

Policy Briefings

House Hunters South Florida: Where Will Our Workers Live?

This issue of Policy Briefings provides an expanded view on housing affordability with the intent of broadening the public discussion on how local governments and agencies in South Florida can be more pro-active and innovative in addressing the housing needs of working families and households.

Affordable housing has been a pressing public policy issue in South Florida for nearly a decade. Access to affordable housing limits the choices working families and households have with respect to their jobs, the schools their children can attend and their means of transportation. While the lack of affordable housing is particularly crippling to South Florida's service sector workers which comprise the majority of the workforce, recent studies by the FIU Metropolitan Center have found that housing affordability is also a major concern for young adult professional workers in "creative" occupations such as computer systems and graphic design, the life sciences, education and the arts.

Local governments in South Florida have the ability to create local affordable housing delivery systems that can address the complexities of the current affordable housing challenge in a comprehensive and integrated manner. In fact, a well-conceived local affordable housing delivery system is pro-active and innovative by definition. It can be pro-active through the formulation of policies and strategies that link affordable housing to economic development activities and transportation and land use planning opportunities such as mixed-use and transit-oriented development (TOD). It can be innovative through the creation of program initiatives supporting alternative dedicated funding streams for affordable housing development and "non-funding" mechanisms which can serve as financial incentives to affordable housing developers. By weaving policy, place-based and program strategies together, a local affordable housing delivery system can improve the coordination and integration of existing planning efforts and maximize the leveraging of available resources. The results of these policy actions will be a more sustainable economy and housing market in South Florida supported by working families and households with a greater sense of community attachment and well-being.

Cordially,

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"The cranes are back in South Florida" has been a trending real estate news story in recent months with residential and commercial markets showing significant signs of recovery from the collapse of the housing bubble and subsequent economic recession. Five years have passed and the demand is back again, particularly from foreign investors who are taking advantage of the current supply/demand dynamic offering cash for distressed properties. Investors are targeting the still growing international demand while leasing to tenants who may have lost homes since the start of the recession. The Miami market is particularly poised for a new housing boom. According to a recent report by PricewaterhouseCooper, interest in commercial and industrial space has sparked a new enthusiasm for commercial real estate. The PwC report cites survey results showing significant increases in "investor prospects" for 2013 with Miami's ranking jumping from 17th to 11th and even greater improvement in "development prospects" with the Miami's ranking moving from 26th and "modestly poor" to 11th and "modestly good" this year. The spark in commercial real estate has, in turn, generated significant housing investment with apartment vacancies expected to slip below 3.5 percent soon.

While South Florida's economic recovery is good news, the associated impact of escalating commercial investment in relation to workforce housing demand is the inevitable downside. As reported in several recent FIU Metropolitan Center housing studies, the post-bubble housing market in Miami and South Florida is far more complex than what existed during the height of the residential boom. The studies concluded that increasing levels of affordability for existing

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single-family homes and condominiums brought on by the collapse of the housing bubble has not improved overall housing affordability for existing owners and renters alike. This is due to a number of contributing factors including loss of equity, prolonged job loss, escalating rents and rising transportation costs. In fact, the percentage of cost burdened owner and renter households has continued to increase at the same rates as during the housing bubble. Significantly, the Metropolitan Center study also found that rental housing investment has become highly competitive and lucrative given the supply shortage and growing rental housing demand. A survey of multi-family property listings found intense competition for real estate owned (REO) and “short sale” properties by a wide-range of prospective investors, many whose investment objectives may not align with the production of worker housing.

Cost Burden Owner and Renter Households: Miami-Dade County and City of Miami, 2000-2010

Cost Burden Level	Owner Occupied Units		Renter Occupied Units	
	Miami-Dade	City of Miami	Miami-Dade	City of Miami
30.01 - 50 Percent	102,186	11,991	82,402	22,709
Percent of Total Owners:	20.0%	20.0%	23.0%	22.0%
% Increase 2000-2010	13.1%	21.9%	13.1%	18.7%
50 + Percent	79,511	11,589	88,475	27,186
Percent of Total Renters:	16.0%	20.0%	24.0%	27.0%
% Increase 2000-2010	13.5%	22.1%	13.3%	18.9%
% Cost burdened Occupied Housing	36.0%	40.0%	47.0%	49.0%

Source: U.S. Census, 2000, 2010. Table created by the FIU Metropolitan Center.

A recent study, *Affordability Foreclosed*, prepared by the FIU Metropolitan Center on behalf of the Community Foundation for Palm Beach and Martin Counties found significant changes occurring in the larger housing market that have impacted rental housing supply and demand and overall affordability. The contributing factors and conditions include the lack of housing production, low vacancy rates, home foreclosure activity and depressed household incomes. Rental housing production has not kept pace with increasing rental demand. For the six month period ending with March, 2013 an average of only 52 new rental units were absorbed each month in Miami-Dade County. However, it is estimated there is a demand for about 8,672 apartment units per year in Miami-Dade County during 2013-2016. Likewise, there is estimated annual demand for an additional 5,216 rental apartments in Palm Beach County during this period. As such, rental markets are tightening throughout South Florida and with little new supply of multi-family units in the pipeline rents could continue to rise as demand increases. This finding was substantiated in the Miami Downtown Development Authority’s 2013 *Greater Downtown Miami Real Estate Market Annual Summary Report* which showed the average rental rate increased over 6 percent to \$2,405 per month for the period ending March 31, 2013. Multi-family complexes (100+ units) in Broward and Palm Beach Counties show across the board year-to-year increases in both average occupancies and average rents.

Escalating rent prices fueled by the rental housing shortage are significantly impacting South Florida’s working families and households. The vast preponderance of our workers earn salaries and wages in service sector occupations, including retail trade, leisure and hospitality, and educational and health services. The household

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incomes of these service sector workers limit housing choices to affordable rental housing opportunities, where available. A Metropolitan Center housing study found that 90 percent of renter households in South Florida earning less than \$35,000 and 62 percent of renters earning between \$35,000 and \$49,999 are cost-burdened.

While housing affordability is a growing concern for service sector workers, it has also limited the choices for young professionals in the “creative class” occupations. A recent Metropolitan Center study found that creative class workers, i.e. computer systems designers, life science workers, educators and artists, who are often saddled with significant debt from student loans, are forced to live away from the more expensive employment centers in the downtown areas or have moved to other more affordable locations outside of South Florida.

Worker Housing Demand and Affordability in South Florida, July 2013

	Broward County	Miami-Dade County	Palm Beach County
Annual Median Wage	\$31,970	\$31,013	\$32,427
Annual Household Median Wage	\$63,939	\$62,026	\$64,854
Affordable Home Price*	\$191,818	\$186,077	\$194,563
Current Median Sale Price	\$240,800	\$238,100	\$269,200
Affordability Gap	\$48,982	\$52,023	\$74,637
Affordable Rent**	\$1,598	\$1,551	\$1,621
Current Median Rent List Price	\$1,850	\$2,100	\$1,700
Affordability Gap	\$252	\$549	\$79

Sources: Florida Department of Economic Opportunity, Occupational Employment Salaries & Wages, 2013; Zillow.com. Table and calculations prepared by the FIU Metropolitan Center.

* Estimated affordability based on standard underwriting criteria.

** Estimated affordability based on 30 percent housing cost standard.

The availability of and accessibility to affordable housing has clear and direct policy implications with respect to transportation, land use and economic development. Housing and transportation costs can severely limit a working household’s choice both in terms of housing and job location. While housing alone is traditionally considered affordable when consuming no more than 30 percent of income, the Housing and Transportation Affordability Index limits the combined costs of transportation and housing consuming to no more than 45 percent of household income. According to the H+T Affordability Index, Miami-Dade County’s median monthly housing costs as a percentage of household monthly income is 34.9 percent. However, when transportation costs are combined with housing costs, the percentage of household income increases to 57.9 percent, far above the 45 percent H+T Affordability Index threshold. Clearly, there is a need to broaden the definition of housing affordability to encompass both transportation and housing costs which has significant policy implications with respect to current and future land use, transportation and economic development planning. A more holistic and integrated policy perspective on affordable housing would consider the location, design and quality of housing as well. Housing should provide access to employment and services – healthcare, education, shopping and daycare along with environmental benefits of green building standards. The most controllable and achievable means that local officials have at their disposal to reduce worker housing and transportation costs

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are local policies and strategies aimed at the creation of more location efficient communities characterized by mixed-use, mixed-income transit oriented development.

Policy Direction

The complexity of the “post-bubble” housing market places significant responsibilities on local governments and agencies. Affordable and accessible housing for working families and households is vital to the local economy and contributes greatly to community attachment and well-being. The provision of affordable and accessible housing for working families and households can be effectively accomplished through coordinated and integrated policies at the local level. The policy underpinnings for a more aggressive local housing delivery system include the following:

- 1) Each municipality has a “resident workforce” composed of working families and households whose mobility is integral to the economic strength and character of each community;
- 2) Elected and appointed municipal officials are in need of new and innovative solutions to their local housing needs during a “new normal” where federal and state housing funds have become increasingly scarce and insufficient;
- 3) An effective and sustainable response to worker housing needs requires policies developed and implemented at the municipal and county levels of local government;
- 4) Local affordable housing policies and programs must be performance-driven.

Housing research has shown that local policies can greatly impact the production and preservation of affordable housing. However, to be effective and sustainable local policies must provide a systematic and comprehensive approach to affordable housing delivery. A holistic and integrated affordable housing delivery system would incorporate four interrelated and mutually-supportive drivers. These drivers include: 1) coordinated and integrated policy and management, 2) inclusionary planning and land use, 3) dedicated local funding, and 4) formalized institutional capacity-building.

A local affordable housing delivery system will address two highly relevant and timely housing related issues - economic mobility and funding. South Florida was highly impacted by rising housing costs associated with the housing bubble with working families forced to move long distances from their places of employment to find relatively affordable housing. Many families who stayed in their communities have faced foreclosure activity or have become seriously cost-burdened. A well-conceived housing delivery system can support affordable housing development through policies and strategies that link affordable housing to economic development activities and transportation and land use planning opportunities such as mixed-use and transit-oriented development (TOD). A local affordable housing delivery system can also address the critical policy debate regarding the lack of affordable housing funding. Local governments have seen steady cuts and the elimination of federal and state housing programs in recent years. This trend is likely to continue in the coming years as the federal and many state governments continue to deal with budget deficits while local governments are financially strapped as they cope with substantial revenue loss due to falling property appraisal values and slowed economic development growth. A local affordable housing delivery system could address the affordable

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housing funding issue through the formulation of policies and programs supporting local and alternative dedicated funding streams for affordable housing development and “non-funding” mechanisms as financial incentives for affordable housing development such as land use density and enhanced floor-to-area ratios (FARs).

The future Tri-Rail Coastal Link passenger service along the Florida East Coast railway corridor provides an opportunity for South Florida cities to strategically plan for new workforce housing development within major employment centers and downtowns. The Tri-Rail Coastal Link includes 28 station locations extending from Jupiter in Palm Beach County to the Government Center in downtown Miami. The plan calls for groupings of projects into TOD Districts or station areas. The proposed typologies for “moderate” to “high density” development can support mixed-income, workforce housing.

The opportunities for affordable housing development that will be created by the future Tri-Rail Coastal Link passenger service and other infill development plans in South Florida are significant. Supporting mixed-use developments that incorporate affordable housing in close proximity to high-quality public transit can be a meaningful tool to help working families and households. However, a report by the United States States General Accountability Office (GAO), *Affordable Housing in Transit Oriented Development*, found that higher land and housing values have the potential to limit the availability of affordable housing near transit. The presence of transit stations, retail, and other desirable amenities such as schools and parks generally increases land and housing values nearby. Other factors such as transit routing decisions and local commitment to affordable housing can also affect availability. The report concluded that few local, state, and federal programs are targeted to assisting local housing and transit providers develop affordable housing in TODs.

Through the adoption of well-conceived, affordable housing delivery systems, local governments can formulate strategies for infill development that will target assistance to housing and transit providers in developing mixed-use, mixed income worker housing. In San Francisco, the \$50 million Bay Area Transit-Oriented Affordable Housing (TOAH) Fund provides financing for the development of affordable housing and other vital community services near transit lines throughout the Bay Area. In the Bay Area, households earning \$20,000-\$50,000 spend 63 percent of their household budgets on the combined costs of housing and transportation, the highest percentage in the country. The mission of the Fund is “to promote equitable transit-oriented development (TOD) across the nine-county Bay Area by catalyzing the development of affordable housing, community services, fresh foods markets and other neighborhood assets.” Through the Fund, developers can access flexible, affordable capital to purchase or improve available property near transit lines for the development of affordable housing, retail space and other critical services, such as child care centers, fresh food outlets and health clinics.

The TOAH Fund was made possible through a \$10 million investment from the Metropolitan Transportation Commission. The Low Income Investment Fund is the Fund Manager and an originating lender, along with five other leading community development financial institutions (Corporation for Supportive Housing, Enterprise Community Loan Fund, LISC, Northern California Community Loan Fund, and Opportunity Fund). Additional

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capital for the Fund was provided by Citi Community Capital, Morgan Stanley, the Ford Foundation, Living Cities, and the San Francisco Foundation.

The Urban Land Conservancy (ULC), Enterprise Community Partners, the City and County of Denver and several other investors have partnered to establish the first affordable housing TOD acquisition fund in the country. The purpose of the Denver TOD Fund is to support the creation and preservation of over 1,000 affordable housing units through strategic property acquisition in current and future transit corridors. The Fund has taken advantage of the downturn in the economy when property values are low to invest in real estate around proposed transit stations in order to capitalize on current values and preserve affordable housing before RTD's FasTracks light rail is fully operational. The \$30 million investment is expected to leverage over \$500 million in local economic development activity serving many economically challenged neighborhoods in Metro Denver.

The City of Washington D.C. introduced a mandatory inclusionary zoning law in August of 2009 to advance its affordable housing goals. The law requires residential development, including development near transit, to include affordable housing units. Even before the inclusionary zoning law, the city required affordable housing on land it controlled around Metro stations. Recognizing that the need for transit-accessible affordable housing extends beyond the limits of the city, the Metropolitan Washington Council of Governments' Greater Washington 2050 report lays out a set of regional goals and strategies. This unifying document provides a road map to help guide local government efforts, calling for a focus on affordable housing efforts in Regional Activity Centers, which are dense areas of economic activity and usually include frequent bus and/or rail service. Strategies suggested by the report include density bonuses, fee waivers, inclusionary zoning and innovative financing programs. Building off the 2050 plan, the Metropolitan Washington Council of Governments seeks to create a regional plan that integrates housing, land use, economic and work force development, transportation and infrastructure as part of HUD's Sustainable Communities Regional Planning initiative.

Conclusion

Access to affordable housing continues to be a pressing public policy issue in South Florida. However, as previously noted, the complexity of the post-bubble housing market and its impact on working families and households places significant responsibilities on local governments and agencies. Specifically, local governments will need to be more pro-active and innovative this time around in addressing the housing needs of their resident workforce.

The future Tri-Rail Coastal Link passenger service along the Florida East Coast railway corridor presents a real opportunity for South Florida to strategically plan for workforce housing development. Building mixed-income, mixed-use housing near transit is a key tool to meaningfully address South Florida's affordability issue by tackling housing and transportation costs together while expanding access to jobs, educational opportunities, and prosperity for all income groups. Mixed-income, mixed-use housing provides broader access and opportunity for households across the income spectrum and a stable and reliable base of riders for transit which can help justify further transit improvements. However, in order to achieve these outcomes a series of policy-based, place-based and program-based strategies will need to be formulated in advance. A local affordable

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housing delivery system can provide governments and planning agencies the necessary planning tools and funding mechanisms to achieve these desired outcomes.

Going forward, local governments and housing organizations must continue to pressure state legislators to restore cuts in affordable housing programs and insist that banks get back into the business of community lending. These efforts aside, perhaps the biggest impediment to creating an immediate and more sustainable affordable housing investment is the absence of local affordable housing delivery systems. A local affordable housing delivery system provides the necessary coordination and integration of public policies including housing, economic development, transportation and land use. These policies and strategies can provide the vision and direction for the types of infill development that will surround the future Tri-Rail Coastal Link passenger service and other mixed-use opportunities along the FEC corridor and elsewhere in South Florida. Lastly, an effective local housing delivery system can establish the funding mechanisms, as is the case in San Francisco and Denver, so developers can access flexible, affordable capital to purchase or improve available property near transit lines for the development of affordable housing and other critical services.