



## **Vermont Futures Project**

*A data driven initiative to secure Vermont's economic future and to provide opportunity for Vermonters.*

Vtfuturesproject.org

### **Testimony on H.702 An act relating to a workforce housing demonstration project**<sup>1</sup>

*Aaron Adler, Legislative Counsel, Office of Legislative Council*

*David Hall, Legislative Counsel, Office of Legislative Council*

*Gus Seelig, Executive Director, Vermont Housing & Conservation Board*

*Billy Coster, Director, Planning and Policy, Agency of Natural Resources*

### **Workforce Housing: Links Current Efforts to Address Demographic Challenges**

The Employee Relocation Tax Credit Study Committee, created by Act 51 of the Vermont 2015 Legislature, published its final report on January 15, 2016. It describes factors relating to Vermont's need for a younger workforce to fuel the economy. The Study names several challenges undermining the state's ability to attract and retain workforce, among which two relate directly to workforce housing – "Limited Housing Options" and "Other Cost of Living Concerns".<sup>2</sup> Housing cost, availability, and quality as it impacts Vermont's workforce is emerging as an important part of a larger conversation about addressing the needs of employers who need to fill jobs now. In coming years as retiring baby boomers leave the workforce in large numbers, the need for new workers, and their need for homes, is expected to grow.<sup>3</sup>

### **In-Depth Research into Vermont Housing Affordability**

The effects of housing challenges on individual Vermonters is well documented, including in the Vermont Housing Finance Agency's "Between a Rock and a Hard Place".<sup>4</sup> The study's summary is an excellent primer on the impact of cost, quality, location and availability problems for renters, first time home buyers, and working households. This and subsequent VHFA publications outline the disconnect between wages and housing costs. We must also ask how much housing supply caps population growth, and again what are the effects of these limitations: Vermont's workforce has been essentially flat for over a decade and the share of workers 25-44 shrinking.<sup>5</sup>

### **The Role of Housing in the State's Economic Health**

<sup>1</sup> <http://legislature.vermont.gov/assets/Documents/2016/Docs/BILLS/H-0702/H-0702%20As%20Introduced.pdf>

<sup>2</sup> <http://legislature.vermont.gov/assets/Legislative-Reports/Employee-Relocation-Tax-Credit-Study-Committee-Final-Report.pdf>

<sup>3</sup> <http://www.vtfuturesproject.org/our-workforce/workforce-supply/>

<sup>4</sup> <http://www.vhfa.org/documents/housing-wages-2011.pdf>

<sup>5</sup> <http://www.vtfuturesproject.org/vermonters-visitors/forces-of-change/>

The Futures Project, launched by the Vermont Chamber Foundation, has been focused on understanding the impact on the economy of unmet workforce needs, both current and projected. In briefest terms, when jobs are unfilled, we see negative effects on organizations, and we are hearing these concerns from non-profits to the private sector, at a range of wage and skill levels. The state's economy and revenue depend upon a healthy workforce and the businesses that employ them. The **Futures Project** seeks to bring attention to the system-wide impacts of a housing when it is ill-suited to sustain Vermont's workers due to issues of price, location, and quantity and quality.

On an individual household basis, the magnitude of the problem can be in the range of monthly costs exceeding affordability by 10-20% or more of total income, or starting home prices requiring a qualifying income several thousand dollars per year in excess of the state's median (VHFA). That is to say, incentives may offer some inducement for higher wage workers. But households earning within 80-120% of median real an annual gap between affordability and cost can easily be in the thousands.

As a policy issue, housing is complex because it is nearly all subsidized in some way, whether through mortgage interest deductions, appraisal structures, infrastructure investment, or direct public investment. A critical question is whether these direct and indirect investments are helping to fulfill broader economic goals. For instance, in the case of workforce, this means ensuring essential workers are available. Workforce housing programs typically define these at the local or regional scale, and may include teachers or tourism professionals, police officers and local government staff. Ideally, subsidized housing production promotes other regional or state goals, such as conservation and sprawl reduction.

A housing system that is a poor fit for the needed workforce will strain local, regional, and eventually state economies, by depriving you of workers, or by depriving them of the means to advance socioeconomically, or by creating conditions that generate new social problems. This strain is felt at the household level and often not noticed until a critical mass of employers give voice to chronic worker supply issues. We are hearing this around the state. At the same time, many Vermont regional housing markets are driven by seasonal, tourist and investment oriented homebuilding. In fact, some of the nation's best examples of workforce housing arose to solve the challenge this creates for local workers, places like Aspen and Martha's Vineyard (see reference below). Broader initiatives with broader social goals (increase home ownership, reduce loss of working families from gentrifying neighborhoods) in places like Maryland and Massachusetts.

### **Workforce Housing Related Data - Vermont Futures Project**

In January 2016 the Vermont Futures Project launched a data dashboard to support broad, long-term discussion about the state's economic health. Under the heading "Quality of Place" are two data points, or indicators, related to housing.<sup>6</sup> These were selected with workforce in mind, beginning with a 4.1% rental vacancy rate (down from 7.7% in 2005) which is very low. Many towns have 0-1% vacancy. Scarcity drives up rents, with Burlington's rental costs and scarcity being described in terms of a crisis. In

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<sup>6</sup> <http://www.vtfuturesproject.org/quality-of-place>

smaller towns it means childcare providers, retail clerks, personal care attendants are often housed poorly yet expensively. Most must own a car to commute, adding cost. Vermont's increasing commute times indicate this struggle to meet housing needs in close proximity to available jobs. Low housing supply, as with low unemployment, attains a level where we see profound, slow to reverse, negative impacts in economies.

A second housing data point selected for the Futures Project Data Dashboard was housing starts, an important indicator to track over the long term.<sup>7</sup> In 2014 Vermont had 1,546 housing starts, down 47% since 2005. Many were Chittenden County or resort areas, so the number is much lower in most Vermont communities. You see this in a different way by looking at housing by age which shows Vermont's "tired" housing stock which has implications for desirability, but also efficiency and current locational preferences (walkability) and evolving needs among older populations.<sup>8</sup>

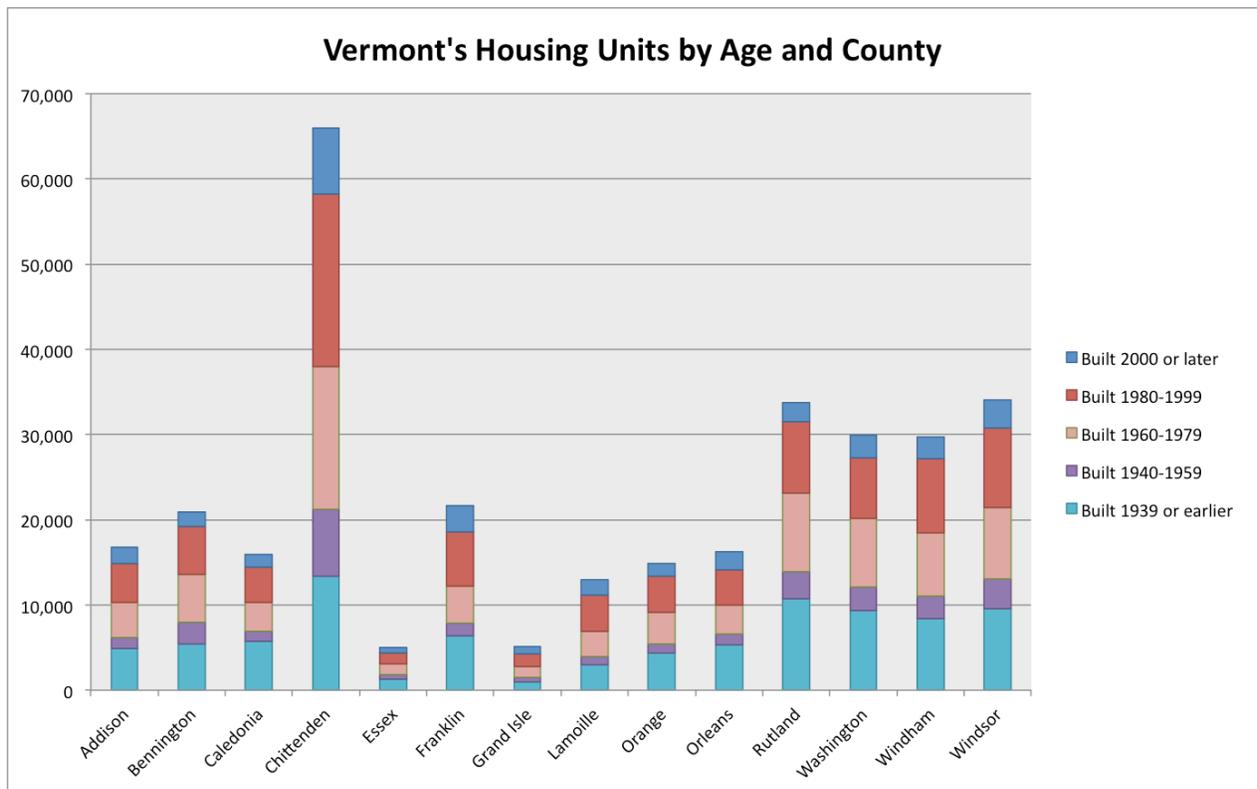


Figure 1: American Community Survey 2009-2013

In terms of recruiting and retaining young workers and entrepreneurs to Vermont, conversation with realtors in the Burlington area and southern Vermont reveal difficulty satisfying the demands of these home-buyers. Again, location, quality, efficiency, and cost are all issues. We often have an impression that Vermont is filled with historic homes. Thanks to preservation efforts, there are still many. But the truth is that many of those require upgrades in excess of their market value, beyond the means of average buyers. Moreover, a great proportion of our homes were built 1960-1999 when Vermont experienced it's second and most recent surge in population and growth. Today 7.1% of

<sup>7</sup> <http://www.vtfuturesproject.org/quality-of-place/>

<sup>8</sup> <http://www.vtfuturesproject.org/quality-of-place/homes/>

the housing affordable to median wage households is provided by manufactured homes which can be poor equity-builders, in addition to health and resilience concerns.<sup>9</sup>

**Broader Implications: Local Economies, Social Mobility, Environment**

Many Vermonters pay a large portion of their household income live here.<sup>10</sup>

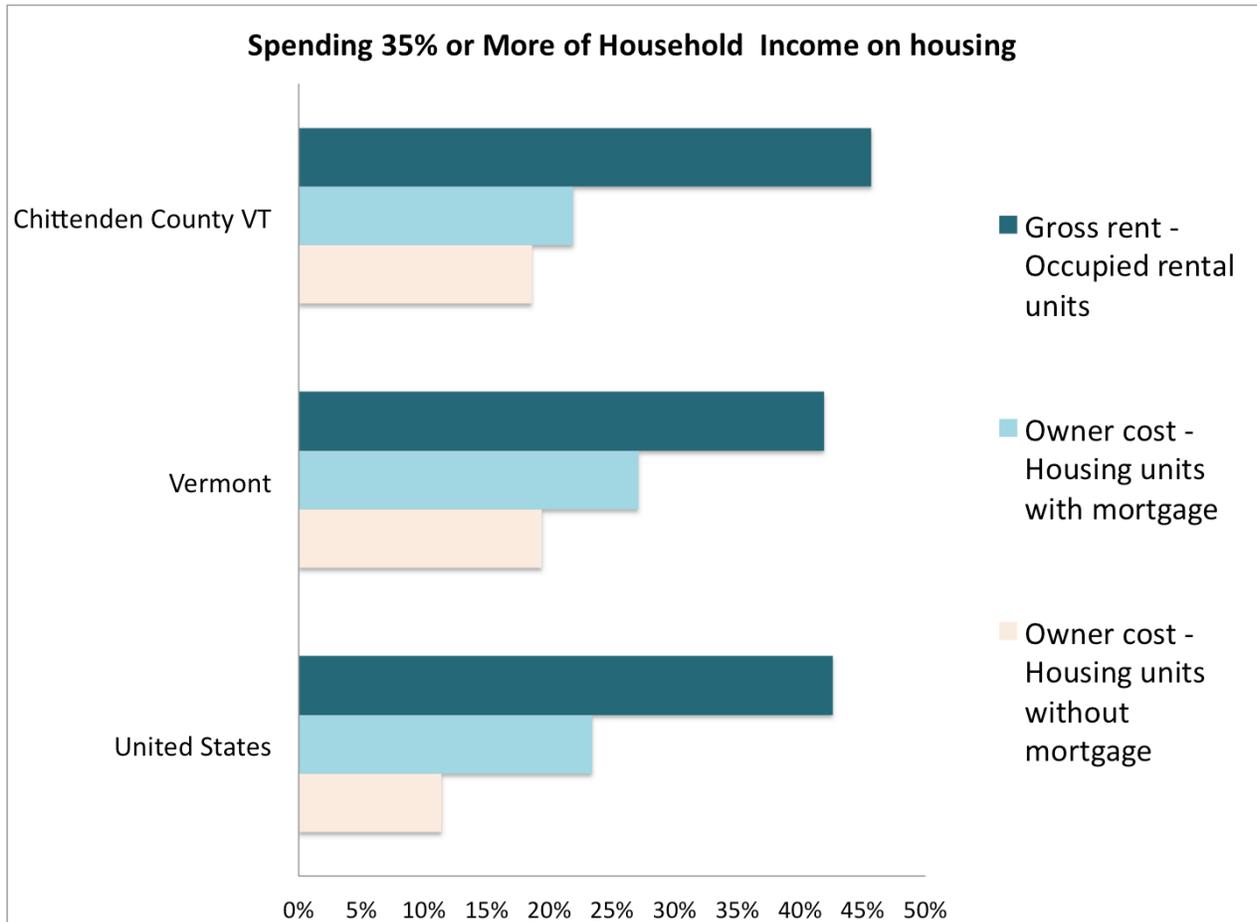


Figure 2: 2014 American Community Survey 1 year estimates

In a state with low wages compared to national averages the problem is magnified.<sup>11</sup> This poses challenges in terms of people considering whether to settle in Vermont, particularly in the case of young people who start life with student loan debt, or come from families with low-no personal wealth to offer assistance. We see also a cumulative impact in terms of local economies: Household dollars spent on housing can't be spent elsewhere. Vermont increasingly fills jobs with people who reside outside the state. Their dollars earned in Vermont are less likely to be spent here.<sup>12</sup> Conversely, adapting housing supply to fit emerging demand is an opportunity to reinvigorate local communities suffering the effects of aging and shrinking populations.

<sup>9</sup> <http://www.vtfuturesproject.org/quality-of-place/homes/#1447444816174-837f4126-8681>

<sup>10</sup> <http://www.vtfuturesproject.org/quality-of-place/homes/#1449847642087-58eba6f8-a706>

<sup>11</sup> <http://www.vtfuturesproject.org/our-workforce/wages/>

<sup>12</sup> <http://www.vtfuturesproject.org/our-workforce/changing-workforce/#1447521684590-c2d383f6-2d4d>

## Why This Legislation is Valuable Right Now

This legislation is an important step forward in developing policy, programs and expertise that relate to a fundamental need for a strong Vermont economy – a healthy supply of appropriate housing for the workforce, in terms of price, location, cost and quality. The proposal will help the state to (a) begin experimentation to find an approach that is suitable to regional and state needs, (b) expand a housing conversations that focuses luxury markets and affordable housing to encompass broader supply issues, (c) improve understanding of the need to pro-actively solve for the mismatch between high demand and weak market conditions where profitability alone will fail to drive satisfactory solutions, and (d) put housing on the table as a central element in the state’s economic infrastructure.

Vermont can look to other communities that have taken on workforce housing challenges exacerbated by a robust seasonal and second home market, Aspen, Colorado being the most longstanding and studied. A recent New England example, perhaps especially suited to Vermont’s conservation-oriented approach to development, comes from Martha’s Vineyard where a land trust helped shape a project to house emergency workers, teachers and other essential workers local towns rely upon.<sup>13</sup> Given the growing activity of real estate investors who often can pay higher prices or, increasingly, pay with cash, working Vermonters may continue to find themselves outbid in the marketplace.<sup>14</sup>

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**References for further reading housing policy and research.** Other work by these authors are available online but sources cited below relate well to housing production and its interface with the economy, or housing as a form of “economic infrastructure”.

Rachel Bratt: Expert in housing systems, helpful analysis of structural subsidies driving public and market-rate housing production; environmental consequences including parcelization of rural environments and sprawl; persistent gaps unmet by public, non-profit and private delivery housing production approaches.

Bratt, R. G., Stone, M. E., Hartman, C. W. (2006). *A Right to Housing: Foundation for a New Social Agenda*. Temple University Press, Philadelphia, PA.

Anthony Downs: Extensive expertise, notably in housing as it supports workforce needs and problems resulting in regional economies when it does not; expert in and proponent of growth management.

Downs, Anthony. "The Need for a New Metropolitan Vision." *The City Reader*. Eds. Richard Legates and Frederic Stout. Fourth Edition ed. New York: Routledge, 1989. 245. Print.

Arthur Nelson: Expert in emerging housing demand particularly as relates to aging population, increasing share of single and child-free households, evolving preferences towards walkability and transit options;

Nelson, A. C. (2013). *Reshaping Metropolitan America*. Washington DC: Island Press.

Christopher Leinberger: Expert in development and housing production; helpful to understand how national housing industry structure poorly responds to demand, particularly in rural / weak markets.

Leinberger, C. B. (2008). *The Option of Urbanism: Investing in a New American Dream*. Washington, DC: Island Press.

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<sup>13</sup> <http://www.ihtmv.org/affordable-homes/>

<sup>14</sup> <http://www.realtor.org/news-releases/2014/05/all-cash-sales-up-while-distressed-sales-and-investors-decline>