BY SIERRA LATHAM

Housing the Workforce in the Rural Fifth District

Although real estate is often less costly in rural areas than in urban areas, many low- and middle-income households in rural areas struggle with housing expense. There are multiple reasons why rural households end up financially constrained by housing costs. First, incomes tend to be lower in rural areas. Second, there are limited available units — multifamily or single family — in rural areas for reasons that reflect the unique challenges of the rural housing landscape.

Although these challenges to finding affordable, quality housing tend to cut across the rural Fifth District, there are also differences that arise from the diversity of rural areas. Rural communities possess unique assets that they can use to leverage policy and market-based tools to resolve housing shortages. Depending on local constraints, communities may choose to preserve or repurpose existing properties or create new units to make housing more affordable.

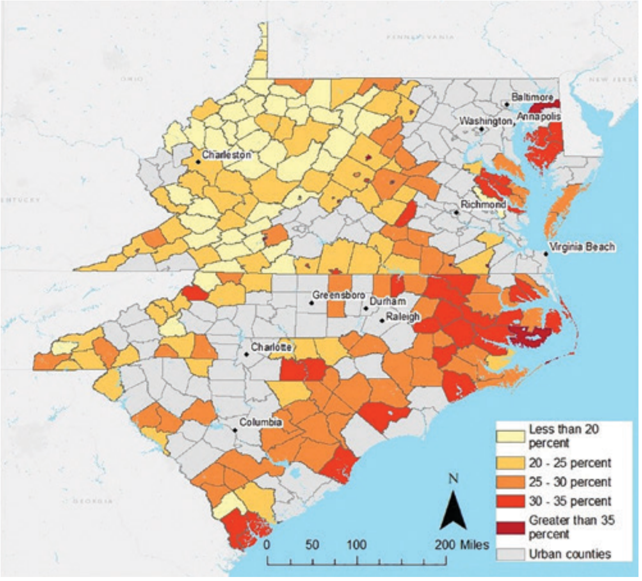
Typically, the terms “affordable housing” and “workforce housing” are used to refer to housing that is affordable to low- and middle-income households, respectively. This article uses the term “low- to middle-income housing” to refer to both — that is, all housing affordable to low- to middle-income households earning up to 120 percent of the area median income (AMI).

THE BURDEN OF RURAL HOUSING COST

When housing practitioners think about the affordability of housing expense, they consider households to be “cost burdened” if rent or ownership costs account for more than 30 percent of gross income. For example, for a household earning $48,000 per year, or $4,000 per month, a home that costs up to $1,200 per month would be considered affordable at that income level (because $1,200 is 30 percent of $4,000). If the household lives in a unit that costs more than $1,200 per month, they would be considered housing cost burdened. This includes households that willingly spend more than 30 percent of their income on housing. Housing cost burden can be distinct from housing instability, which can include households facing eviction or experiencing homelessness.

Housing Cost Burden, by County

Share of housing cost burdened households



SOURCE: U.S. Census Bureau 2015-2019 American Community Survey 5-year estimates

In the Fifth District, rural households are only slightly less likely to be housing cost burdened than urban households. Twenty-five percent of rural households at all income levels are housing cost burdened, versus 28 percent of urban households. Within rural parts of the Fifth District, the share of housing cost burdened households is greatest in areas along the coasts of Maryland and the Carolinas and is less pronounced in the Appalachian region. (See map.)

Housing cost burden is often thought of in urban contexts where property values and rent costs are relatively high. In rural areas, lower incomes are often the driving forces behind housing cost burden levels.

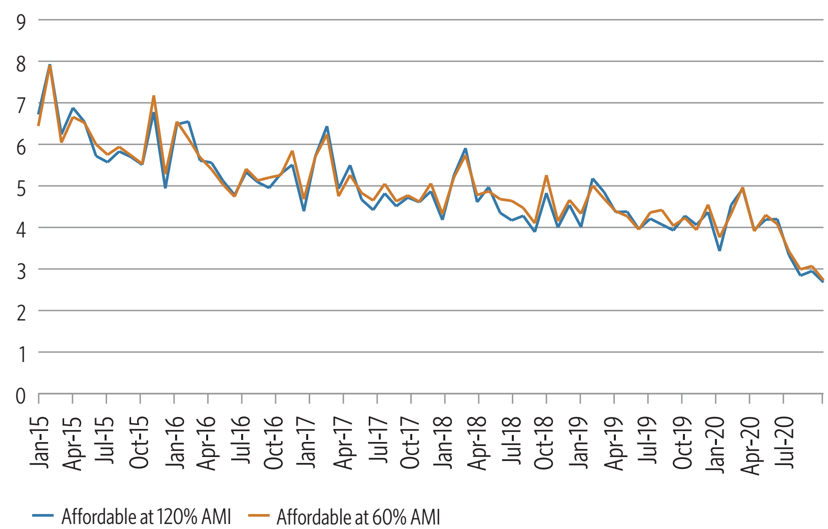
Focusing on low- to middle-income households, about 38 percent of Fifth District rural households earning 120 percent AMI or less are housing cost burdened. For rural households earning less than 60 percent AMI, the share that are housing cost burdened jumps to more than half.

Nationally, in rural areas, the share of renters who are housing cost burdened has consistently been greater than the share of owners who are. This trend holds true for the Fifth District, where 45 percent of rural renters are cost burdened versus 25 percent of homeowners with a mortgage.

FIFTH DISTRICT RURAL HOUSING MARKETS

Trends in the age and type of residential properties influence the quality of housing stock, while homeownership rates, vacancy rates, and select demographic characteristics influence the overall supply. Rural housing markets tend to differ from urban ones along all of these dimensions.

Months' Housing Supply for Low- to Middle-Income Households in Rural Areas of the Fifth District



SOURCE: CoreLogic and author's calculations

NOTE: All homes affordable to households earning 60 percent AMI are, by definition, affordable to households earning 120 percent AMI. Because of this overlap, the two series track each other closely.

The housing stock in rural areas tends to be older than in urban areas. Aging housing stock poses housing quality concerns, which can affect residents' health, comfort, and utility bills. In the Fifth District, 48 percent of units in rural areas were constructed prior to 1980 versus 44 percent in urban areas. In particular, Virginia and West Virginia have a larger share of housing units constructed prior to 1950 in rural areas compared to urban areas. Single-family and manufactured homes make up a larger share of the rural housing stock nationwide, while apartment buildings represent a greater share of units in urban areas. In rural parts of the Fifth District, single-family and manufactured homes account for most of the housing stock (71 and 17 percent, respectively). Apartments account for only 12 percent of rural housing stock (versus 25 percent in urban areas), in part because it is more difficult to finance and construct multifamily properties in less dense communities. Because apartment units make up such a small share of rural housing, rural renters are more likely to rent a single-family or mobile home than renters in urban areas.

Homeownership rates are higher in rural areas than urban areas, both nationally and in the Fifth District. In the Fifth District, 69 percent of rural households own their homes versus 65 percent of households in urban areas. The tendency toward homeownership means there are fewer units available to rent for low- and middle-income households for whom homeownership may be out of reach.

Vacancy rates also tend to be higher in rural areas. In destination locations, vacation homes make up a large share of vacancies; in other areas, unused or abandoned buildings account for a large share. These conditions constrain housing supply and put upward pressure on prices in the ownership market. In line with national trends, housing vacancy rates differ between urban and rural parts of the Fifth District. Nineteen percent of residential units in rural areas are vacant versus 11 percent in urban areas. Compared to urban areas, smaller shares of rural units are vacant because they are either for rent or for sale.

Lastly, rural areas are characterized by an aging population. Senior populations have historically chosen to move out of their family home, but the trend toward aging in place has increased competition for starter homes and limited opportunities for first-time homebuyers. Eighteen percent of rural Fifth District residents are over the age of 65 versus only 14 percent of urban residents.

Together, these trends constrain the supply of high-quality low- to middle-income housing in rural parts of the Fifth District.

LOW- TO MIDDLE-INCOME HOUSING IN THE OWNERSHIP MARKET

In the ownership market, the tightness of a housing market is commonly measured by the number of months of housing supply, which is measured as the ratio of new and existing homes on the market to homes sold in a given month.

Focusing on homes affordable to low- to middle-income households, rural areas tend to have a greater supply of housing in any given month than urban areas. But the low- to middle-income housing market has been tightening in both urban and rural areas over time. In rural parts of the Fifth District between January 2015 and September 2020, the months' supply of homes affordable to households earning 120 percent AMI and 60 percent AMI declined from around seven months to three months. (See chart.) This decline is attributable to several factors: a decline in the number of homes for sale — the result of less housing being built, homeowners becoming less willing to sell their homes during a pandemic, and an increase in home prices that has outpaced income growth — and an increase in demand due to low mortgage rates.

Among rural areas in Fifth District states, Virginia and North Carolina tend to have the shortest supply of low- to middle-income homes for purchase. On average, between January and September 2020, rural parts of Virginia had 3.5 months of supply for households earning 120 percent AMI, and rural parts of North Carolina had 3.6 months. Rural parts of Maryland, West

Virginia, and South Carolina all had between 4.0 and 4.2 months of housing supply.

LOW- TO MIDDLE-INCOME HOUSING IN THE RENTAL MARKET

While renter households are in the minority in rural parts of the Fifth District, they are disproportionately represented in the ranks of low- to middle-income households. Some 41 percent of households earning 60 percent AMI or less and 28 percent of households earning 60 percent to 120 percent AMI are renters, compared to only 14 percent of those earning more than 120 percent AMI. The shortage of low- to middle-income rental units can be measured by comparing the number of rental households at each income level to the number of housing units that would be affordable at that income level, minus those units rented by household in higher income categories. While there appear to be enough rental units for renters earning 120 percent AMI, there are only enough affordable rental units for four-fifths of households earning 60 percent AMI throughout rural parts of the Fifth District. This means that at least one-fifth of low-income households are most likely housing cost burdened, although some may also be experiencing housing instability.

Considering that the Fifth District spans five states and the District of Columbia, available low- to middle-income rental housing in more localized markets may be better or worse depending on rental market and household income characteristics. There is a cluster of areas with relatively high shortages in affordable rental housing in eastern North Carolina and several other locations scattered throughout the Fifth District. (See map.)

CREATING NEW UNITS

Several public financing programs assist with development costs for new rental housing affordable to low-income households. In rural counties throughout the Fifth District, Low Income Housing Tax Credits, or LIHTCs, are the most common source of housing assistance, accounting for more than 50 percent of all units receiving any type of public assistance in Virginia and Maryland and more than 30 percent in West Virginia and the Carolinas. USDA–Rural Development (RD) Section 515 loans subsidized the development of more than 20 percent of all units receiving public assistance in Maryland, North Carolina, and Virginia. More than 20 percent of assisted units in West Virginia and the Carolinas were public housing, meaning the property is owned and maintained by public funding.

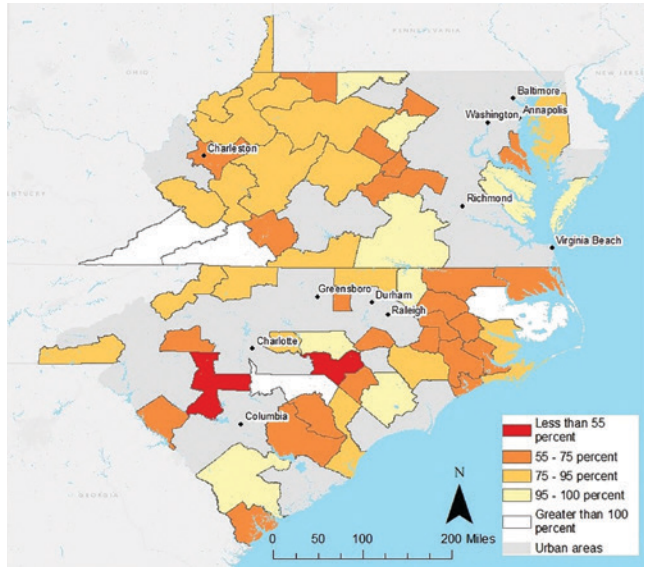
While LIHTCs, USDA-RD Section 515 loans, and public housing have been powerful tools for creating dedicated affordable rental housing in the past, they are not sufficient mechanisms for meeting demand in most markets. For LIHTCs, only about one in every four developments that apply receive funding due to resource constraints. Funding for the USDA-RD Section 515 program has been declining over time, and the loans that are issued cover only about 20 percent of property development costs on average. The remaining funds are typically covered through complementary public funding programs or through debt financing from lending institutions. Nationally, the number of public housing units has declined over time as units have been taken out of service due to deterioration or demolition, and the need for capital expenditures exceeds the amount included in the federal budget. For existing units, the median waitlist time is nine months but can be as long as five years in high-need areas.

Also, with the exception of public housing, affordable properties that were developed using public assistance have a time limit on how long they are required to remain affordable — usually 15-30 years. Once that time limit has been reached, they can be converted to market-rate units, meaning they lose their affordability. In rural parts of the Fifth District, for example, nearly 7,700 units built using LIHTCs or Section 515 loans (or 11 percent of all LIHTC and Section 515 units) are at risk of losing their affordability by 2030 unless another financing mechanism is used to preserve them.

Both for-profit and nonprofit real estate developers can play a role in developing new low- to middle-income housing in rural areas. In some areas, market-rate homes may be affordable to middle-income households. In other

Affordable Rental Housing Stock in Rural Areas

Ratio of affordable rental housing stock to households earning 60 percent of area median income



SOURCE: U.S. Census Bureau 2015-2019 American Community Survey Public Use Microdata Sample (PUMS) and author's calculations

NOTE: Map shows the amount of rental housing affordable to households earning 60 percent AMI in public use microdata areas (PUMAs) as defined by the U.S. Census Bureau. In order to protect survey respondent privacy, rural PUMAs may consist of multiple counties.

places, developers rely on grant funding, philanthropic funding, and public donations that allow them to sell homes to income-eligible buyers at below-market prices. In many cases, homes sold at below-market value are equipped with resale formulas — contract terms that limit the future resale price of the home — to allow homeowners to accrue equity without sacrificing the long-term affordability of the property.

In the Fifth District, Georgetown County Habitat for Humanity in South Carolina is developing an affordable homeownership community. The county gifted 30 acres of county-owned land to the project, zeroing out the cost of land. Habitat also received a HOME grant from the U.S. Department of Housing and Urban Development to cover 80 percent of the development cost for the homes and sought the remaining 20 percent of financing from lending institutions. Households earning 30 percent to 80 percent of AMI will be eligible to purchase the homes; buyers will be provided a mortgage at zero interest with no down payment.

PRESERVING EXISTING UNITS

Preserving existing low- to middle-income housing will help sustain the supply and quality of it into the future. Creating financing opportunities to repair and rehabilitate homes helps keep utility costs down for residents, improve health conditions, and extend the useful life of the structure. Homeowners with limited financial resources who live in aging properties are especially at risk of living in homes that have fallen into disrepair over time. Nonprofit organizations, such as Rebuilding Together and Habitat for Humanity, local government programs, and federal programs, such as USDA-RD Section 504 and the Department of Energy's Weatherization Assistance Program, provide affordable home repair loans, grants, and direct services to low-income households, seniors, and residents with disabilities.

Because all affordable home repair programs are subject to resource constraints, many of them limit eligibility to a subset of low- to middle-income households. For example, Section 504 serves homeowners earning 50 percent AMI or less and offers loans of up to $20,000 per home. Other programs prioritize households that include seniors, children, or persons with disabilities. As a result, not all low- to middle-income households will be eligible for these programs. Rebuilding Together Kent County, located on Maryland's rural Eastern Shore, is an example of a program that rehabilitates homes for low-income homeowners. After performing a home assessment, Rebuilding Together Kent County coordinates home repairs to improve the health and safety of the home and home modifications as needed for seniors and persons with disabilities to reduce the risk of falls or injury. In 2020, the organization served 21 unique households, all of whom had incomes below 80 percent AMI. The majority of households served reported improved physical and mental health as a result of the program, and 40 percent reported that their home increased in value.

COMMUNITY LAND TRUSTS

One mechanism for preserving low- to middle-income housing in the long term is community land trusts (CLTs), through which nonprofit, community-based organizations purchase and retain ownership of the land on which housing is built. Residents who purchase homes located on CLT land benefit from establishing equity, and resale formulas guarantee that the homes will continue to be affordable to low- to middle-income owners in the future (though this dampens appreciation). In many cases, CLTs continually support residents in ways that range from homebuyer education classes to ongoing financial and maintenance counseling, resulting in lower rates of mortgage delinquency and foreclosure.

For example, Piedmont Community Land Trust (PCLT) is a Fifth District CLT that serves Charlottesville, Va., and the surrounding rural counties. PCLT creates homeownership opportunities for households earning 80 percent AMI or less by purchasing land and holding it in trust while the homeowner purchases the home on the land. The homeowner and PCLT enter into a 90-year ground lease on the land, which renews automatically. Removing the cost of land from the purchase price reduces monthly payments for the homeowner by anywhere from 20 percent to 40 percent. PCLT works in partnership with a community development financial institution that administers down payment assistance to eligible homebuyers.

Although CLTs have been around since the 1960s, many communities lack knowledge about how they operate and, as a result, are hesitant to adopt policies to encourage their establishment. Even with the support of the local community, creating a new CLT can be challenging as it requires coalition building, financial resources, and organizational capacity. Acquiring land can be difficult or expensive, particularly in counties where land is priced at a premium. Lastly, CLTs are not a suitable mechanism for resolving all low- to middle-income housing shortages because they often limit eligibility to a subset of low- to middle-income households, such as households with incomes below 80 percent AMI.

REPURPOSING EXISTING PROPERTIES

Underutilized or vacant properties in rural areas provide an opportunity to create low- to middle-income housing and simultaneously prevent or resolve blight.

Many small towns have vacant commercial or industrial properties that could be rehabilitated by a developer. Finding a developer willing to undertake property acquisition and redevelopment costs might be difficult for some rural jurisdictions, and in some cases current owners might be unwilling to sell their properties. Local governments and community-based organizations can facilitate this process by brokering relationships between property owners and developers and minimizing permitting and redevelopment costs for viable adaptive reuse projects.

Graham, N.C., is home to an example of an industrial property that was redeveloped into affordable housing in 2017. Prior to the building's redevelopment, the Oneida Mill Lofts had lived a previous life as a textile mill before sitting vacant for two decades. Today, the property consists of 133 one- and two-bedroom units affordable to households earning up to 60 percent AMI. The development team took care to preserve the historic character of the building during redevelopment.

Communities with a significant network of vacant and abandoned properties might benefit from establishing a land bank, which is an entity that systematically acquires properties and prepares them for sale or lease. In addition to converting previously unused property to low- to middle-income housing, land banks are a strategy for improving public safety, increasing property values of adjacent properties, and expanding the jurisdiction's tax base. Within the Fifth District, Virginia, West Virginia, and Maryland have legislation enabling land banks. CLTs may complement land banks if the land bank agrees to sell remediated land to the CLT to redevelop.

Acquiring vacant and underutilized properties can be challenging. For a land bank to assume control of a vacant property, either the owner has to willingly transfer the property or the property needs to be foreclosed upon, usually due to a tax foreclosure. After either of these events occur, the land bank may need to overcome a number of legal obstacles to assume ownership of the property, such as issues related to property right law, tax foreclosure law, or titling defects. After obtaining new land, the land bank may need to finance remediation activities and may experience funding limitations.

Roanoke, Va., established a land bank in 2019 with the goal of converting abandoned and derelict properties into affordable housing. After properties have gone through the tax delinquency process, the city will turn them over to a partner organization, Total Action for Progress (TAP). TAP will then work with other nonprofits, such as Habitat for Humanity, to renovate or construct new affordable housing on the site.

DIRECT SUBSIDIES

Several public programs exist to provide direct rental subsidies to low-income households. Housing choice vouchers (HCVs) and USDA-RD Section 521 (which subsidizes rent in some USDA-RD Section 515 properties) are two types of direct rental subsidies in rural spaces. In addition to these, local nonprofit and public entities can create public-private partnerships with local employers to develop dedicated housing affordable to low- to middle-income households, as has been done in urban communities with constrained rental housing markets.

HCVs and USDA-RD Section 521 do not reach all income-eligible households due to funding limitations. Due to limited availability, the median waitlist length for HCVs is one and a half years nationally and up to seven years in high-need areas. Only households earning 50 percent AMI or less are eligible for HCVs. By definition, USDA-RD Section 521 serves only Section 514, 515, or 516 properties, which meet the needs of only a fraction of low- to middle-income households.

Public and nonprofit organizations can help working families afford housing by creating programs to help cover the upfront costs associated with purchasing a home. For many low- to middle-income households, these costs are a greater barrier than monthly mortgage payments. Down payment assistance (DPA) and closing cost assistance programs can provide either grants or low-interest loans and are usually intended to help low- to middle-income first-time homebuyers. In the Fifth District, state-level organizations in North Carolina and South Carolina offer DPA programs for qualifying households, whereas other local jurisdictions use these programs to allow public employees to live locally. Maryland, Virginia, and West Virginia go a step further to provide funding to help with closing costs. These state-level organizations also provide low-cost mortgages to qualifying households.

CONCLUSION

As evidenced by the persistence of housing cost burdens and measured housing shortages, rural areas have unmet low- to middle-income housing needs. Local housing market conditions, including demographics, housing stock quality, and other assets, vary and therefore point toward different policy solutions. At the same time, many available policy solutions are designed for low-income households but not middle-income ones. This reflects what the Richmond Fed has been hearing from businesses in rural areas: that local housing shortages have made it challenging to attract and retain workers, especially low- to middle-income workers.

In addition to longstanding housing challenges in rural communities, the pandemic-driven migration of households from more densely populated areas has increased demand for housing in rural markets, reducing the amount of time homes spend on the market and putting upward pressure on prices. Rural areas that have lost population in recent years may welcome additional residents as contributors to their tax base and community. At the same time, this recent trend heightens the need for new low- to middle-income housing solutions in rural communities throughout the Fifth District. **EF**