

Affordable Homes

Workforce housing can support economic growth and community viability

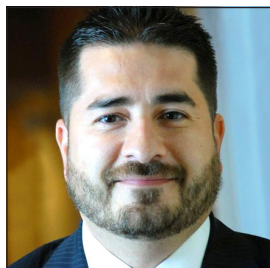


TABLE of EXPERTS



Moderator
TRACY JOHNSON
President and CEO
CARW – the Commercial
Association of REALTORS®
Wisconsin

The Commercial Association of REALTORS® is the voice for commercial real estate in Wisconsin. CARW advances the interests of individual practitioners and the industry through commercial education, commercial real estate data, networking opportunities, public affairs and advocacy.



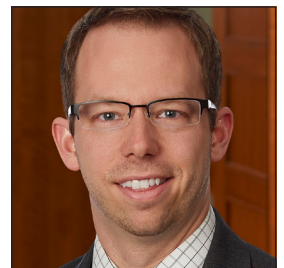
IVAN GAMBOA
Senior Vice President of
Commercial Lending,
Tri City National Bank

After more than 13 years in multiple roles at the bank, Ivan now focuses his time on business development while also serving on the bank's loan committee. Ivan has a true passion for neighborhood development. Gov. Scott Walker appointed — and Gov. Tony Evers reappointed — Ivan as Chairman of the Board of Directors for the Wisconsin Housing and Economic Development Authority (WHEDA).



S.R. MILLS
Chief Executive Officer and a
principal of Bear Real Estate
Group

Bear is continually ranked as one of the top 25 largest developers of affordable housing in the country. Prior to joining the Bear Family of companies in 2002, S.R. worked with several technology companies in northern California. He earned his bachelor's degree in real estate, finance and investment from St. Cloud State University and his master's in real estate from Roosevelt University.



JOSEPH SHUMOW
Shareholder in Reinhart
Boerner Van Deuren's Real
Estate Practice

Joe is a shareholder in Reinhart's Real Estate Practice who represents a variety of real estate and corporate clients. He counsels developers, credit allocators, lenders and investors involved with workforce housing, low-income housing, new markets and historic tax credit transactions, and clients in acquisition, development, leasing and entitlement of real estate transactions.

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Adequate housing for workers who make \$15 to \$30 per hour is increasingly hard to find due to a combination of factors, including aging housing stock and rising construction costs. The lack of affordable workforce housing not only makes it difficult for these workers to save money and get ahead, but it also makes it difficult for communities to attract the businesses that need these employees. The Milwaukee Business Journal recently sat down with local experts to talk about the workforce housing challenge and what can be done to address it.

TRACY JOHNSON (Moderator): There is a lot of conversation about workforce housing and affordable housing, which can provide housing opportunities for employees who are at the lower end of the wage scale. What do we mean by workforce housing?

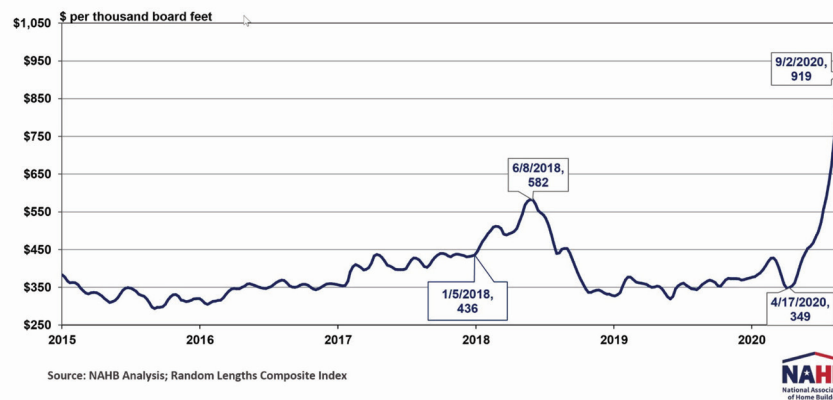
JOSEPH SHUMOW: There are different ways to define it depending on who is doing it. One way to define it is by specific thresholds that have to be met in order to access money from local, state and federal governments, banks or private foundations. The definition can change from organization to organization and from agency to agency. For example, it might be defined as housing for people with incomes ranging from 60 percent to 120 percent of the area median income (AMI). Another way workforce housing can be defined is colloquially: what the public perceives it to be and how they feel about it. It is in the eye of the beholder, and there are a lot of misperceptions as a result.

S.R. MILLS: There are a lot of preconceived notions about what workforce or affordable housing is. Because the definitions can vary, we find it is really important to focus the discussion on who it is we are trying to serve and to keep it at a human level. To that end, most people then understand that workforce housing can often be for their mother, brother, cousin or dad.

IVAN GAMBOA: We celebrate when major companies announce they are coming into our communities, but for cities to thrive, the workers should also live and play in that same neighborhood. Downtown neighborhoods flourish with brand-new, high-end housing in cities like Milwaukee. Developing in

Building Materials – Lumber Prices

Current September price \$957 and up 174% since mid-April



the surrounding neighborhoods or smaller communities can be challenging because you don't want to build housing that changes the makeup of the area. Workforce housing can be a great solution because it is inclusive of what the neighborhood already looks like. It promotes development without displacing residents.

Why is there a shortage of workforce housing?

SHUMOW: There are a couple of things going on. It's no mystery that there has been increasing wage disparity throughout the country. We have had stagnant wage growth for several decades. As a society, we are good at creating high-end housing because the economics support it. We also have a good system in place for creating housing for the people at the lower end as part of our social safety net. What we don't really have is anything for the middle. The folks stuck in what is sometimes called the "missing middle" are left without good housing options.

MILLS: What we have found is that there is a need for housing at every income level, but if you are below 140 percent of median income, it can really be a struggle to find something you can afford without spending more than 30 percent of your take-home pay. Wages have stagnated, as Joe said, but the cost of building residential housing has not. Lumber prices have gone up nearly 200 percent in the last 15 months.

GAMBOA: Real estate development is an inherently risky business. There is a lot of risk involved in the entitlement process, the construction process and the lease-up process. So, it makes perfect sense for developers to build projects where they achieve the highest rents they can. And the federal government has some nice tools to help incentivize developers to build affordable units for people at the low end of the income scale. The problem is housing for people in the middle. A lot of the naturally occurring workforce housing is very

old product that has been subject to deferred maintenance and is inefficient as far as utilities and energy are concerned. This wasn't a large problem years ago, but as we move forward, the need for good workforce housing will continue to grow.

MILLS: There is a common mantra that this is an issue that the private sector can work its way through, but that is not going to happen. It will just become that much bigger of a hole that we will have to get out of.

I think that is a really interesting point because it is not like we are starting with a blank slate in many of these communities.

We are talking about adaptive development. Are communities open to having these discussions?

GAMBOA: Projects get built based on the resources that are out there to finance them. Communities sometimes don't understand the complexities that come with creating the capital stacks needed to get residential housing built. Communities should look at who they are and then identify and incentivize their priorities. I think most communities that do this will find out they are really short on workforce housing.

MILLS: In Kenosha and Racine counties, the need has been highlighted by some of the larger businesses that have moved in. They understand that if they are going to hire 500 workers who will be making \$16 to \$30 an hour, there needs to be corresponding housing available.

SHUMOW: A good way for a community to lose talent is by not having housing options that your workers can afford. There are some communities in which businesses have banded together, typically with a non-profit organization, to create funds for workforce housing. That is a model that the Milwaukee business community could consider.

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What are the communities that are doing that?

SHUMOW: In Madison, a number of the larger companies have created a workforce housing fund, administered by the Madison Development Corporation -. Applying for the funding is a competitive process. It doesn't pay for the whole project, but it does fill in some of the financing gaps to make a project viable.

MILLS: We are seeing interest from major corporations that have decided, for either economic or philanthropic reasons, to make a very focused effort on workforce housing in hub areas like New York or Seattle. We also have seen some interest at the local level, but it is very specialized. Some employers, for example, will give land to communities because they want workforce housing close to their site or in that community.

Do you see themes in what works and what we might be able to take note of when it comes to creating workforce housing?

GAMBOA: I think it starts with

Wisconsin's 20 Largest Counties Underproduced Over 20,000 Housing Units from 2006-2019

	Growth in households (2006-2019)	Growth in housing units (2006-2019)	Housing "Underproduction" (2006-2019)	Previous Report Gap (2006-2017)
Milwaukee County	7,426	11,999		
Dane County	43,063	31,997	11,066	11,206
Waukesha County	14,321	13,294	1,027	2,213
Brown County	12,323	9,770	2,553	1,661
Racine County	3,751	2,994	757	
Outagamie County	6,668	7,499		
Winnebago County	4,364	5,581		
Kenosha County	4,378	4,212	166	
Rock County	2,954	1,954	1,000	1,036
Marathon County	2,864	3,957		
Washington County	5,290	5,021	269	
La Crosse County	3,873	4,629		
Sheboygan County	2,116	1,814	302	332
Eau Claire County	2,122	3,757		
Walworth County	4,936	3,268	1,668	537
Fond du Lac County	3,882	3,251	631	798
St. Croix County	3,515	4,255		
Ozaukee County	3,152	2,590	562	827
Dodge County	2,187	1,692	495	
Jefferson County	2,718	2,586	132	1,228
20 Largest Wisconsin Counties	135,903	126,120	20,628	19,838

Source: Author's calculations based on 2006 and 2019 1-year American Community Survey data, U.S. Census Bureau. Households are 1- or more persons who occupy a housing unit. Housing units include vacant structures for sale or rent.

municipalities understanding and prioritizing the need for workforce housing, and then pushing the development community to come up with a solution. If you have the municipality's buy-in, they can use their local resources - whether it is tax-incremental financing dollars or

other things - to promote workforce housing. From there, everything else falls in line. It is easier for state agencies to help local municipalities that have identified workforce housing as a priority.

SHUMOW: I would add that it is incumbent upon the development community not to assume that the neighborhood you are looking at has all of the information they need to understand what you are doing. S.R. spoke about the importance of educating elected leaders. I agree, but it is also important to have a plan for how you will engage the neighborhood. You are probably going to have at least a little pushback for workforce or affordable housing, or any kind of housing that is not high-end.

MILLS: We find that it is important to be very specific about the community we are looking to serve and who we are looking to help.

What can local and municipal leaders be doing to attract and encourage workforce housing?

MILLS: Leadership. There has to be a willingness to discuss what workforce housing really is. As far as incentives go, the permitting process and the cost of permits can make a huge difference. We have seen fees in some communities nearing \$15,000 per unit, which makes it very difficult to make the development work. Real-estate tax abatement is another tool. Some municipalities have specific funds or loan allocations, or they may help with infrastructure costs.

GAMBOA: Recognizing this is an issue for rural communities throughout the state, WHEDA (the Wisconsin Housing and Economic

Development Authority) created the Rural Affordable Workforce Housing Initiative to help. Small communities have fewer resources to come up with a good housing plan and they may not fully understand the housing needs they have. Once they figure out their needs, they can start to address the kinds of resources they can put in place. They can use TIFS (tax-incremental financing districts) or infrastructure improvement as incentives. Communities with established TIF programs should review their existing guidelines to see if changes can be made to help workforce housing deals.

SHUMOW: If a local community is sitting on land, they can contribute it to a development with a use restriction requiring that it be used for workforce housing. Municipalities can also make sure that their zoning and land-use policies are friendly to workforce housing. Workforce housing becomes a lot more expensive, and therefore less likely to happen, if developers have to hire people like me to go through a lot of hoops to get a residential project approved.

MILLS: There is a considerable amount of money coming into states from the federal stimulus funds due to the pandemic. There will be a discussion of how those funds should be allocated and there are three ways we support. A few years ago, Wisconsin did a great job in passing a state tax credit for housing built for people with incomes at or below 60 percent of AMI. We would like to see funding to support that credit expanded from \$42 million to \$100 million, which would go a long way to capitalize the fund for additional projects. We would also



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like to see the credit expanded to include housing for people with incomes between 60 percent to 100 percent of AMI. Finally, we would like to see some help to address price increases that have put in jeopardy the tax credits awarded by the state over the last two years. Many projects are looking at \$500,000 to \$1 million gaps due to the rising cost of lumber. We would like to see additional one-time funding that would make sure the deals that are already teed up can actually get built. At the federal level, we're supportive of HR-2143, which is an intriguing and overdue bill that would replicate the success of low-income and workforce rental housing tax credits for home ownership.

How are you incorporating workforce housing into development strategies?

MILLS: Our developments typically have five or six components that serve a variety of different income levels. Partly it is for risk-mitigation purposes, but we also think it makes for a better community. We try to include workforce rental, market rate rental and other for-sale product that we can sell for \$250,000 to \$550,000 to cater to a wide array of income levels.

GAMBOA: As costs increase, developers are more open than ever to doing a mixed-income development if it means adding more resources to their capital stacks. Putting workforce housing deals together is more complicated than other types of transactions and it is increasingly important to look at all of the different loan programs with a careful eye to identify all of the tools you can use to make a deal work.

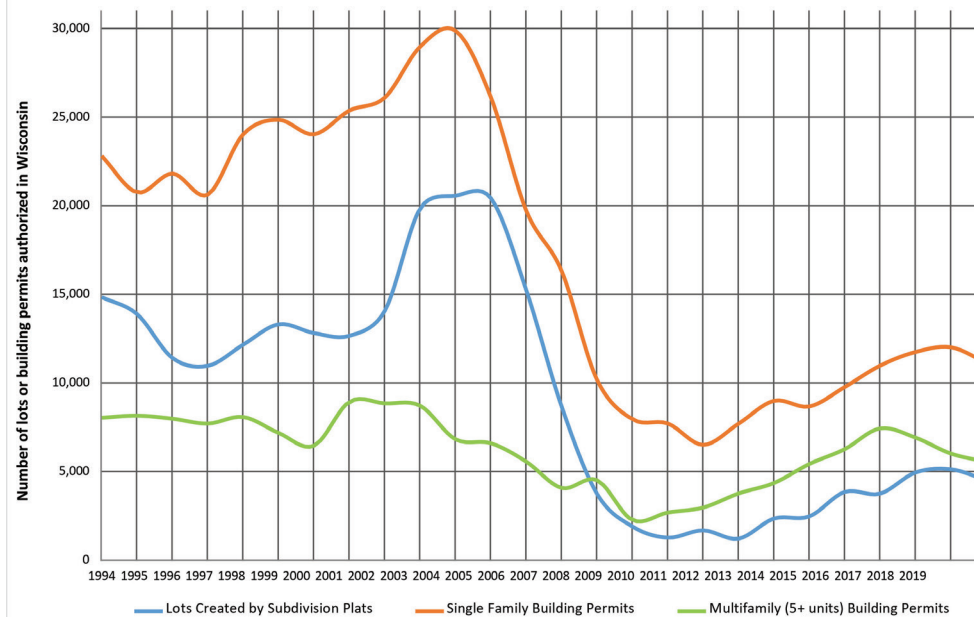
SHUMOW: The development community is quick, nimble and smart, but they are not being incentivized to do a whole lot of workforce housing yet. Reading

the tea leaves, I think there are some things coming that might incentivize that, and when those incentives turn on, I think we will see the development community move quickly to incorporate workforce housing into their deals.

What are some of the challenges and opportunities facing workforce housing?

SHUMOW: The challenges I see are the lack of resources to incentivize the projects and the misperceptions some people have about workforce housing. On the opportunity side, developers who get into this space early are going to have more expertise, which will put them at an advantage. This is not a Milwaukee issue. This is a national issue. So, let's have Milwaukee developers be on the cutting edge. There is a great need for workforce housing. If we can figure out a way to thread the needle and make it happen, the finished projects won't be vacant.

Housing Construction and Subdivision Activity in Wisconsin have not Recovered from Great Recession, Remain at Historically Low Levels



Source: Subdivision Lots from Wis. Dept. Admin.; Building Permits Database, U.S. Census Bureau.

1994-2004 per year:
14,225 lots
35,908 building permits

= 6.78 building permits
per 1,000 residents

2012-2019 per year:
3,552 lots
16,640 building permits

= 2.88 building permits
per 1,000 residents



What is your one take-away for the business community from our discussion? Why should they care about workforce housing?

SHUMOW: Workforce housing is desperately needed and we don't have enough tools in our toolbox to make it happen. We need the business community's help to fix this problem.

MILLS: I think it is recognition that workforce housing is a problem that will continue to affect both the bottom line of our businesses and the region's economic climate unless we do something about it. We all have a role to play.

GAMBOA: Workforce housing can be a triple win for the community. It will be a win for the business community, a win for the neighborhoods where it is created, and a win for the residents who will have a higher quality of life because they will have housing they can afford.

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