A photograph of three firefighters, two men and one woman, standing in front of a red fire truck. They are all wearing dark blue uniforms with patches and are smiling at the camera. The fire truck has an American flag decal on its side.

The Importance of Affordable Housing for Workforce and Middle-Class Income Households

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Introduction

Housing appreciation, high inflation rates, and the surge in demand relative to supply are factors impacting housing affordability across the U.S. The COVID-19 pandemic has further revealed vulnerabilities in the housing system as it relates to the attainability of home ownership and overall affordability. In the first quarter of 2020, ahead of the pandemic shutting down much of the global economy, median home prices were \$329,000. But since then, prices have dramatically shot up, reaching medians of \$369,800 in the first quarter of 2021 and \$428,700 in 2022.¹ Such drastic increases in prices over a brief period of time has placed significant financial pressure not only on low-income families but also on workforce and middle-class income households. In this report, we will define workforce and middle-class income, look at how cities and communities benefit from having workforce and middle-class income residents, examine challenges and opportunities for this segment of the population, and explore how investors can help through impact investments.

Area Median Income (AMI) describes the midpoint of an area's income distribution, where 50% of households earn above the median figure while 50% earn less than the median. The AMI was introduced into federal housing policy with the Housing Act of 1937, which institutionalized public housing. Today, metropolitan AMI is used to set income limits for most publicly funded affordable housing programs in the U.S.²

What is Workforce and Middle-Class Income?

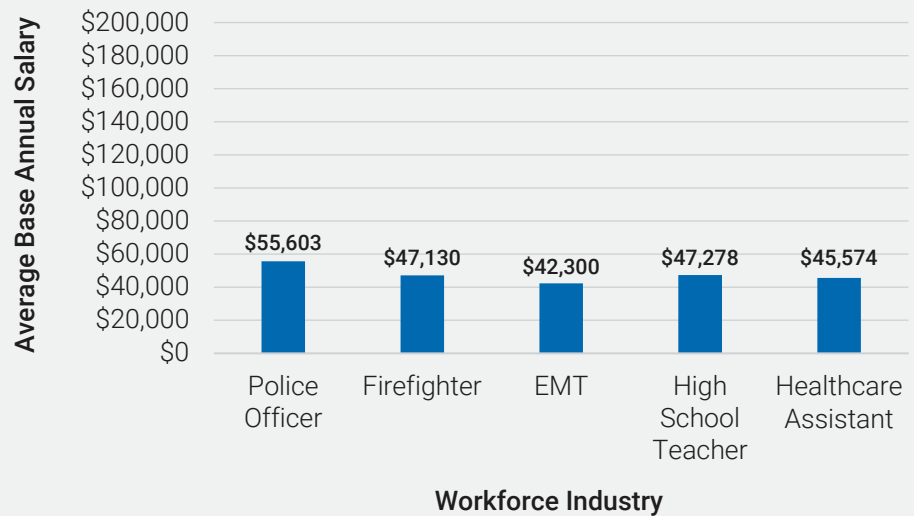
Workforce and middle-class income have varying definitions.

Workforce:

Workforce typically includes middle-income community service workers such as police officers, firefighters, teachers, and healthcare workers. Differing definitions of workforce housing include:

- Housing affordable to households earning between 60% and 120% of area median income (AMI), according to the Urban Land Institute (ULI)
- Housing that is affordable for families whose incomes are within 60% to 140% of the county's AMI as reported by the U.S. Department of Housing and Urban Development (HUD) and adjusted to family size

Average Base Annual Salary Across Various Workforce Industries



Source: Indeed

Seasonal workers may also fall in this category and have a hard time finding affordable housing. Some businesses have looked to work with community partners and find new ways to help its seasonal workers. Sugarloaf Mountain recently purchased an historic hotel nearby to house 40 seasonal staff members. Even posh ski resorts like Aspen and Jackson Hole are looking for ways to make housing affordable for its workers. In Aspen, subsidized housing by the Aspen-Pitkin County Housing Authority, provides affordable housing for year-round, middle-class residents.

Middle Class:

- The Pew Research Center defines the middle class as households that earn between two-thirds and double the median U.S. household income, which was \$65,000 in 2021, according to the U.S. Census Bureau. Using Pew's yardstick, middle income is made up of people who make between \$43,350 and \$130,000, but this does not account for household size or location.³
- The Federal Reserve defines middle income for the Community Reinvestment Act (CRA) as individual income that is at least 80% and less than 120% of the AMI, or a median family income that is at least 80% and less than 120%, in the case of geography.⁴

One of the biggest problems for workforce and middle-class income households is the gap in available housing between luxury, market-rate properties and affordable lower-income housing facilities. Often, working families and young professionals don't qualify for affordable housing because they "make too much" of the local AMI, but they can't afford market-rate or luxury apartments.⁵

For example, the estimated 2021 fiscal year median family income for the Tampa-St. Petersburg-Clearwater, Fla., area is \$72,700, according to the Department of Housing and Urban Development. The 2020 annual mean salary for a postsecondary teacher in the area was \$62,500, according to the Bureau of Labor Statistics.

Bottom line: A high school teacher in Tampa would make 86% of the local AMI – too much to qualify for affordable housing but likely not enough to afford a market-rate apartment.⁶



How Cities and Communities Benefit From Having Workforce and Middle-Class Income Residents

Workforce and middle-income households are often integrated in the area in which they are employed, developing strong interpersonal relationships with customers and members of the community as well as contributing to the economic strength of the area.

Workforce and middle-income households can serve as a foundation for an efficient economy given the jobs they occupy and their purchasing power. They also are integral for disaster recovery as the pandemic showed communities just how critical workforce residents are and why they are imperative in emergency response situations.

Cities can benefit financially from having more middle-class residents. Property taxes make up the largest source of local government revenue for most cities. Cities made up of a few very wealthy residents and many poor residents face difficult choices: imposing high property tax rates may push their most affluent constituents into lower tax suburbs but allowing the quality of public services to deteriorate also threatens stability. When more middle-income residents move into an area, renting or purchasing homes, cities can collect more property tax revenues from a broader cross-section of households. Middle-class residents also hit the sweet spot for consumer spending: They have more disposable income than poor households to spend on groceries, restaurants, movies, and dry cleaners — all locally consumed items. Wealthy households tend to spend a smaller share of their income, so they generate a smaller economic multiplier in their local area.⁷

In the case of workforce residents in the medical field, it can provide an additional benefit to local residents to have these workers living in their area of residence. Medical workers may be able to provide timely medical services in their community without traveling far to work. Without the availability of affordable workforce and middle-income housing, medical workers may have to live at a farther location. In the case of the pandemic, affordable housing and close proximity to work were and still are extremely important.

The World's Growing Middle Class, 2020–2030P

Over the last few decades, the middle class has grown into one of the primary forces sustaining the global economy. In 2020, the global middle class spent \$44 trillion, or 68% of the world's consumer spending. By 2030, middle class households are expected to spend even more, an estimated \$62 trillion or 50% more than in 2020.⁸

Consumer Group	# of People (2020)	# of People (2030P)
Upper Middle Class	0.6 billion	1.0 billion
Lower Middle Class	2.9 billion	3.8 billion
Rest of World	4.2 billion	3.6 billion
Total	7.7 billion	8.4 billion

This growth in spending by middle-class households shows how much of an influence they can have to cities and communities around the world and here in the U.S. now and in the future. Consumer spending is a driving force of the U.S. economy. Affordable housing for this segment of the population is critical as cities clearly benefit financially from having more middle-class residents.

Source: Brookings Institution

Challenges and Opportunities for Workforce and Middle-Class Income Residents

Workforce and middle-class residents face a variety of challenges and opportunities when it comes to affordable housing that differ from low-income residents. While not a comprehensive list, below we describe a few examples.

Challenges:

- Government programs may set income limits that exclude workforce and middle-class households. This may place them in a predicament where their income is too high to be considered low income but outside of the range of where housing is comfortably affordable.
- Housing stress on middle-income families is most acute in expensive metropolitan areas where regulatory barriers have driven up costs and restricted new development.¹⁰
- Municipal and zoning limits on properties may limit the availability of affordable housing for workforce and middle-class income residents and the number of residents living in each unit.
- The absence of affordable housing can lead to urban sprawl and increased traffic. It can detract talent from moving because of housing costs and commuting hardships. The absence of a balance of affordable workforce and middle-income housing can have a negative economic impact with lower tax revenue being produced from geographic areas.

Opportunities:

- Some non-profits are looking at ways to help build affordable housing for middle-class residents. One example is Summit Habitat for Humanity, which broke ground earlier this year on a workforce housing project intended to help local police officers, firefighters, and teachers find affordable homes to purchase.¹¹
- Corporations are also looking at ways to help middle-income residents. In 2019, Google launched a \$1 billion effort addressing the Bay Area's severe housing shortage by adding 20,000 homes. Earlier this year, Google announced it had distributed \$128 million in loans to help 18 organizations create around 4,700 new homes for low- and middle-income residents.¹²
- While most of HUD's subsidies target low- and moderate-income (LMI) families regardless of occupation, the agency's "Good Neighbor Next Door" offers discounted home prices to teachers, police, firefighters, and emergency medical technicians in designated "revitalization areas."¹³ HUD offers a substantial incentive in the form of a discount of 50% from the list price of the home. In return, an eligible buyer must commit to live in the property for 36 months as their principal residence.¹⁴

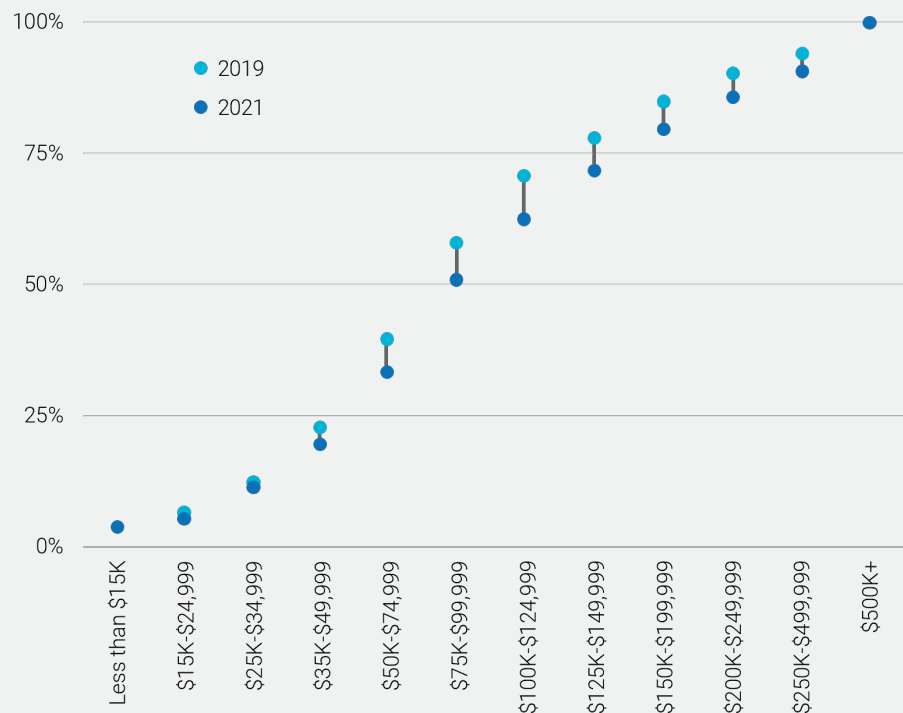


- Developers are innovating new approaches to building workforce housing. Mixed-income developments—which combine market-rate and middle-class units under the same roof—are becoming more common. There’s no difference in units besides the price of rent, and developers can still use Low Income Housing Tax Credits so long as total rents average out to 60% of the AMI or less. Also, some affordable housing developers are using modular building as a way to meet demand. The efficient and cost-effective process involves constructing panels off-site and shipping them to the project’s location where a team assembles to form the structure’s skeleton.¹⁵
- The Middle-Income Housing Tax Credit (MIHTC) is a proposal to establish a public/private partnership that leverages federal dollars with private investment to produce rental housing affordable to our nation’s workforce. Designed to complement the successful Low-Income Housing Tax Credit (LIHTC), the MIHTC program would enable state housing agencies to issue credit allocations to developers that would subsequently be sold to investors.¹⁶

How the Pandemic Priced Out Many Middle Class Income Households

The pandemic turbocharged the housing market as buyers sought to take advantage of low mortgage rates and move into bigger houses. But the supply of homes for sale, which was already unusually low before the pandemic, plummeted. Home-building activity slowed and many potential sellers delayed their moves or were reluctant to sell. Americans in the middle-class income levels experienced significant declines in buying power. The chart below shows the share of listings that were affordable, by income bracket from 2019 to 2021.⁹

Share of listings that are affordable, by income bracket



Note: Inventory as of December of each year

Source: National Association of Realtors

How Investors Can Help Through Impact Investments

Finding impact investments supporting workforce and middle-class income families is not as easy as finding those supporting LMI families, but opportunities are available. We anticipate more investment offerings targeting this population to be introduced over the next few years. We have included a few examples of impact investments helping workforce and middle-class income people and communities.

- **Community Development Financial Institutions (CDFIs):** Some CDFI programs may include support for workforce housing.
- **Impact Bond Funds:** Impact bond funds can target various income levels in addition to workforce housing efforts across the country.
- **Real Estate Investment Trusts (REITs):** REITs and real estate exchange-traded funds (ETFs) can focus on affordable housing projects that diversify income and occupational status within communities.
- **Impact Housing Funds:** Real estate investment firms offer funds that invest in mixed-income and workforce housing in targeted areas of the country.
- **Private Equity:** Private equity funds can focus on creating and/or preserving housing that is affordable to the local workforce.

How CCM's Investments Support Workforce and Middle-Class Income Households

While much of our work at CCM focuses on investments benefiting LMI people and communities, we have made investments supporting workforce and middle-class income households. One example is a taxable municipal bond financing the construction, acquisition, and preservation of housing affordable to low-, moderate-, and middle-income households through programs that will prioritize vulnerable populations such as San Francisco's working families, veterans, seniors, and disabled persons. Highlights of the use-of-proceeds include:

- Assisting in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents.
- Repairing and reconstructing dilapidated public housing.
- Funding a middle-income rental program
- Providing homeownership down payment assistance opportunities for educators and middle-income households.





Conclusion

Many American families face housing affordability challenges, and the pandemic further exacerbated housing insecurity. While LMI households are typically the most vulnerable to housing affordability, workforce and middle-class income households are also having a hard time finding affordable housing that is commensurate with salaries. The gap in available housing between market-rate properties and affordable lower-income properties is a huge problem. As discussed in this report, workforce and middle-income households can serve as a foundation for an efficient economy given the jobs they occupy and their purchasing power. Hopefully, the number of impact investments will continue to expand over time to support affordable housing for workforce and middle-class income households and perhaps tax subsidies may change over time to encourage the production and development of middle-class income housing. Affordable housing to various income levels is critical, especially as housing is increasingly difficult to afford.

About CCM

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¹ <https://thehill.com/policy/finance/3478213-rising-home-prices-a-timeline/>

² <https://www.planetizen.com/definition/area-median-income-ami>

³ <https://www.investopedia.com/financial-edge/0912/which-income-class-are-you.aspx#:~:text=The%20Pew%20Research%20Center%20defines,make%20between%20%2443%2C350%20and%20%24130%2C000>

⁴ https://www.federalreserve.gov/consumerscommunities/cra_resources.htm

⁵ <https://www.jpmorgan.com/commercial-banking/insights/more-workforce-housing-needed-in-central-us>

⁶ <https://www.jpmorgan.com/commercial-banking/insights/more-workforce-housing-needed-in-central-us>

⁷ <https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/>

⁸ <https://elements.visualcapitalist.com/the-worlds-growing-middle-class-2020-2030/>

⁹ <https://www.wsj.com/articles/in-covid-19-housing-market-the-middle-class-is-getting-priced-out-11644246000>

¹⁰ <https://www.brookings.edu/policy2020/votervital/how-are-communities-making-housing-more-affordable-for-middle-income-families/>

¹¹ <https://www.cpr.org/2022/03/31/a-summit-county-nonprofit-is-building-affordable-housing-for-middle-class-residents-of-park-county/>

¹² <https://www.siliconvalley.com/2022/07/27/google-distributes-128-million-in-loans-to-create-affordable-housing/>

¹³ <https://www.brookings.edu/policy2020/votervital/how-are-communities-making-housing-more-affordable-for-middle-income-families/>

¹⁴ https://www.hud.gov/program_offices/housing/sfh/reo/goodn/gnndabot

¹⁵ <https://www.jpmorgan.com/commercial-banking/insights/more-workforce-housing-needed-in-central-us>

¹⁶ <https://www.nmhc.org/advocacy/issue-fact-sheet/middle-income-housing-tax-credit-fact-sheet/>

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