renter Affordability Challenges Decline Rapidly with Income



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.

Figure 4: Lower-Income Households with Cost Burdens Far Outnumber Middle-Income Households



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 with cost burdens also have significantly more income left over after accounting for housing costs than lower-income renters with burdens. After paying rent and utilities, for example, cost-burdened renters earning 60-120 percent of AMI had about $2,900 in residual income per month at the median. Even cost-burdened renters earning 60-80 percent of AMI had $2,500 leftover to spend on all other essentials, while those earning 100-120 percent of AMI had $4,100. By comparison, lower-income renters with burdens had just $600 per month to spend on all other essentials, and extremely low-income renters with burdens had almost nothing left after paying for housing costs.

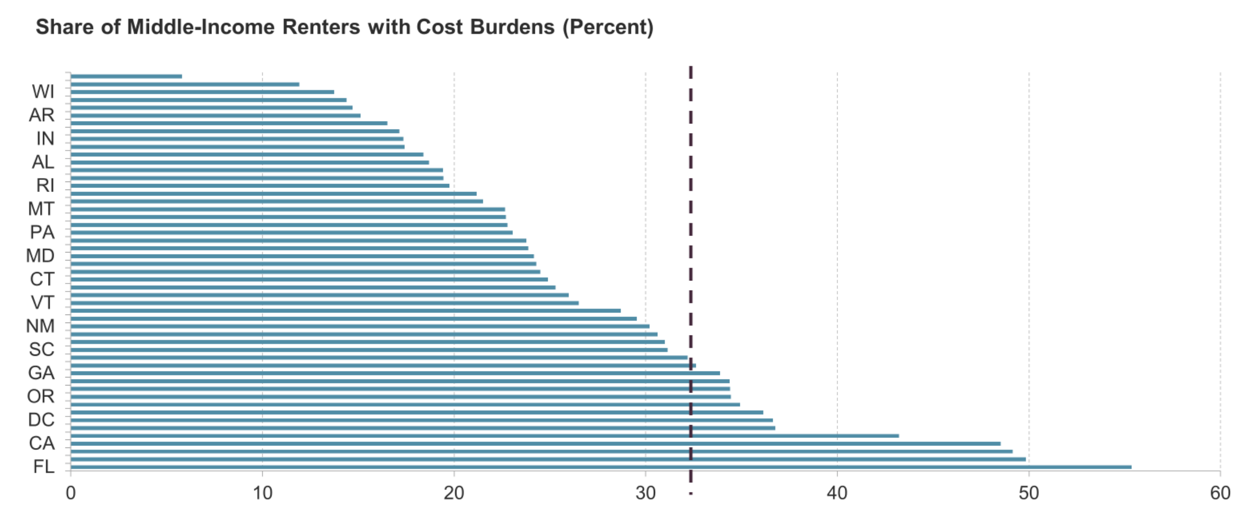
Geography of Middle-Income Affordability Challenges

While less severe than the challenges facing lower-income households, middle-income affordability challenges vary significantly across the country. Middle-income cost burdens were especially prevalent in the West Census Region, where 43 percent of renters had cost burdens. Over one-third of renters were also burdened by housing costs in the South (35 percent) and nearly one-third in the Northeast (30 percent). Middle-income burdens were substantially lower in the Midwest, where under one-fifth of renters (19 percent) had cost burdens. Unlike cost burdens for other income groups, cost burdens for middle-income renters vary substantially by region, with cost burdens higher in parts of the country with the highest rents. Cost burdens for lower-income renters earning less than 60 percent of AMI, on the other hand, were universally high, ranging from 76 percent in the Midwest to 84 percent in the West.

Meanwhile, cost burdens for higher-income households were universally low, ranging from 3 percent to 8 percent in those same regions.

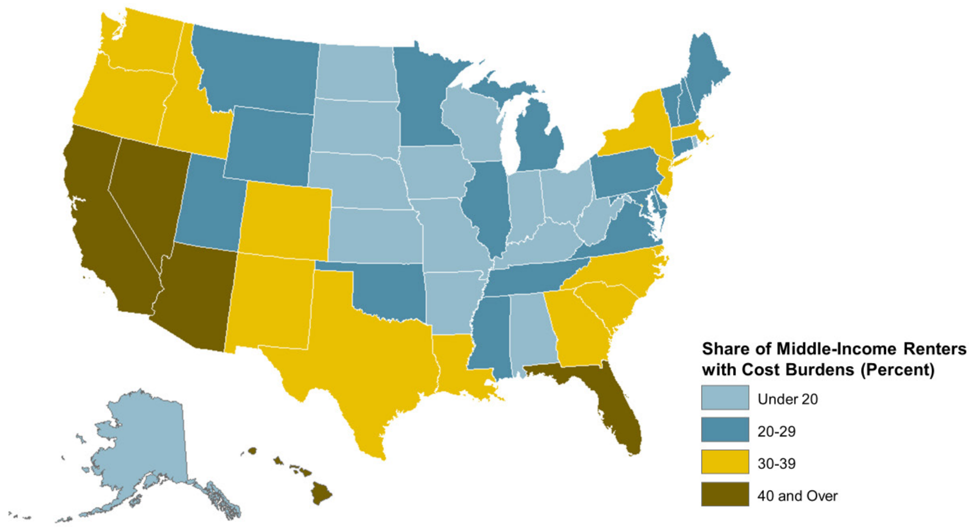
Middle-income renter burdens vary even more by state. The share of middle-income renters with cost burdens ranged from a low of just 6 percent in North Dakota all the way up to 55 percent in Florida **(Figure 5).** More than two in five renters had cost burdens in just five states, with all except Florida located in the West, including Hawaii (50 percent), Nevada (49 percent), California (49 percent), and Arizona (43 percent). More than a third of renters were also cost-burdened in seven additional states plus Washington DC, including Colorado (37 percent), Texas (36 percent), and New York (34 percent). Following the pattern by region, middle-income renter burdens were least common in states in the Midwest **(Figure 6).** Under one-fifth of renters were cost-burdened in fifteen states: nine located in the Midwest, four in the South and one each in the West (Alaska) and Northeast (Rhode Island). Aside from North Dakota, the only state with single-digit middle-income burdens, cost burdens were lowest in Iowa (12 percent), Wisconsin (14 percent), and Nebraska (14 percent), but cost burdens were also modest in Arkansas (15 percent), West Virginia (17 percent), and Alabama (19 percent).

Figure 5: Middle-Income Renter Burdens Vary Widely Across States



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.

Figure 6: Middle-Income Renter Burdens Are Especially High in Florida and the West and Lower in the Midwest

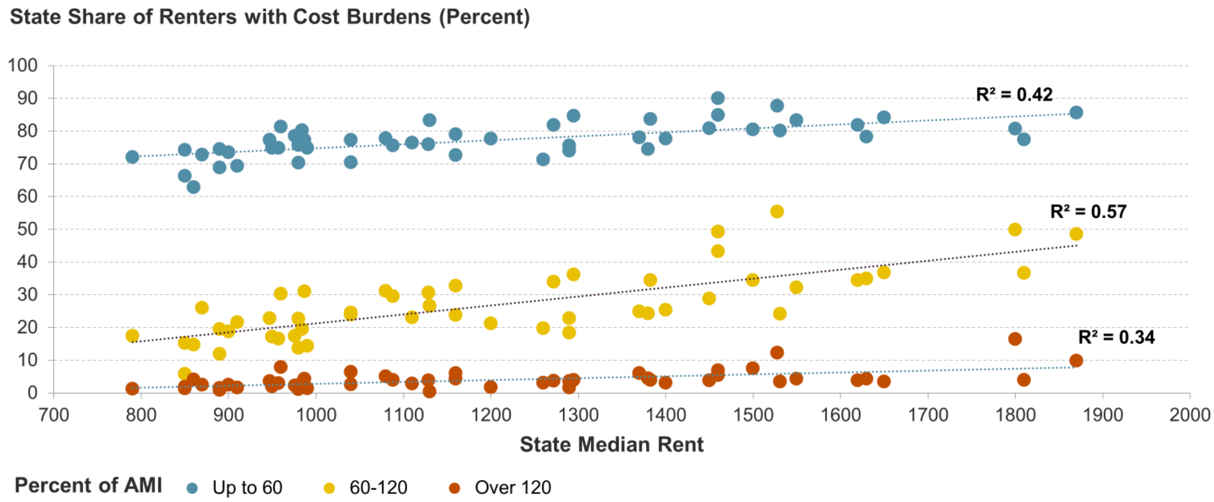


Note: Moderately (severely) cost-burdened households spend 30-50% (more than 50%) of income on rent and utilities.
Source: Author tabulations of US Census Bureau, 2022 American Community Survey 1-Year Estimates.

Middle-income renter burdens vary much more than lower-income and higher-income cost burdens by state. Indeed, housing is unaffordable to large majorities of lower-income renters everywhere. Lower-income renter burdens ranged from 63 percent in South Dakota to 90 percent in Nevada, and more than 70 percent of lower-income renters were cost-burdened in 46 of 50 states plus Washington, DC.

For middle-income renters in particular, differences in housing costs go a long way in determining relative affordability. The median rent in the US including utilities was $1,300 in 2022, with the median rent by state varying from $790 in West Virginia up to $1,870 in California. The share of renters with cost burdens increased markedly with the state median rent, but this relationship is strongest for middle-income households **(Figure 7).** Indeed, 57 percent of the variation in middle-income cost burdens is explained by differences in the median rent across states. By comparison, 42 percent of the variation in lower-income cost burdens and just 34 percent of the variation in higher-income cost burdens is explained by differences in the state median rent. Lower-income and higher-income burdens are not as well explained by differences in rent because they’re generally high and low, regardless of the rental market conditions in a given state.

Figure 7: Middle-Income Renter Burdens Increase with State Median Rents



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 Lower- and Middle-Income Renters with Cost Burdens

Understanding the characteristics of middle-income renters, including those with cost burdens, is important when considering who would most likely apply for and be served by middle-income housing programs as well as what inequities might be perpetuated through these programs. **Table 2** shows detailed demographic characteristics of renter households, sorted by area median income, including for renter households with cost burdens. Mirroring the demographics of middle-income renters overall, those with cost burdens have fewer economic vulnerabilities than their lower-income counterparts.

As compared to lower-income households, middle-income households have greater earning potential. About one-third of middle-income renter households were headed by someone with a bachelor's degree, twice the rate of lower-income renter households (17 percent). An even higher share of middle-income renters with burdens—fully 41 percent—have a bachelor's degree. Moreover, middle-income renter households are more likely to be headed by someone in their peak earning years and less likely to be headed by an older adult. Indeed, 37 percent of middle-income households are headed by someone age 35-54, compared with 30 percent of lower-income households. Middle-income households were also more likely to be headed by a younger adult under age 35 (40 percent) compared with lower-income renters (32 percent). Instead, middle-income households were headed by an older adult age 65 and older at half the rate of lower-income renter households, 12 percent versus 23 percent.

With fewer older adults, disabilities that can make it challenging to secure or maintain employment are less common among middle-income households (13 percent are headed by a person with disabilities) than lower-income households (28 percent). Likewise, middle-income renter households with cost burdens were also more likely to be headed by someone in their peak earning years and less likely to be headed by someone with a disability.

The structure of middle-income households also contributes to their moderate incomes, reflecting in part the higher number of adults who can potentially earn income. Lower-income households are far more likely to be smaller, single-person or single-parent households. Just over a third of middle-income renter households consist of one person, substantially lower than the 49 percent of lower-income households that are single-person. Middle-income renters are more likely to be married (28 percent) than lower-income households (16 percent). Despite having a higher share of married couples, middle-income households are about as likely to have children (26 percent) as lower-income households (27 percent), in part because single parenthood is more common among lower-income households (19 percent versus 12 percent).

In terms of household composition, however, middle-income renters with cost burdens more closely resemble their lower-income counterparts. Because single-person households have relatively high cost burden rates, given their more limited earning potential, 42 percent of middle-income renters with burdens had a single person, while 49 percent of burdened lower-income households were single-person. Smaller shares of middle-income renter households with burdens, from 10 to 13 percent, were married with or without children, single-parent, or consisted of "other family" members. Fully 22 percent of middle-income renters with cost burdens had children under age 18 in the household, lower than the 28 percent of burdened lower-income households

Because of systemic racism and discrimination that limit education and job opportunities for Black people while privileging white people, middle-income renter households are disproportionately headed by a non-Hispanic white person. As a result, middle-income housing policies and programs would target renter households more likely to be headed by a white person and less likely to be headed by a Black person. Indeed, the share of Black households was much lower among middle-income renters (17 percent) compared to lower-income renters (24 percent). Meanwhile, just over half of middle-income renters (51 percent) were headed by a white person, compared to 45 percent of lower-income households. Both middle- and lower-income households were headed by a similar share of Hispanic (21 percent versus 22 percent, respectively) and Asian (5 percent versus 4 percent, respectively) people.

Table 2. Renter Household Characteristics by Area Median Income

Household Characteristic	All Renter Households				Renters with Cost Burdens			
	Up to 60%	60-120%	Over 120%	All Renters	Up to 60%	60-120%	Over 120%	All Renters
<u>**Median (Dollars)**</u>								
Household Income	21,000	63,000	130,000	47,000	20,000	57,000	107,000	26,700
Gross Rent	1,067	1,380	1,800	1,300	1,170	1,856	3,420	1,350
<u>**Column Share (Percent)**</u>								
Household Type								
Married No Children	7	14	24	13	7	13	22	9
Married with Children	9	14	14	11	9	11	11	9
Single-Parent	19	12	6	14	20	12	5	18
Other Family	9	11	10	10	8	10	7	9
Single-Person	49	35	26	40	49	42	39	47
Other Non-Family	8	14	20	12	8	13	17	9
Household with Children	27	26	20	25	28	22	16	27
Bachelor's Degree	17	34	56	31	19	41	68	24
Disability	28	13	9	20	27	13	14	24
Age								
Under 35	32	40	37	35	34	41	34	36
35-44	17	21	23	20	18	20	19	18
45-54	13	15	18	15	13	14	15	13
55-64	14	12	12	13	14	11	11	13
65 and Over	23	12	10	17	21	13	21	20
Race/Ethnicity								
White	45	51	58	50	43	51	65	45
Black	24	17	12	19	24	17	8	22
Hispanic	22	21	16	20	23	22	15	22
Asian	4	5	8	5	5	5	7	5
Another Race	6	5	5	6	6	6	5	6
Region								
Northeast	20	17	19	19	20	16	18	19
Midwest	21	19	15	19	20	11	7	18
South	36	38	37	37	37	40	35	37
West	23	25	29	25	24	33	39	26

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

Among households with cost burdens, middle-income renters are disproportionately white, in line with the overall distribution of middle-income renters. Just over half of middle-income renters with cost burdens (51 percent) were headed by a white person, 22 percent by a Hispanic person, and 17 percent by a Black person. By comparison, 43 percent of lower-income renters with cost burdens were headed by a white person, followed by 24 percent of households headed by a Black person and 23 percent headed by a Hispanic person.

Employment Status of Lower- and Middle-Income Renters with Cost Burdens

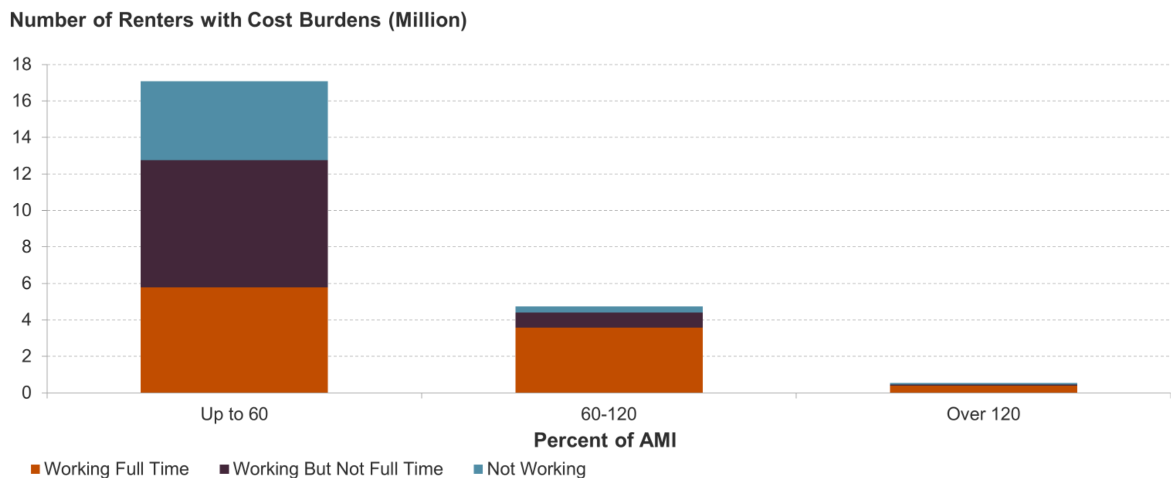
Numerous state and local middle-income housing programs have been created in recent years with the explicit intent to address the affordability challenges of households in the workforce. These programs suggest that working adults should be able to afford to live in the communities where they work. Employment, as these programs suggest, including full-time employment in a range of occupations, does not ensure renter households can find affordable housing. However, those affordability challenges are even more pronounced and pervasive for lower-income renter households in the workforce than for middle-income renter households. There are also a large number of renters who cannot work due to health or disability, retirement, or caregiving responsibilities and would therefore have extremely low incomes or none at all. Middle-income housing programs targeting households earning 60-120 percent of AMI would bypass many of these households.

Working full time does not guarantee the acquisition of affordable housing, especially at lower levels of income. Indeed, fully 79 percent of lower-income renters with at least one adult working full time were cost-burdened, only 2 percentage points lower than the cost burden rate for lower-income renter households without a full-time worker. Working full time mattered significantly more for middle-income households, but even then it was not a perfect predictor of affordability. About one-third of middle-income renters with someone working full time in the household (31 percent) had cost burdens in 2022, compared to a 42 percent cost-burden rate for middle-income renters without someone working full time.

The relatively high cost-burden rate among renters working full time spans a range of occupations, including for middle-income renter households. Indeed, between about one-fifth and one-third of middle-income renter households with someone working full time in construction (24 percent), transportation (24 percent), food preparation (29 percent), office and administrative support (31 percent), sales (31 percent), education or library services (32 percent), business (34 percent), and personal care and service (34 percent) were housing cost-burdened in 2022. At the same time, more than three-quarters of lower-income households in all these occupations had cost burdens.

Because of their number and higher cost-burden rates, lower-income renters represent a substantial majority of cost-burdened renters who work full time. Indeed, among the 9.8 million renters working full time with cost burdens, there were a larger number of lower-income renter households (5.8 million) than middle-income renter households (3.6 million) who spent more than 30 percent of their income on housing despite someone working full time in the household **(Figure 8).**

Figure 8: Most Employed Renters Facing Affordability Challenges Are Lower-Income



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

Closing Affordability Gaps

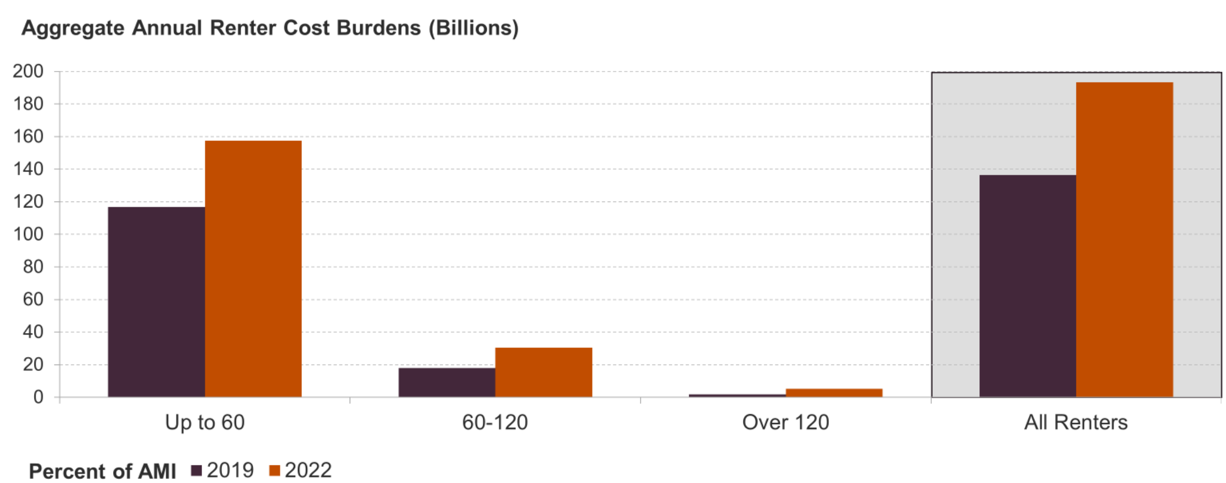
All renter households with cost burdens needed an addition $16 billion each month—or $193 billion annually—for their housing costs to equal exactly 30 percent of their household income. In other words, by this crude estimate, it would have taken exactly that sum to close all affordability gaps for cost-burdened renter households in 2022, up an astounding 43 percent or nearly $57 billion since 2019 **(Figure 9).**

Because middle-income renters are fewer in number and much less likely to experience cost burdens, and because those with burdens tend to have relatively modest needs on average, closing affordability gaps for them would require a much smaller investment than would be needed to close the gap for lower-income renters. Indeed, it would take a cost-burdened middle-income renter a median of

$330 per month in income (or $3,960 per year) to become unburdened by housing costs.[28] Meanwhile, it would take nearly twice as much, or $600 per month ($7,200 per year), for the median lower-income renter with burdens to become unburdened.

As a result, the aggregate affordability challenges of middle-income renters are relatively modest compared to those of lower-income renters. Of the $193 billion annual affordability gap in 2022, lower-income households needed $158 billion, or 82 percent of the gap, while middle-income households needed $31 billion, or 16 percent of the total. But affordability gaps have widened substantially in recent years as the number of cost-burdened renters reaches record highs and a growing share of renters are severely burdened. Indeed, aggregate affordability gaps increased by 35 percent or $41 billion for lower-income renters between 2019 and 2022, and by 70 percent or $13 billion for middle-income renters. It's important to note the limitations of this analysis. These are not meant to be precise estimates of the needs of renter households at different levels of income. Instead, these estimates roughly illustrate the size of the affordability gap by household income and its growth in recent years to suggest the much larger aggregate affordability challenges of lower-income renter households.

Figure 9: Cost Burden Gaps Have Increased Significantly Since Before the Pandemic, Especially for Middle-Income Renters



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.

[28] Please note an earlier version of this paper incorrectly stated that $600 per month median income is needed.

Discussion

The inventory of middle-income housing programs reveals that many of these programs are targeted to the 60-120 percent AMI band. While some programs are explicitly motivated by a need to affordably house people in specific occupations, workforce participation or occupation is very rarely included in the eligibility criteria. The broader initial scan of policies uncovered programs with a range of goals, from creating mixed-income housing developments to increasing access to homeownership. But even within the programs we included that explicitly subsidize middle-income renters, there is variation in the purpose of these policies. Some are production programs focused on underserved markets like rural areas, while others seek to increase the affordable supply in popular tourist areas or places with high demand. The program inventory also shows the variety of strategies that places are using to subsidize middle-income households, including distributing grants, exercising their bonding authority, creating tax exemptions, or dedicating public land. Each of these strategies puts finite resources toward helping middle-income households in places where the lowest-income households have the greatest affordability challenges.

In our analysis of middle-income households, we find that these programs disproportionately target people with fewer economic vulnerabilities. Middle-income renters, even those who are cost-burdened, are less likely to be people of color due to systemic factors that privilege white people and afford them greater educational and job opportunities that result in higher incomes. These households are also more likely to be in their prime earning years, with multiple potential income earners and with higher levels of educational attainment. Middle-income households are less likely to be headed by a person with disabilities or to have children in the household. All of these characteristics mean that middle-income households have several advantages over lower-income households. While the cycle of poverty can be difficult to break without policy intervention, middle-income households have distinct characteristics that could provide economic mobility to a greater degree than lower-income households.

For middle-income households, cost burdens are less common, less severe, and may be more likely to result from choice in housing consumption rather than purely from financial constraints. The cost burden rate for middle-income renters is substantially lower than for lower-income households, and the majority of middle-income burdens are moderate rather than severe. As a result of their higher incomes and the lower share of income spent on rent, middle-income households have much more left after paying rent each month. Indeed, middle-income renters with cost burdens had a residual income of $3,000, compared to a meager $600 for burdened lower-income renters. According to the Economic Policy Institute's Family Budget Calculator, the non-housing expenses for a two-adult household are about $4,000 on average to attain a modest but adequate standard of living.[29] While $3,000 would cover the majority of the non-housing expenses, $600 would cover a mere fraction of the household budget needed for a household of any size. It's therefore possible that some middle-income renters choose, rather than are forced to select, housing characteristics that consume a greater percentage of their income, and that the tradeoffs they must make as a result of cost burdens are less significant than the tradeoffs lower-income households must make. Higher housing costs may limit middle-income households' ability to build long-term savings for emergencies, retirement, or a down payment, straining their ability to reach full financial stability. Low-income households, however, may be making more vital tradeoffs, spending less on food or healthcare and putting basic well-being out of reach.

The availability and geography of housing affordable to middle-income renters also speaks to the less severe challenge these households face. The National Low Income Housing Coalition has found that the shortage of affordable, available rental units is entirely among households making no more than 50 percent of area median income. The affordable supply for middle-income renters is restricted primarily by the lack of affordability at the low end that forces lower-income households to occupy units affordable to middle-income renters and by the potential mismatch in the suitability and location of affordable units against where middle-income households need them. It may be this mismatch as well as pressure from higher-income renters that leads to higher cost burden rates for middle-income renters in the West and in Florida, while rates are generally low in Midwestern and Southern states. However, lower-income renters face high cost-burden rates in every market across the country, and it is unclear whether building more middle-income housing would relieve enough pressure to substantially and quickly improve cost burdens for the lowest-income renters.

Finally, our findings highlight the need to retire the term "workforce housing." People work up and down the income spectrum, with three-quarters of lower-income households working, including one-third working full time. The majority of those who do not work are older adults or people with disabilities. Why lower-income households are less deserving or less essential to the communities in which they live is unclear. The term "workforce housing" can be used to make affordable housing more palatable or to build political support for these policies, but in the process, the term further marginalizes and stigmatizes lower-income households and the crucial housing programs that serve them. Moreover, hotly contested "workforce" housing developments in communities across the country illustrate that use of a more palatable term will not be enough to overcome deeply held NIMBY attitudes. Reforming

[29] Non-housing budget items in the Family Budget Calculate include estimates for spending on food, child care, transportation, health care, taxes, and other necessities.

the processes and regulatory environments that restrict development may be a more fruitful avenue than using imprecise terminology that disparages lower-income households.

Policy Implications and Conclusion

There has been significant momentum in recent years for middle-income housing programs as housing unaffordability has crept up the income scale. The proliferation of these policies makes understanding their tradeoffs and whom they serve increasingly important. Our analysis shows that middle-income renters are far more likely than their lower-income counterparts to identify as non-Hispanic white, are younger, and are more likely to be college educated and less likely to have a disability. As a result, policies designed for middle-income renters will disproportionately benefit these groups and systemically reinforce existing racial and socioeconomic inequities. Thus, state and local governments must evaluate whether middle-income housing subsidies are right for their area so those with the greatest affordability needs are served adequately. Only in places where the middle-income market is truly underserved and where its needs cannot be met without incentive should these programs be considered.

Still, on the one hand, middle-income housing subsidies could solve at a relatively modest cost the affordability challenges of millions of renter households who are increasingly squeezed financially. As the extent of housing affordability struggles has grown substantially over the last two decades, and even more sharply between 2019 and 2022, the cost of addressing these issues has also increased. Should this trend persist in the future, the associated costs will only continue to grow, highlighting the advantage of tackling these problems now. Another potential benefit from middle-income targeting policy is that growing the supply of housing affordable to middle-income renters would relieve pressure in the rental market generally, potentially freeing up more units for lower-income households. Finally, relieving housing cost pressure for middle-income renters would give these households more freedom to save for retirement or a down payment, pay off education or medical debts, or spend more on everyday necessities such as childcare and healthy food, improving their well-being and boosting local economies.

On the other hand, low-income renters are much further from achieving a comfortable standard of living than middle-income households. These households are forced to make much more significant tradeoffs to cover housing costs each month, such as living in substandard housing or in communities far from their place of work. Saving for homeownership, retirement, or other important future financial endeavors is nearly impossible, particularly for cost-burdened lower-income renters who have just a few hundred dollars left over after covering monthly housing costs. In the current policy environment with limited resources for housing subsidies, there remains an important question of whether any funds and attention should be diverted away from lower-income renters with far more substantial affordability concerns.

It is imperative that existing funding to lower-income housing subsidies is preserved as more attention is called to affordability struggles climbing the income scale. Middle-income housing programs should only ever complement existing policies supporting lower-income renters, and never replace them. Moreover, these policies must be thoughtfully targeted in places where the market truly does not serve middle-income households without incentive or subsidy. Should these programs be deemed absolutely necessary in particularly strained, high-cost markets, then middle-income programs should be specifically targeted toward the lower-end of the middle-income group (perhaps less than 100 percent AMI) where affordability needs are greatest. Serving a range of incomes while offering preference to lower-income households would allow for resources to be redistributed easily as needs change. Additionally, it's important for mandatory affordability periods to be long enough to make the subsidy investment worthwhile, but not so long that they disincentivize or preclude investment altogether. Indeed, the best option may be public ownership of these affordable units, which would perpetually preserve the affordability of units by removing profit as a motivation. Finally, any sort of program aimed at creating housing to serve middle-income renters should be periodically evaluated to determine its effectiveness and ensure the intended effects are unfolding.

In seeking to increase the housing supply and affordable housing types for middle-income renters, states and cities may want to explore methods more cost-effective than direct subsidy. Liberalizing local zoning ordinances, particularly in areas that allow only single-family homes, can encourage a broader range of housing types like small multifamily buildings, ADUs, or manufactured homes, and can make it easier to increase the overall stock. Expedited permit processes, relief from some environmental or community review requirements, reduced parking mandates, or density bonuses for projects that hit a specified affordability level could also encourage development that benefits middle-income renters. These strategies can reduce the overall cost per unit, creating affordability in housing markets without dedicating financial resources or diverting funding away from lower-income households.

Appendix

Appendix A. Middle-Income Housing Program Descriptions

Location	Program Name	Description
Florida	Missing Middle Property Tax Exemption	Part of the Live Local Act, which encourages middle-income housing development through zoning and permitting changes, this property tax exemption encourages property owners of new or recent construction to provide low- and middle-income housing.[30] Owners can receive a property tax exemption if they set aside at least 70 units for affordable housing: a 100% property tax exemption for units occupied by renters earning up to 80% AMI or a 75% exemption for units occupied by renters earning between 81% and 120% AMI. Owners must re-certify every year and commit to keeping their units affordable for at least 3 years.[31]
Georgia	Rural Workforce Housing Initiative	The Rural Workforce Housing Initiative is part of the OneGeorgia Equity Fund, which focuses on rural counties. The program provides land and infrastructure development grants to local governments to facilitate the development of for-sale homes or rental housing affordable to MI households. Also provides loans to developers for the construction of for-sale single-family homes. Local government recipients demonstrate a need for middle-income housing, workers, or housing in general, and set guidelines for move-in themselves.[32]
Michigan	Missing Middle Housing Program	The state housing development authority provides grants for labor and material costs to developers for the construction and rehabilitation of properties for MI households. At least 30% of the $110 million allocated will go to projects in rural areas. The program uses ARP funds and includes subsidies for both rental and for-sale units.[33] As of September 2023, when the last funding round was awarded, 48 subsidies had been awarded totaling $83.5 million.[34]
Breckenridge, CO	Workforce Housing Five-Year Blueprint	The Town of Breckenridge has partnered with Summit County and private developers to increase supply of housing affordable to low- and moderate-income households and recently approved a Workforce Housing Five-Year Blueprint, committing $50 million to workforce housing programs.[35] Of the 18 projects completed, four are targeted to middle-income renters, totaling 131 units.[36] The majority of developments are owner-occupied, with some income-restricted at various levels of AMI, some targeted at certain AMI levels, and others set at market rate. Similarly, the four middle-income rental developments have a range of restrictions. Three are income-restricted at middle-income range, and the fourth does not have an income limit. All four require renters to work at least 30 hours per week in the county.

[30] Florida Housing Coalition, "The Live Local Act - Summary of the Bill."
[31] Florida Housing Finance Corporation, "Multifamily Middle Market Certification."
[32] Georgia Department of Community Affairs, "Equity Fund - Rural Workforce Housing Initiative."
[33] Michigan State Housing Development Authority, "Missing Middle Housing Program."
[34] Michigan State Housing Development Authority, "Missing Middle Priority List Based on Receipt & Application Completeness."
[35] Town of Breckenridge, "Workforce Housing Five-Year Blueprint."
[36] Town of Breckenridge, "Breckenridge Local Neighborhoods."

Appendix A. Middle-Income Housing Program Descriptions (Continued)

Location	Program Name	Description
Colorado	Middle-Income Housing Authority	The Middle-Income Housing Authority (MIHA) is currently administered as a pilot program with the goal to select up to 3,500 proposed middle-income units for bond financing. Eighty percent of the units must be new construction. MIHA will support middle-income workforce housing by providing financing opportunities for rental units targeting MI households. The primary tools offered by MIHA include issuing bonds to finance middle-income housing development and entering public-private partnerships to develop and operate middle-income housing.[37]
Rhode Island	Middle Income Loan Program	The Middle Income Loan Program provides below-market rate 30-year loans to developers with "innovative" proposals for housing construction affordable to MI renters or homeowners. Both for-profit and nonprofit developers can use this financing for either new construction or adaptive reuse projects. For rental housing, at least 20% of units must be reserved and affordable for middle-income households. Middle-income units must be dispersed throughout the development rather than concentrated. The program has committed $20 million in funding through 2024 via several competitive funding rounds.[38] As of September 2023, roughly $12.6 million was still available.
California	CSCDA Workforce Housing Program	The California Statewide Communities Development Authority works with local governments to issue tax-exempt government bonds and acquire market-rate apartment buildings, converting them to income- and rent-restricted units targeting middle-income households. All properties are financed completely with CSCDA-issued bonds, with no equity or other public subsidies required. The city, county, and school district, via a public benefit agreement, receive all surplus revenue when a property is sold or refinanced.
Minnesota	Workforce Housing Development Program	The WHDP is a competitive funding program for cities and towns to develop housing for local employees. Communities can use the funding to produce market-rate rental housing for employees of businesses in the area. Funding is granted as an unsecured, zero-interest, 3-year deferred, forgivable loan. The program targets small-to-medium-sized communities with low rental vacancy rates and demonstrated need for increased housing, as testified by local businesses. The program incentivizes the construction of market-rate developments and has no income requirement for tenants.

[37] Colorado Middle Income Housing Authority, "Colorado Middle-Income Housing Authority (MIHA)."

[38] RIHousing, "State of Rhode Island Middle Income ('MI') Loan Program Description."

Appendix A. Middle-Income Housing Program Descriptions (Continued)

Location	Program Name	Description
Philadelphia, PA	Workforce Housing Credit Enhancement	The WHCE guarantees 25% of construction loans for rental or for-sale developments serving middle-income households, up to $3 million of construction costs. Middle-income housing units are eligible for financing support if they are in Philadelphia and are built on land acquired from one of several public agencies. In 2018-2019, PHDC guaranteed over $2 million in loans, supporting the development of 46 additional units.
Massachusetts	Workforce Housing Initiative	MassHousing provides low-interest-rate loans to developers for new construction (preferred) or adaptive reuse of rental housing with units affordable to MI households. At least 20 percent of units must be affordable to households earning at or below 80% of AMI. Owners are required to certify resident incomes at the time of leasing and every other year. If a household's income exceeds the income limit, the unit will become an unrestricted unit and the next-available unit will become a workforce housing unit. Rent increases are also restricted. As of February 2024, the MassHousing website lists 44 projects with eligible workforce housing units across Massachusetts and an additional 26 projects under construction.
Kansas	Moderate Income Housing Program	The MIH was created using State Housing Trust Fund dollars, now supplemented by ARP funds, and serves cities and counties with populations under 60,000. MIH issues grants and loans that can be used to develop multifamily rental units, single-family homes for purchase, and utility or street extensions to support increased housing. MIH funds can also be used to finance construction, rehabilitation, or down payment/closing costs. Between 2012 and 2021, MIH awarded over $20.7 million to 75 communities across Kansas for a variety of uses.

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