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THE INSTITUTE FOR PUBLIC POLICY & ECONOMIC DEVELOPMENT

Housing the Workforce: Creating and Revitalizing Housing for a Growing Region

April 2022

The Institute

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The Institute is a non-profit economic and social innovation research and policy organization dedicated to empowering business and community leaders with research based strategies for informed decision making. We conduct independent, non-biased research to identify the opportunities, issues and challenges unique to the region and to find innovative solutions to help solve the problems facing our communities. The Institute also offers a wide array of research, consulting and support services to help organizations boost productivity, increase profitability and be successful in their missions. The Institute is a partnership of 13 colleges and universities and the business community. The Institute has served clients in a number of states including the federal government.

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Introduction

The region has seen signs of recent population growth, and in order to maintain naturally affordable, achievable housing for working-class and middle-class households, there will likely be a need for new housing and revitalization and/or reimagining of existing housing. This policy-oriented report will further define these needs and explore several methods of providing quality, unsubsidized housing that is affordable to NEPA's working families. This will include federal, state, or nonprofit programs to rehabilitate and return to use aging, blighted, or foreclosed homes, adaptive reuse, land use barriers to new housing construction, and employer-driven interventions.

Regional Housing Cost Profile

Home Values & Sales Volume

According to data collected by Zillow, the average home value has steadily increased from 2017 to 2021 in both counties and Pennsylvania. From 2020 to 2021, the average home value increased by 16 percent in Lackawanna County, 19 percent in Luzerne County, and 8 percent statewide. With lower interest rates and high rates of inflation, home values are expected to continue increasing.

Average Home Values					
	2017	2018	2019	2020	2021
Lackawanna	$125,106	$129,565	$135,174	$138,355	$160,260
Luzerne	$102,842	$109,009	$112,511	$119,891	$142,191
Pennsylvania	$170,958	$179,609	$186,976	$184,063	$199,031

Source: Zillow Home Value Series

For-sale inventory is another indicator of the housing market. The most recent data available was from 2019, but even in pre-pandemic periods, regionally and statewide, for-sale inventory was trending quickly downward, providing further evidence of a tightening housing market.

For-Sale Inventory					
	2015	2016	2017	2018	2019
Lackawanna	1,564	1,252	1,063	1,011	840
Luzerne	2,009	1,974	1,539	1,319	1,161
Pennsylvania	71,511	61,365	54,577	49,451	44,198

Numbers are for the month of December for each year.

Source: Zillow Research

Housing Affordability

This chart illustrates the housing affordability in Luzerne and Lackawanna County, as well as statewide. Median incomes in Lackawanna County and Pennsylvania have steadily increased in the three-year span, but Luzerne County saw a decline in median income of $1,500 in 2019. Pennsylvania experienced a slow increase in median monthly owner costs, while Lackawanna and Luzerne County fluctuated. Lackawanna and Luzerne County had an increase in percentage of income for owner costs from 2017 to 2018, but then declined in 2019. Pennsylvania has had a slow decline in percentage of income for owner costs in the three-year period.

Housing Affordability						
	2010	2015	2016	2017	2018	2019
Lackawanna						
Median Income for Owner Households	$55,817	$60,353	$62,444	$68,053	$66,126	$72,317
Median Monthly Owner Costs	$1,304	$1,259	$1,276	$1,300	$1,273	$1,381
% of Income for Owner Costs	28.0%	25.0%	24.5%	22.9%	23.1%	22.9%
Luzerne						
Median Income for Owner Households	$53,706	$61,948	$61,847	$64,927	$66,528	$65,020
Median Monthly Owner Costs	$1,160	$1,185	$1,187	$1,193	$1,232	$1,138
% of Income for Owner Costs	25.9%	23.0%	23.0%	22.0%	22.2%	21.0%
Pennsylvania						
Median Income for Owner Households	$60,996	$69,281	$70,785	$73,966	$75,309	$78,866
Median Monthly Owner Costs	$1,390	$1,414	$1,416	$1,438	$1,451	$1,477
% of Income for Owner Costs	27.3%	24.5%	24.0%	23.3%	23.1%	22.5%

Monthly Owner Costs (SMOC) includes mortgage payment, real estate taxes, various insurances, utilities, fuels, mobile home costs, and condominium fees. Includes only housing units with a mortgage.

Source: U.S. Census Bureau, American Community Survey

This chart shows the rental affordability for households in the region. Pennsylvania has experienced a gradual increase in medium income for renters, while Luzerne and Lackawanna County incomes have fluctuated over the three-year span. Statewide and in Luzerne County, the median rent steadily increased from 2017-2019, while Lackawanna County median rent increased and then fell in 2019. The percentage of income paid toward rent decreased in Lackawanna County from 2017 to 2018, then rose again in 2019. In Luzerne County, the percentage of income paid toward rent increased from 2017 to 2018, then fell again in 2019. Statewide the percentage of income for rent gradually declined in the three-year span.

Rental Affordability						
	2010	2015	2016	2017	2018	2019
Lackawanna						
Median Income for Renter Households	$28,054	$28,284	$28,559	$28,093	$33,789	$33,364
Median Rent	$664	$761	$720	$771	$797	$792
% of Income for Rent	28.4%	32.3%	30.3%	32.9%	28.3%	28.5%
Luzerne						
Median Income for Renter Households	$22,250	$29,151	$26,410	$33,042	$30,971	$33,425
Median Rent	$617	$746	$701	$749	$789	$810
% of Income for Rent	33.3%	30.7%	31.9%	27.2%	30.6%	29.1%
Pennsylvania						
Median Income for Renter Households	$27,110	$32,141	$34,357	$33,193	$35,600	$37,761
Median Rent	$763	$868	$881	$893	$927	$951
% of Income for Rent	33.8%	32.4%	30.8%	32.3%	31.2%	30.2%

Source: U.S. Census Bureau, American Community Survey

Overall, indicators point to a regional housing market with lower inventory and rising prices. While affordability of homes to the median household had not yet seen a significant drop as of 2019, further price increases observed in 2020 and 2021 likely mean that housing is becoming more difficult to afford for working households. Further, past research by The Institute has demonstrated the existence of a gap in affordability where very low income households cannot afford housing even prior to the pandemic.[i]

Population Trends & the COVID-19 Pandemic

Prior to the COVID-19 pandemic, population growth in Northeastern Pennsylvania had been slow. After a decline between 1990 and 2000, population fell across the region, but rebounded slightly in 2010. Estimates between 2010 and 2019 showed a slightly declining trend, but the 2020 Census registered the largest population in both counties in a decennial census since 1990.

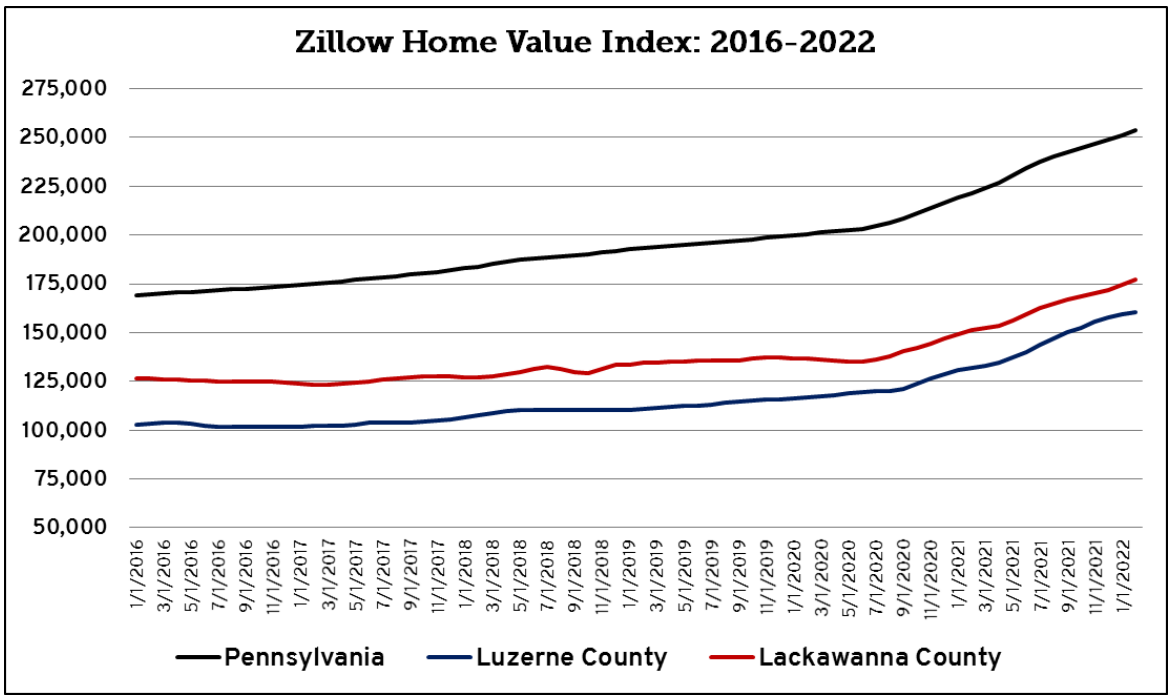
Population Overview					
	1990	2000	2010	2019	2020
Lackawanna	219,039	213,295	214,437	209,674	215,896
Luzerne	328,149	319,250	320,918	317,417	325,594
Pennsylvania	11,881,643	12,281,054	12,702,379	12,801,989	13,002,700
U.S. Census Bureau 1990,2000, 2010 and 2020 Census, 2019 American Community Survey.					

The 2020 Census was conducted with the reference date of April 1, 2020. This means that the population was counted based on individuals' place of residence at that time. This means that the moderate population growth seen in the 2020 Census was measured only weeks into the pandemic. However, there are signs that the region's population growth accelerated after this point.

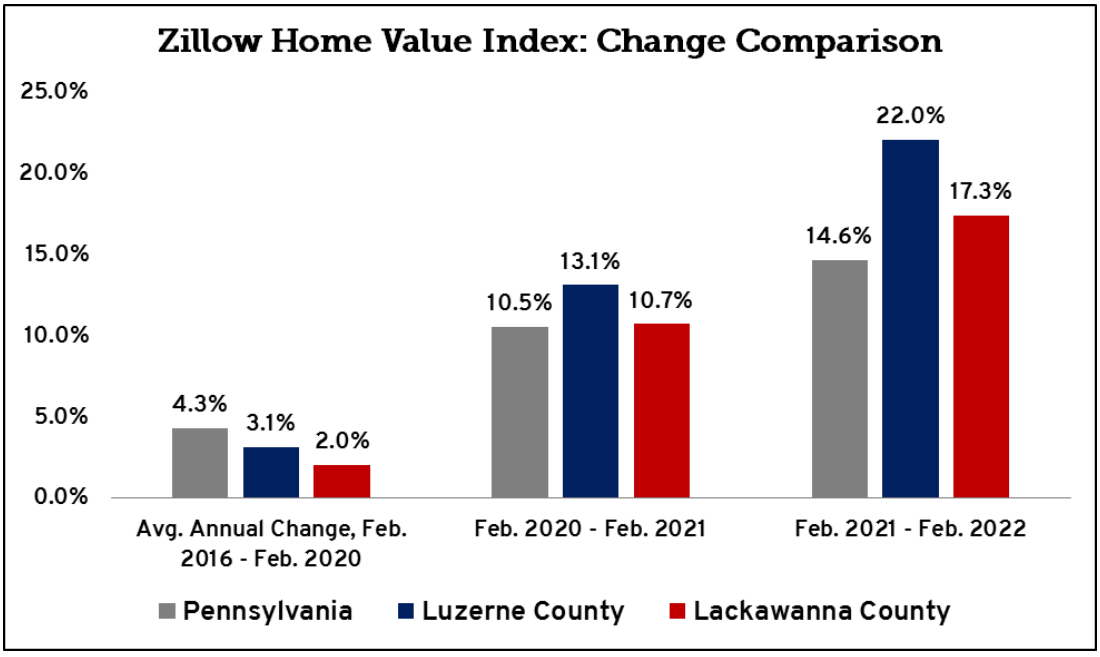
COVID-19 accelerated several trends in migration of residents between metro areas. From 2019 to 2020, there was an increase in the pace that costly coastal metro areas lost population, while Sun Belt cities and lower-cost cities gained population or saw population decline slow. New York City saw one of the largest accelerations in out-migration. Most of these moves were to relatively near cities – for example, for households leaving Manhattan, NY, the largest increase in move-outs was to destinations between 100 and 500 miles away.[ii] It is not yet certain to what degree these trends will reverse as the pandemic subsides – some households may return to cities due to low rents or to resume office-based work. Regardless, the region appears poised to attract some of these migrating families as a low-cost, relatively nearby alternative to costlier coastal cities.

Among households moving into the Scranton-Wilkes-Barre-Hazleton Metropolitan Statistical Area, the share coming from within Pennsylvania fell between 2019 and 2020, while both the share and total number of households moving in from New Jersey and New York grew.[iii]

Another sign of potential population and housing growth in the region is the rapid growth of home values. The Zillow Home Value Index (ZHVI) is a seasonally adjusted, smoothed measure of mid-market housing – single family homes and condos between the 35th and 65th percentile in price. Beginning around May 2020, home values statewide and regionally began a rapid upward trajectory.

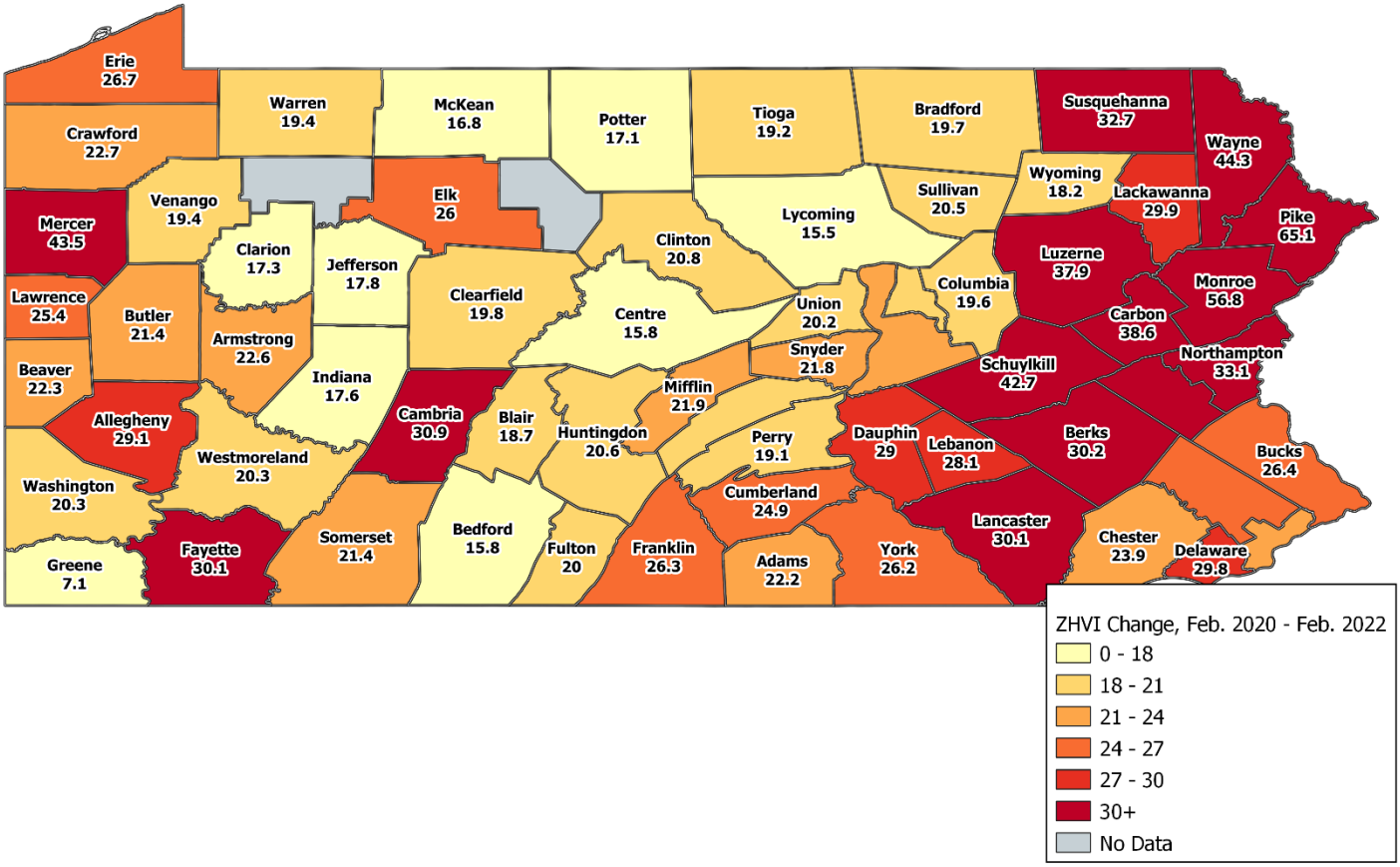


The region has also seen faster than average growth in the ZHVI. The annual average growth in ZHVI statewide from February 2016 to February 2020 was 4.3 percent per year. Locally, home values grew at a slower pace – 3.1 percent in Luzerne County and 2 percent in Lackawanna County. However, between February 2020 and 2021, this trend reversed: local home value growth outpaced statewide growth. Between 2021 and 2022, the increase in home values accelerated further, and the region again outpaced statewide growth.



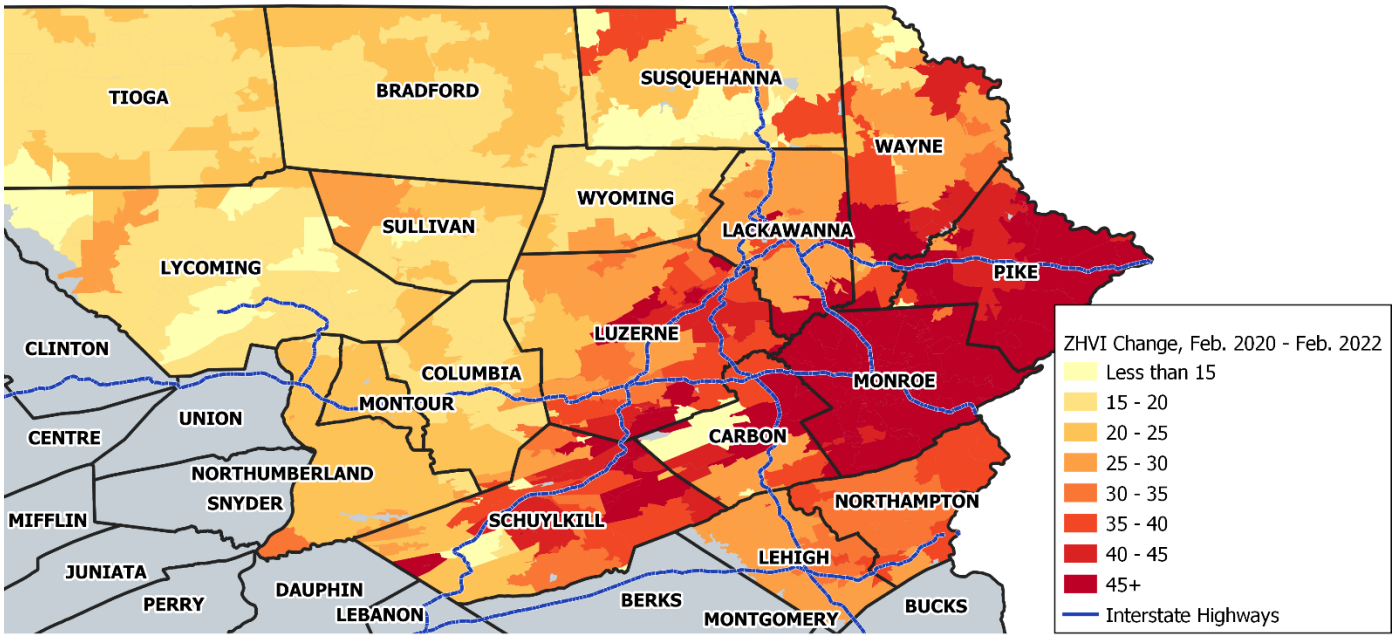
Compared to all counties statewide, most counties in the Northeastern portion of the state saw some of the fastest rates of growth. From February 2020 until February 2022, Lackawanna County saw a nearly 30 percent increase in mid-market home values; Luzerne's growth was nearly 38 percent. Several neighboring counties had even higher price growth, including Pike and Monroe, which saw the largest increases statewide.

ZHVI Percent Change by County: February 2020 – February 2022



Within the region, the ZIP codes with the highest rates of home value growth were those in the urbanized portion of the region in the Wyoming Valley, the Hazleton area in southern Luzerne County, and portions of Lackawanna County adjacent to the Pocono counties.

ZHVI Percent Change by ZIP Code: February 2020 – February 2022



The region's rapid increases in home values (as measured by the Zillow Home Value Index) as well as data showing migration from costly cities into more affordable, mid-size cities, is strong evidence that growth pressure is particularly acute in Northeastern Pennsylvania.

Employment & Housing Affordability

A trend related to the region's growing housing market is its employment growth patterns. In recent years, development has occurred at a rapid pace, led by explosive growth of the logistics and distribution sector. Compared with ten years prior, total employment (as of the four quarters ending in the second quarter of 2021, when pandemic effects were still apparent) had fallen in both counties: a 2.2 percent drop in Luzerne County and a 6.2 percent decline in Lackawanna County. During the same time period, however, manufacturing and transportation and warehousing both outperformed the economy as a whole in both counties, including a six percent increase in Luzerne County.

Transportation and warehousing, which includes distribution centers, trucking companies, as well as other activities saw the fastest growth of any broad industry group. There was a 64 percent job growth in Luzerne over the previous decade, and a 22 percent increase in Lackawanna County. The COVID-19 pandemic has not appeared to cause a significant change in these trends. If anything, the pandemic may have accelerated the growth of ecommerce, which drives much of the development of distribution centers partially or totally dedicated to fulfillment of online orders.

This growing segment of the workforce is likely a key driver of the housing market. Areas with significant observed growth in the ZHVI include several centers of logistics industry development in the region, including the Wyoming Valley and Greater Hazleton.

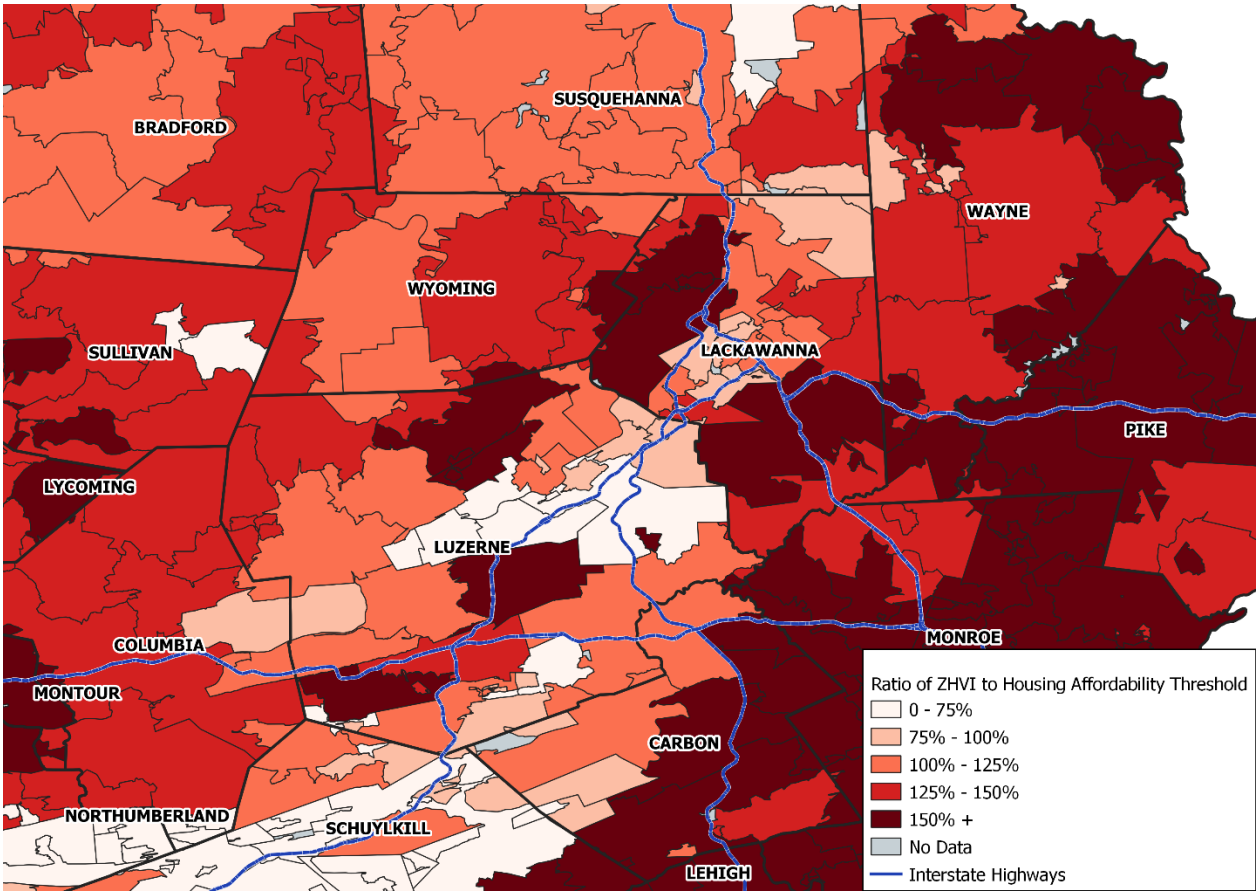
The table below shows median wages for all occupations as well as several occupation categories associated with the logistics sector. Material moving workers, among the largest and fastest growing occupation categories in the region, includes many general warehouse laborers. This occupation had a median wage of $14.72 per hour in 2020. Assuming a 40-hour workweek, this yields a monthly housing affordability threshold of $765 per month (based on affordability defined at 30 percent of gross income spent on housing). Thus, housing this workforce sustainably and without subsidy requires availability of market rents near this price point. For potential homebuyers, this cost threshold is equivalent to a $123,000 home using basic assumptions on interest rates, down payments, insurance, and taxes.

Wages & Housing Affordability - Selected Occupations			
	2020 Median Wage	Monthly Housing Cost Threshold*	Home Price Threshold**
Total - All Occupations	$18.17	$945	$156,000
Material Moving Workers (includes most warehouse associates, order picker-packers, etc.)	$14.72	$765	$123,000
Supervisors of Transportation & Material Movers	$26.95	$1,401	$243,000
Motor Vehicle Operators	$20.84	$1,084	$183,000

Wage Data Source: JobsEQ
** Based on 30% threshold of gross income*
*** Based on 30 year fixed mortgage, 4.5% interest rate, 20% down payment, $100/mo. insurance, $300/mo. taxes. Calculated using bankrate.com mortgage calculator.*

Other key occupations related to the logistics sector, including motor vehicle operators and supervisors, had higher median wages and therefore higher thresholds of housing affordability. Across the entire workforce in the two county region, the monthly housing cost threshold was $945 and the home price threshold was $156,000.

In 2022 and beyond, it is likely these thresholds will grow, as anecdotal evidence suggests wages in these occupations is higher than in 2020. Nonetheless, in most ZIP codes in both counties, the ZHVI as of February 2022 is near or higher than the affordability threshold of $156,000 across all jobs in the region. This means that in those ZIP codes, indicated in the darker shades on the map below, the average wage-earner on a single full-time salary cannot comfortably afford a mid-market home in that area. The only areas where mid-market homes are considerably more affordable than the regional housing threshold are the areas around Wilkes-Barre, Nanticoke, and Plymouth.



Workforce Housing Concepts

Various strategies will be necessary in order to house the region's increasing population without undermining the relatively high degree of affordability seen in Northeastern Pennsylvania relative to other Northeastern and Mid-Atlantic metropolitan areas. In particular, housing the growing workforce in the transportation and logistics industry is a key concern.

Workforce housing refers to housing that is affordable to households earning between 60 percent and 120 of an area's median income. These are homes that are suitable and affordable to middle and lower-middle income workforce, like many of those attracted to the region for its low cost of living and those filling new positions in the logistics sector.

Many low-income workers struggle to afford housing, leaving them with only a few options. Some people choose to commute long distances where housing is more affordable, which increases commuting costs and affects health and time with family. Other individuals may move away from job-rich areas and higher paying jobs to live somewhere more affordable, but where jobs pay lower wages. A third option is that individuals will chose to live in high-cost areas, but have a reduced standard of living due to having minimal disposable income and savings.[iv] Consequently, communities will struggle to maintain employment and have high recruiting and turnover costs. Therefore, older, recycled, and naturally affordable housing is very important for the workforce.

There are a few workforce housing strategies that help mitigate the housing accessibility and affordability issues. Older housing units are often classified as Class B or Class C residential units. In Class B, the properties are typically older, have lower income tenants, and might not be professionally managed. Class C are very old housing units in need of renovation, structural upgrades, and are located in less desirable locations[v]. These older housing units are more affordable and allow low-income individuals to have a place to live near their jobs. This way also include naturally affordable housing that is unsubsidized, older or with fewer amenities, but is in a good location.[vi] These housing options are essential for individuals to have a safe place to live and enable communities to attract employees to workers. Local economies cannot operate without low-income workers, potentially limiting economic growth.[vii] Overall, workforce housing is important for essential workers, employee retention and attraction, and saving money on rent and commuting costs.

Housing lower, moderate, and middle income workforce in a region like Northeastern Pennsylvania should not be based entirely on construction, as older housing plays a key role. The concept of filtering entails "the process by which properties age and depreciate in quality and price, becoming more affordable to lower-income households." The idea is that higher income individuals will sell their house and buy another one, leaving behind older housing for new buyers. There was typically a large upward trend in filtering when there were relatively few new construction properties.[viii] This is because there was a limited supply of housing in these areas, causing the demand to increase, and driving prices upward for individuals. As a result, low-income individuals will not have access to these properties because they cannot afford them, forcing them out of the market and possibly the area. In these areas with upward filtering trends, more housing should be built in the area to increase supply, drive down prices, and increase affordability for lower income individuals.

For lower-income housing, there are funding streams currently in use to incentivize development. The low-income housing tax credit (LIHTC), a federal program, is a significant source of funding for

construction of low-income housing. Pennsylvania has recently enacted a state-level LIHTC to supplement the federal one, providing an additional boost in funding for low-income housing. The federal New Markets Tax Credit (NMTC) can also incentivize investment in housing in low-income "severely distressed" communities. However, the market pressure for developers to pursue higher-end (and potentially more profitable) developments may leave a gap in the supply of housing between subsidized low-income housing and new, market-rate construction.

Solutions & Best Practices

Encourage development of appropriate housing for the workforce

Construction of new housing of a variety of types is expected to be beneficial to the supply of workforce housing amid apparent growth in the region's population. While moderate income workers are often not purchasers of brand-new developments, adding to the overall housing supply will ease upward pressure on prices as well as make mid-priced homes available to workers through filtering.

Nonetheless, local stakeholders should encourage construction of housing types that are appropriate for the fastest growing segments of the region's workforce. Due to the growth in the logistics industry and regional economic indicators, it appears that housing types with a sale price of under $200,000 or monthly rent of about $1,000 or less are most accessible to the workforce.

Several forms of construction can help to provide the most appropriate and needed types of housing. "Missing Middle Housing" refers to a sustainable, dense, and affordable housing types between new, single-family homes and larger multifamily developments. Missing Middle Housing types often have 4-8 units per lot and are 2 to 2.5 stories in height. They include stacked or side-by-side duplexes, stacked fourplexes, cottage or bungalow courts, townhouses, and live-work units.[ix] In many communities in Northeastern Pennsylvania, these housing types were a dominant form of construction prior to World War 2 but have since fallen out of favor. Private developers may be well-positioned to tap into the workforce housing demand by providing housing of these types, alone or in-combination with single-family detached homes.

Adopt local land use policies that support housing development

Local land-use policies can be an impediment to construction of new workforce housing, especially when NIMBYism – a "not in my backyard" view toward new development – results in exclusionary effects. When zoning ordinances place burdensome requirements on developers, the housing supply is constrained, putting upward pressure on prices and limiting the supply of starter homes and other workforce housing options. In some cases, exclusionary land use policies are designed to protect the home values of more affluent neighborhoods or maximize property tax revenues, often to the detriment of workforce housing opportunities. There are both social and economic costs to exclusionary zoning.[x]

Examples of exclusionary zoning practices that should be avoided include:

- Large lot size requirements
- Minimum square footage requirements
- Prohibitions or severe limits on multifamily housing, attached housing, or mobile home parks
- Prohibitions on accessory dwellings units (ADUs) such as guest houses, basement or above-garage apartments, or other secondary dwellings.

- Unnecessary requirements on the materials or design of housing
- Limits on building height in urban or mixed-use neighborhoods

In Pennsylvania, the fragmented nature of local zoning – where every city, borough, and township sets its own policies – is another barrier to planning regionally for adequate housing. Municipalities should embrace collaborative regional planning and evaluate zoning codes to ensure that there are minimal barriers to construction of new housing of varied types.

Address blight and expand land banking

A key way to expand the supply of workforce housing is to return blighted homes to the market. Previous research by The Institute found that blight is a significant economic drag on communities. Older properties, even after refurbishment, are in many cases more cost-effective for housing moderate income households.

Land banks are a key mechanism that can return blighted or vacant lots to productive use, providing more opportunities for new housing and returning properties to the tax rolls. Land banks efficiently and predictably transfer ownership of blighted properties to new owners, including community groups, community development organizations, private redevelopers, or neighbors. Land banking is used in some communities in Northeastern Pennsylvania already, but all communities may be able to benefit from land banking.

Identify opportunities for adaptive reuse

Adaptive reuse involves rehabilitation and repurposing of older or dilapidated buildings for new uses. In communities around the country, former industrial buildings or historic downtown buildings have found new uses as market-rate housing. Local developers and community development organizations should work to identify opportunities for adaptive reuse that both preserve the region's heritage while contributing new housing supply.

There are state and federal funding opportunities for adaptive reuse – the Keystone Historic Preservation Construction Grants and Federal Rehabilitation Investment Tax Credit (RITC). These funds can be used to preserve historically significant structures by refitting them for new uses, though various limitations apply. Prior to 2017, the RITC allowed buildings built before 1936 to receive a reduced amount of the credit even for buildings that are not classified as historic.

It is recommended that policy makers continue to support funding sources for adaptive reuse, including projects that create new workforce housing. One policy to consider is to restore tax credit opportunities for older but not historically significant structures, as was the case prior to changes in the RITC made by the Tax Cuts and Jobs Act.

Employer-driven solutions

Employer-assisted housing (EAH) programs involve employers helping their employees with the costs of owning or renting a home, often in neighborhoods near the workplace. In a tight labor market in which employers are stepping up their investments to attract and retain workers, EAH programs may be a valuable addition to employee benefits packages. EAH may include one or more of these elements:

- Homeownership counseling and education
- Down payment assistance through grants or loans forgiven over a period of employment

- Direct subsidy, such as an employee rental allowance
- Microgrants or loans for home repairs or renovations

Local governments, grantmaking organizations, or community development organizations can encourage EAH programs by providing support including: matching funds for employer contributions to EAH programs, technical assistance or guidance, administering EAH programs on behalf of employers, or other financial incentives.[xi]

EAH programs also have the benefit of helping employers revitalize and reinvest in the neighborhoods where they are located and encourage employees to live near their workplace (thereby reducing missed time due to transportation challenges).

Endnotes

[i] *The Housing Divide in Northeastern Pennsylvania* (2020) The Institute.
[ii] *COVID-19 Impact on Resident Migration Patterns*. CBRE. Retrieved March 21, 2022.
[iii] Ibid.
[iv] Zonta, M. (2020, August 10*). Expanding the Supply of Affordable Housing for Low-Wage Workers*. Center for American Progress. Retrieved March 1, 2022.

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