

EMPLOYER ASSISTED HOUSING

Gary Sands, Urban Planning Program, Wayne State University

The Challenge:

A city is looking to expand its industrial base and actually has new investors; however, the housing stock is old and inadequate, and cannot accommodate the new jobs that the additional investment will create. One solution to this issue is to have the employer assist the community in making quality housing stock available to its workers. This tool describes mechanisms that can be used to promote employer assisted housing, both standing on its own and in partnership with the community's public sector.

What is Employer Assisted Housing?

Since the beginning of the Industrial era, employers have frequently been involved in the provision of housing for their workers. Motivation for employer assisted housing (EAH) ranged from practical necessity to altruism. In the United States, there have been historical examples where worker housing was the provision of dormitories for mill workers (Lowell, Massachusetts), the creation of new industrial towns (Pullman, Illinois) or the founding of utopian communities (Port Sunlight; Amana, Iowa). Although the popularity of employer housing faded through the 20th Century, economic and labor market developments over the past few decades have led to its re-emergence as an economic development tool (Deyo, 1991; Afshar, 2006).

Employer housing has primarily been used to address a lack of supply (when new factories were established in isolated areas), or to provide non-wage benefits to workers. Many 19th century company towns in the United States were associated with large new facilities such as steel mills (Gary, Indiana) or resource communities (Kitimat, British Columbia). More recently, employer assisted housing has been used to provide extra benefits to employees, without directly increasing wage rates. Housing subsidies or down payment assistance, for example, can help to attract and retain workers, thereby reducing a company's recruitment and training costs (Jennings, 2000).

In general, employer assisted housing (EAH) may serve one or more of the following functions.

- First, it may help to address shortages in the local labor market. In smaller labor markets, new or expanding industries may be unable to attract needed

workers because the available housing supply is limited. This is likely to be a particular problem when the new jobs provide only modest wages.

- A second use of Employer-Assisted Housing provides housing benefits to employees living in close proximity to their employment location facilitating neighborhood reinvestment efforts. This strategy frequently is seen as providing benefits to the employer as well by preserving the quality of the surrounding neighborhood. To the extent that such programs facilitate walking or biking to work, they may provide environmental benefits as well.

Addressing Supply Shortages

Rapidly growing local economies face demands for a wide variety of new housing. While the private sector is usually more than willing to provide expensive housing, the market often has difficulty in meeting demand resulting from growth in low wage manufacturing jobs or in the Services industry jobs that may accompany growth in higher wage jobs. Development standards for new housing designed to ensure high quality new units may produce increases in supply at the high end of the market, often with too few “trickle down” opportunities (ACRBAH, 1991).

Employer assisted housing may rectify the market conditions described above. For instance, the small city of Sturgis, Michigan provides an example of a community where a lack of affordable housing inhibited economic development. The local business association became concerned over difficulties encountered in attracting new manufacturing firms because of the lack of affordable housing options within the community. A careful analysis of the local housing market led to the conclusion that the prevailing wages in both current industries and firms being recruited were too low to induce development of new housing. Although wage increases were one way to address the problem, employers were reluctant to do this since it would result in price competition for workers and higher turnover rates. The recommended strategies included the development of manufactured housing on low priced land outside the city, development of publicly assisted rental housing for moderate income households and employer funded down payment assistance.

Neighborhood Revitalization

Many employers, including large institutions such as hospitals and universities, have significant investments in their properties. As the neighborhoods surrounding these sites age and begin to deteriorate, employers are faced with the prospect of an expensive relocation or remaining and seeing their investment diminished. Often employers will invest in the surrounding neighborhoods, either directly or through employee incentives. The aim of these investments is to

enhance the viability of the firm at its present location by promoting neighborhood revitalization (Rivlin, 2003; JCHS, 2005; Hoerth et al., 2007).

For example, the Chattanooga Neighborhood Enterprise Partnership with Memorial Hospital in Tennessee provides employees with loans and grants to help in the purchase of a home. The not for profit partner markets the program, provides homebuyer education and mortgage loan underwriting (Pill, 2000). Emmanuel Hospital in Portland Oregon provides funding to two non-profit organizations that offer homeownership counseling and construction and renovation of homes in the hospital's neighborhood. Employees purchasing homes in the targeted neighborhood are eligible for a forgivable loan of up to \$5,000 (Pill, 2000).

Universities are also active in providing housing assistance to their employees. Yale University provides grants of \$2,000 a year for ten years plus a grant of \$4,000 for closing costs to employees purchasing a home in targeted neighborhoods close to the university. Case Western Reserve University, along with the City of Cleveland and several community development corporations has initiated a successful EAH program that provides up to \$10,000 to employees who purchase or renovate homes in designated areas (Hoerth, et al., 2007).

In Milwaukee, Wisconsin, Select Milwaukee, a community organization, organizes and administers walk-to-work programs for local employers. Companies provide forgivable loans (up to \$3,000) to employees, which may be supplemented by a grant from Select Milwaukee and the State of Wisconsin. Harley Davidson provides forgivable loans of up to \$2,500 to employees purchasing in a designated neighborhood. In part, this program is intended to help the company meet its Clean Air Act requirements. The Right Place, Inc. (a not for profit economic development organization in Grand Rapids, Michigan) has designed a similar program that encourages industrial workers to live in close proximity to their place of employment. This effort is targeted to the small to medium size manufacturers are located in older residential neighborhoods.

Specific Employer Assisted Housing Mechanisms

There are a number of different tools that have been used to address the issue of affordable housing for moderate income working households (Haughey, 2002). Supply side mechanisms include either direct public provision of affordable housing or provision of inducements to developers to increase total supply. More commonly, benefits are made available to households (demand side initiatives) to increase their ability to pay for adequate housing. Many of the specific mechanisms described below have been utilized to address affordability problems of lower income households. In the current context, the programs differ in the average amount of subsidy required and, in many cases, in the source of the funds.

Financing Tools

Lowering costs is frequently the most effective way to address worker housing issues. Most of the available tools lower monthly payments by special financing arrangements. These can include:

- Grants: Government agencies and foundations may provide direct subsidies for the construction of affordable housing or housing targeted at specific groups. Employers may also provide grant funds to their workers. While government grant programs may be used for both rental and ownership housing, private grants are most frequently used for down payment assistance to facilitate home purchases (Fannie Mae, 2003).
- Forgivable Loans: This type of loan typically provides only a portion of the required financing. It is usually subordinate to the first mortgage and requires no payments while the first mortgage is in place. If the specified conditions are met (for example, if the property is occupied for a certain period or property improvements are made), the loan effectively becomes a grant. If, however, the conditions are not met, the loan becomes due and payable.
- Low Interest Loans: Financing costs (the interest paid on a mortgage) represent a large portion of monthly costs, especially during the initial years of ownership. High interest rates can make the cost of debt retirement (monthly mortgage payments) impossible for limited income households. Low interest financing may be provided by government agencies, by employers or by not-for-profit organizations willing to accept a limited return on their investments. The model for the latter dates back to Housing Societies in 19th Century England and continues today with organizations like ShoreBank in the United States.

While below market interest rates lower monthly costs, the benefits are limited. For example, a ten-year mortgage with an interest rate of five percent has monthly payments that are 80 percent of payments when the interest rate is ten percent. Lengthening the mortgage term can result in a greater reduction in monthly costs, although the total repaid, including interest, is much higher.

- Shared Equity: Shared equity financing provides joint ownership of a home between the household and a public, private or nonprofit entity. Although the purchaser has most ownership rights, their monthly mortgage payments are lower because they are only paying for a fraction of the costs. The home purchaser can acquire a larger ownership share as their financial situation improves. When the property is sold, proceeds are divided between homeowner and investor.

Government Assistance

Though this tool contemplates employer-financed mechanisms for housing, local governments may complement employer assisted housing by contributing through a variety of programs that generally facilitate the development of affordable housing. For many local governments, a high priority is to ensure the quality of any new housing produced. Affordability should not be achieved by producing an inferior housing unit. At the same time, local governments often lack resources to directly subsidize worker housing (Sanders et al, 1984), and may seek them from the private employer. Among the non-financial options available to municipalities to build housing for workers are:

- Property Tax Abatements: Where local government has the power to tax property, reducing the property tax burden, or charging a lower service fee in lieu of the standard property tax can lower occupancy costs and improve affordability. The tax abatements can be structured in such a way that the affordable housing development contributes enough to public revenues to cover the incremental costs of essential services.
- Density Bonuses: Land costs typically represent a large proportion of the total cost of providing new housing. Where local zoning and building regulations limit overall density, increasing allowable density (permitting more units on the same parcel of land) can result in reduction of average cost for all units, because land and infrastructure costs per unit may be lower.
- Simplified Permitting: Obtaining planning permissions for new developments can add substantially to the cost of new developments. In addition to the out of pocket costs of permits, plan reviews and inspections, the time required for the approval process may add unnecessarily to total cost, especially if public hearings are required. Development projects that include affordable workforce housing should be allowed an expedited review process and possibly a reduced fee schedule.
- Infrastructure Development: Municipalities throughout North America have over the years increasingly shifted the cost burden of new Infrastructure (water and sewer lines, roads, utilities) to property developers. Public and employer financing of infrastructure can substantially reduce the initial costs of development. This might be accomplished through the municipality's regular capital budget, special assessments or tax increment financing.
- Information Provision: Local government programs can provide information to both employers and workers. An active public relations campaign addressed to individual employers and employer associations can encourage participation in worker housing programs. Similarly, local governments can provide housing market information, as well as specific program information, to potential

participants. These efforts might also include homebuyer education and home maintenance and repair training.

Essential Issues to Consider Prior to Implementation

Experience shows that support for worker housing most often entails a public-private partnership with both the local government and employers sharing the cost. From the municipal perspective, the Employer Assisted Housing program must provide clear economic or community development benefits (Haughey, 2005). The public costs of participating in the program must be balanced by perceived benefits derived from the private sector jobs provided, the ability to provide for essential public sector workers, or the neighborhood improvements that result. Employers will look to the potential benefits of a more stable workforce, leading to reduced costs of recruitment and training.

Local governments must also consider whether the housing is appropriately located with respect to essential public services, including public transportation. If new housing is required to accommodate workers in new industries, land use issues must be considered with respect to both the new industry and new housing. The ongoing costs of providing public services to new residents must also be considered.

In many instances the success of EAH will require support of senior levels of government (state/provincial/oblast and national), individual employers, employers' associations (for example, chambers of commerce) and foundations. While in the long run, the public costs associated with new jobs and residents may be covered by increased taxes and fees, in the short run the EAH program may require increased spending. The bulk of these funds are likely to come from the employer that receives the benefits of a work force and, to a lesser extent, from the local government. Unless additional funding on a sufficient scale can be obtained, it may not be possible to create sufficient critical mass to make the program a success. In some cases, existing national government housing programs may make contributions. It will also often be necessary to raise additional funds from private and non-profit sources.

Conditions for Maximum Efficiency

The success of Employer Assisted Housing programs presumes the existence of well established and functioning property markets, as well as systems for residential finance. EAH must be viewed as a means of making marginal improvements in the affordability of adequate housing for targeted populations of lower wage workers in the formal sector. In local market areas where minimum housing quality standards are not enforced, EAH may not be perceived as an

attractive alternative to housing options in the irregular sector. Self-built housing may be seen as less expensive or better suited to individual needs, for example.

Because EAH often provides ownership opportunities, the benefits of homeownership (security of tenure, participation in value appreciation, and so forth) must be seen as available and assured so that the EAH is perceived as desirable.

Many of the options for EAH work through formal residential mortgage mechanisms. Lower interest rates, down payment assistance and assistance with closing costs all presume the existence of an institutional system that provides long-term financing for residential properties.

It is also important that adequate standards for housing construction and occupancy exist and are enforced. To be most effective EAH must provide housing that is more affordable but is not of inferior quality. Providing housing that is more affordable by reducing unit size or eliminating “standard” features will not produce the desired results. Not only will units be less attractive to initial occupants, but they will also be less attractive to other purchasers in the future (ACRBAH, 1991).

Complementary Tools

Effective employer assisted housing initiatives require the active collaboration of housing interests at the local and national levels, private sector employers and trade associations, NGOs and foundations, as well as financial institutions. Because this tool involves the active participation of the housing industry, a prerequisite for success is a functional housing development and delivery system. This would include the existence of well defined ownership and property rights, a market system that provides for the development and exchange of real properties, and private sector institutions to construct and finance the purchase of the housing.

Conclusions

Employer-Assisted Housing is a mechanism that can be used to complement other public economic development initiatives or to support market driven economic growth. It can be essential to community economic well being when employment growth occurs at wage levels below what would be necessary to obtain market rate housing in the community. Because these programs can be targeted geographically, as well as to specific categories of workers, EAH can provide valuable assistance in neighborhood revitalization efforts.

The development of EAH initiatives must incorporate two important considerations. First, the limited nature of any such program must be recognized. EAH is, at best, a gap filler. The amount of funding that can be provided to any one participant is insufficient to overcome large deficiencies. The program can help moderate income workers to afford modest homes. If incomes are too low or housing prices too high, EAH will not be a helpful tool.

Second, EAH must be an active public-private partnership. Unlike many other economic development tools, which provide public benefits to employers in return for their job creation and investment activities, much of the cost of EAH will be funded by the employers. The firms that receive the benefits of a more content and stable workforce should reasonably be expected to bare much of the cost. Although local and national governments or private foundations can provide some funds, these will likely represent only a small portion of the total costs.

References

Advisory Commission on Regulatory Barriers to Affordable Housing. 1991. *“Not in My Back Yard.”* Washington DC: US Department of Housing and Urban Development.

Afshar, Anna. 2006. New Arguments for Employer Assisted Housing. Federal Reserve Bank of Boston: *New England Community Developments*.

Deyo, Thomas. 1991. Employer-Assisted Housing: Strategies for Revitalizing Communities. *Journal of Housing*. September/October 227-236.

The Economist. 2007. Housing Prices: Fighting over their castles. 38:8531 (June 2-9, 2007), 59-60.

Education Commission of the States. 2002. *State Incentive Policies for Recruiting and Retaining Effective Teachers in Hard-to-Staff Schools*. Denver CO: Education Commission of the States.

Fannie Mae. 2003. *Employer-Assisted Housing*. Washington DC: Fannie Mae.

Galantay, Ervin. 1975. *New Towns: Antiquity to the Present*. New York: George Braziller.

Garner, John ed. 1992. *The Company Town*. New York: Oxford University Press.

Haughey, Richard. 2002. *Workforce Housing: Barriers, Solutions, and Model Programs*. Washington DC: UL†the Urban Land Institute.

Haughey, Richard. 2005. *Developing Housing for the Workforce*. Washington DC: ULI-the Urban Land Institute.

Hoerth, Joseph, Dwan Packnett and David Perry. 2007. *University Employer-Assisted Housing: Models of University-Community Partnerships*. Cambridge MA: Lincoln Institute of Land Policy.

Jennings, Stephanie. 2000. Reinventing the Company Town: Employer-Assisted Housing in the 21st Century. *Housing Facts & Findings 2:2*.

Joint Center for Housing Studies of Harvard University. 2005. *Strengthening our Workforce and our Communities Through Housing Solutions*. Cambridge MA: Joint Center for Housing Studies of Harvard University.

Macklin, Genevieve. 2004. *Key Worker Housing*. London: Association of London Government.

Pill, Madeleine. 2000. *Employer-Assisted Housing: Competitiveness Through Partnership*. Cambridge MA: Joint Center for Housing Studies of Harvard University.

Rivlin, Alice. 2003. Revitalizing Washington's Neighborhoods: A Vision Takes Shape. Washington DC: The Brookings Institution.

Sanders, Welford, Judith Getzels, David Mosen and Joann Butler. 1984. *Affordable Single-Family Housing: A Review of Development Standards*. Planning Advisory Service Report Number 385. Chicago IL: American Planning Association.

Internet Resources

Fannie Mae <http://www.fanniemae.com>

Freddie Mac <http://freddiemac.com>

Metropolitan Planning Council <http://www.metroplanning.org>

Silicon Valley Leadership Group <http://www.svmg.org>

Connecticut Housing Finance Authority <http://www.chfa.org>

Illinois Housing Development Authority <http://www.idha.org>

Joint Center for Housing Studies of Harvard University
<http://www.jchs.harvard.edu>

Secretariat of Tourism Mexico <http://sectur.gob.mx>