DEMAND FOR WORKFORCE HOUSING

DEFINING WORKFORCE HOUSING

The combination of relatively stagnant wage growth and an 18% increase in effective rents nationwide from fourth quarter 2012 to fourth quarter 2017 has put pressure on the supply of multifamily rental units that fall within the affordable range for workforce housing tenants.

The definition of "workforce housing" is fluid with a range of target income groups depending upon the source. Fannie Mae and Freddie Mac define this market segment as housing with "rental rates that are generally affordable to people making less than 100% of area median income (AMI)." Fannie and Freddie's caveat is that in major metros, "the imperfect methodology to define workforce housing in these high and very high cost markets is to simply adjust the AMI threshold to 120% and 150% respectively." The Urban Land Institute (ULI) defines workforce housing as ranging from 60% to 120% of AMI and for other housing experts, the range is defined as 80% to 140% of AMI.

SUPPLY DEFICIT FOUND IN SELECT SOUTHEAST MARKETS

Generally, the accepted standard of affordability is that a household pays no more than 30% of its gross income towards rent. There is some leeway in this definition to include those who are paying 40% of their gross income without considering them to be severely cost-burdened. In this article, we used one-bedroom maximum allowable gross rents ranging from 60% AMI to 140% AMI to provide a highly-approximated, ballpark estimate of how select Southeast markets fare in terms of providing workforce housing that is considered affordable to this target demographic. We make the assumption that given the low range of incomes, there are no more than two persons in each household and therefore, one-bedroom unit rents in the market are good indicators.

Market	Maximum Allowable Income 60% AMI (Low End of Range)	Maximum Allowable Income 140% AMI (High End of Range)	Maximum Allowable Gross Rents for 60% to 140% AMI	Applicable Household Demand*	Rent-Eligible Unit Supply**	Affordable Unit Deficit
Atlanta, GA	$29,280	$40,992	$837 - $1,953	202,881	122,528	80,353
Birmingham, AL	$26,520	$37,128	$757 - $1,767	48,232	9,852	38,380
Charlotte, NC	$29,700	$41,580	$849 - $1,981	129,073	42,136	86,937
Jackson, MS	$26,160	$36,624	$747 - $1,743	22,840	8,896	13,944
Louisville, KY	$27,900	$39,060	$798 - $1,862	51,820	3,334	48,486
Memphis, TN	$25,200	$35,280	$720 - $1,680	55,863	14,369	41,494
Nashville, TN	$28,860	$40,404	$825 - $1,925	100,844	37,626	63,218
New Orleans, LA	$26,640	$37,296	$760 - $1,774	53,844	16,473	37,371
Savannah, GA	$27,300	$38,220	$780 - $1,820	14,193	5,433	8,760

Source: CoStar, AXIOMetrics, Cushman & Wakefield, Novogradac & Company Rent & Income Limit Calculator, Jan 2018.
Note: Maximum allowable incomes are based upon one-person HHs; Rents are based upon 1BR units and is a conservative estimate as these are gross rents including utilities.
**This is a ballpark approximation based upon number of HHs in closest income cohort that encompasses 60% to 140% AMI range for 1BR units.*
***The number of existing studio and 1BR units in the market with rents that fall within the maximum 60% to 140% AMI gross rent range for 1BR units.*

As the table demonstrates, there is a considerable deficit of studio and one-bedroom units that are considered affordable to workforce households earning between 60% and 140% AMI. This deficit does not indicate that these households do not have available housing; it indicates that these households are likely paying greater than 30% of their income towards rent. With the overall rise in rents, the increase of value-add programs that push older properties up the property food chain, and the influx of predominantly Class A new construction units, the relative supply of units catering to workforce housing tenants is tightening and serves as an opportunity market segment.

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