I-68 REGIONAL ALLIANCE

I-68 Regional Alliance

Housing Study

A Strategy for Action on Market-Rate Housing

APRIL 2022

Prepared by czbLLC

Acknowledgements

This Housing Study was produced for the I-68 Regional Alliance by czbLLC and made possible by generous support from the following:

Allegany County, Maryland
Bedford County, Pennsylvania
Garrett County, Maryland
Mineral County, West Virginia
Somerset County, Pennsylvania

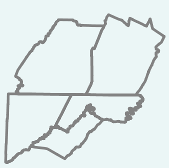
Rural Maryland Council
Frostburg State University
Garrett Community Action Committee
The Greater Cumberland Committee

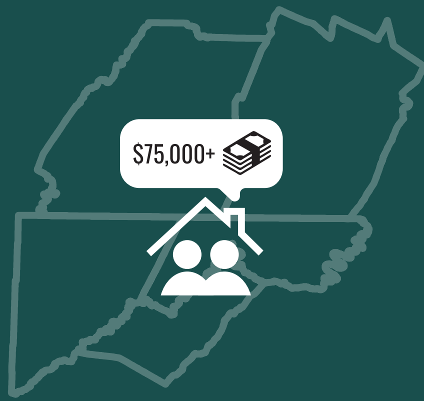
Table of Contents

Executive Summary

The quality of a region's housing and its ability to be economically competitive—to attract and retain the skilled workers that businesses and institutions need to thrive—are closely connected issues. Until recently, they were rarely viewed this way, and housing is still not part of the formal economic development toolkits in most parts of the country. But in the five counties that participate in the I-68 Regional Alliance, momentum is building to formalize this crucial connection.

This I-68 Regional Alliance Housing Study is a step in that direction. It identifies the barriers to healthier levels of market-rate housing investment in the region and the opportunities that exist to lower those barriers. It lays out a regional toolkit that is responsive to the region's supply and demand dynamics. And it describes a framework for implementation of those tools by committed coalitions of local stakeholder. Altogether, it provides a basis for taking action and a blueprint for putting the right tools in the hands of communities that want to invest in better housing options.





A focus on households that have already chosen the region

Market analysis for this study concludes that the region cannot count on population growth to solve low levels of investment and reinvestment in the region's residential inventory.

It can, however, focus on the 30,000 households in the region right now that make $75,000 or more per year. Most of these households are able to spend much more on housing than they currently are, but their willingness to do so is limited—and well below what it actually costs to produce new housing.

A successful start to any effort to improve the region's housing options must begin to improve the willingness of these households to invest more in existing homes than they currently are, or to choose new rental or ownership opportunities that are more expensive than prevailing options.

A viable target market of 150 households per year—drawn from existing households—is identified for new rental or ownership opportunities.

150

households per year

A regional toolkit designed to strengthen housing demand

To be effective at addressing barriers to new housing investment, tools for market-rate housing in the region must be responsive to problems that need solving. This study identifies four problems in particular—all of which have soft demand at their root:

For each problem, specific tools are identified that, together, form a regional toolkit for strengthening housing demand.

A framework for local implementation

The political landscape of a region that encompasses five counties in three states requires that the regional toolkit be adapted for local use by local stakeholders.

This study proposes the creation of ad hoc Housing Coalitions as the first step in this adaptive process. To succeed, these coalitions must have strong conveners and reflect the unique combination of stakeholders that exist in each corner of the region. And they must be clear-eyed about the need to commit local resources to activate any of the recommended tools.

Introduction

Highway improvements, shovel-ready land, business incentive packages, workforce training initiatives—all of these and more have been standard economic development tools for decades in the five counties that comprise the I-68 Regional Alliance.

Housing, however, has not typically been considered part of a modern economic development toolkit. Things were different in the 1800s and early 1900s when mine operators, mill owners, railroads, and other fixtures of the region's Industrial Age economy would routinely invest in housing to accommodate their need to have laborers living a short distance from worksites. For most of the 20th Century, though, existing housing supplies and the use of cars to broaden the range of the labor force to homes well beyond places of employment made housing—for the most part—a non-issue in the context of economic development.

For a number of reasons, housing has re-emerged as an issue that very much influences the region's economy and its ability to compete with other regions. This includes the highly mobile nature of today's labor force—especially skilled workers who have a wide range of options in terms of where they work and where they live. Quality of life is an important deciding factor for many of these workers, and the quality of a region's housing options and residential environments are part of that equation.

The importance of housing poses a special challenge for communities with slow-growing or declining populations and relatively soft housing markets—characteristics that tend to limit investment in new housing as well as reinvestment in existing housing. In such places, including these five counties, market forces have made it harder to maintain a strong and competitive housing supply—a situation that threatens to dull the effectiveness of other economic development tools. After all, if a location hinders a business's ability to attract the right talent, quality of highway access and availability of land become increasingly moot.

In recognition of the growing importance of housing as an economic development issue, the I-68 Regional Alliance, its five member counties, and their partners commissioned this study to better understand the region's housing market, how market conditions influence investments in the housing supply, and how to intervene in the market in ways that are likely to result in a more competitive housing stock. **In particular, this study has been geared towards understanding demand for market-rate housing—defined as housing units that are rented or sold at prevailing market rates and without income restrictions.**

How to Use This Housing Study

This study is divided into three sequential parts that build from an overview of analyzed market conditions, through a definition of problems, to a practical framework for selecting and applying tools to solve those problems at a local scale.

PART 1

The Region's Housing Market Today: Conditions and Issues

Part 1 provides a broad overview of housing demand and supply at regional, county, and local levels. It draws attention to conditions and trends that influence housing investments and, in turn, the overall quality of market-rate housing options. It supplements data analysis with findings from employee survey responses and interviews.

PART 2

Problems to Solve and a Regional Housing Toolkit

Part 2 distills findings from Part 1 into a set of problems that need solving in order to bolster housing demand and investment. A Regional Housing Toolkit is then described that directly responds to the defined problems.

PART 3

Framework for Local Strategy Development and Implementation

Part 3 recognizes that the adoption and use of any tools described in Part 2 will occur not at a regional scale but at a local scale and will depend on the presence of motivated coalitions that are willing to design, fund, and administer the tools.

More than anything, what this housing study seeks to accomplish is to make the case for strategic interventions in the region's market-rate housing stock—unfamiliar policy territory for most of the region's public and private stakeholders—and to provide clear direction on how to mobilize employers, governments, economic development agencies, and others to assemble and utilize tools that will strengthen the region's communities and their housing supplies.

PART 1

The Region’s Housing Market Today: Conditions and Issues

Housing Demand:
What do we know?

Housing Supply:
What do we know?

Insights Gleaned from
Survey and Interviews

The Cost of **Market-Rate Development**

What do we know about the demand for housing in the five counties of the I-68 Regional Alliance? What do we know about the existing supply of homes and apartments? And, most importantly, how might any of this knowledge actually inform an effort to improve market-rate housing options in individual jurisdictions across the region?

The following pages provide an overview of demand and supply at the regional, countywide, and local levels—teasing out conditions and trends that are relevant to understanding the market forces that shape housing investments. They also compare prevailing housing costs and what households are willing to spend on housing with what it actually costs to produce new housing—a gap that is significant and must be addressed to bolster investment in market-rate housing.

Note on COVID-19

It is clear, as of April 2022, that the pandemic has had an impact on the region’s housing market. However, which impacts will last for years and which ones will be temporary cannot be predicted at this time and with the available data. This analysis is based on the latest statistics on housing demand and supply, which largely predate the start of the pandemic.

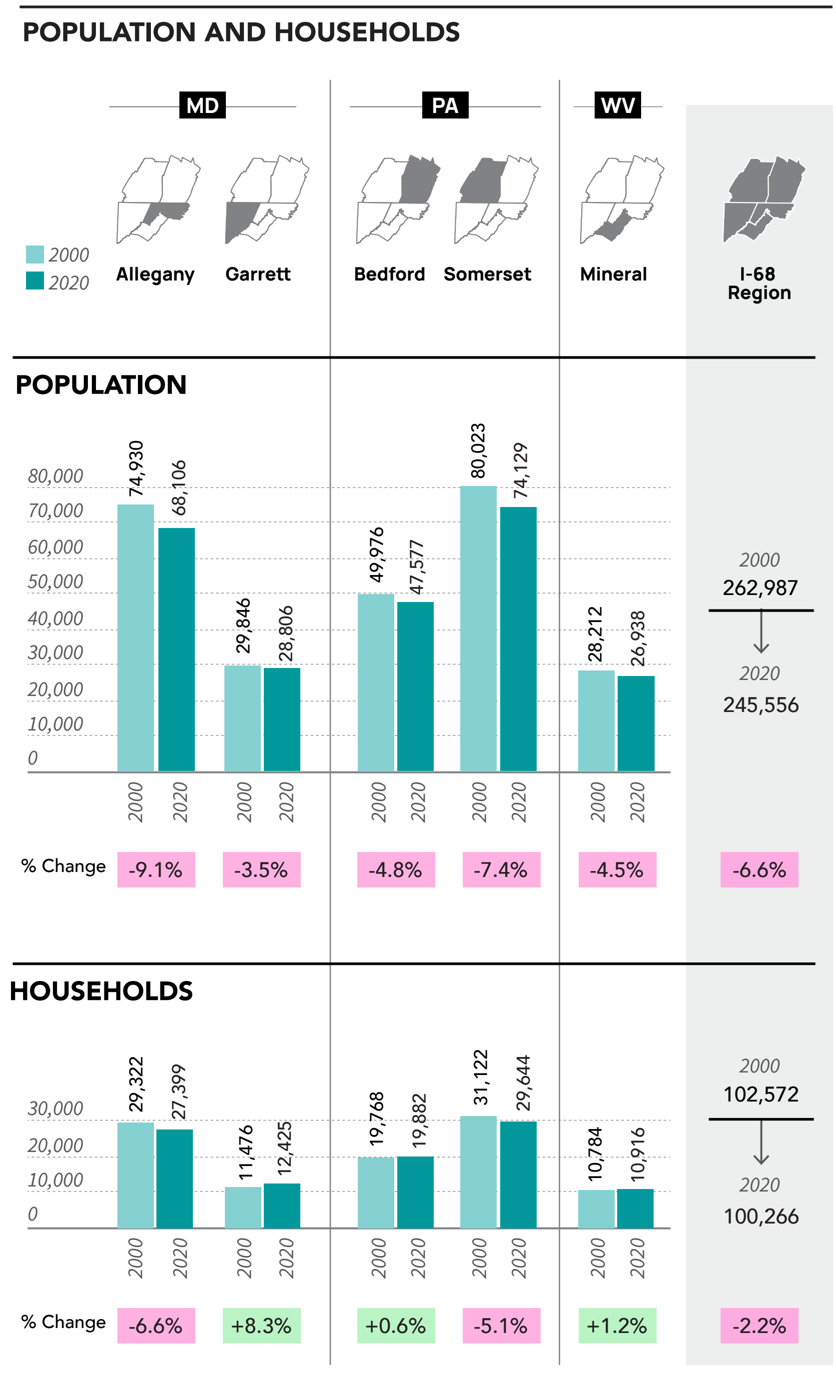
Rather than speculate, this analysis focuses on well-established trends that were shaping the region’s housing market before the pandemic, that may have been accelerated or amplified by the pandemic, and that are likely to remain influential into the future. If, in the coming years, market conditions appear to be much stronger than those described in this study, and if the market is producing noticeably higher levels of investment and reinvestment on its own, then a reconsideration of the recommendations will be in order.

Housing Demand: What do we know?

Population is smaller across the region, but change in the number of households varies

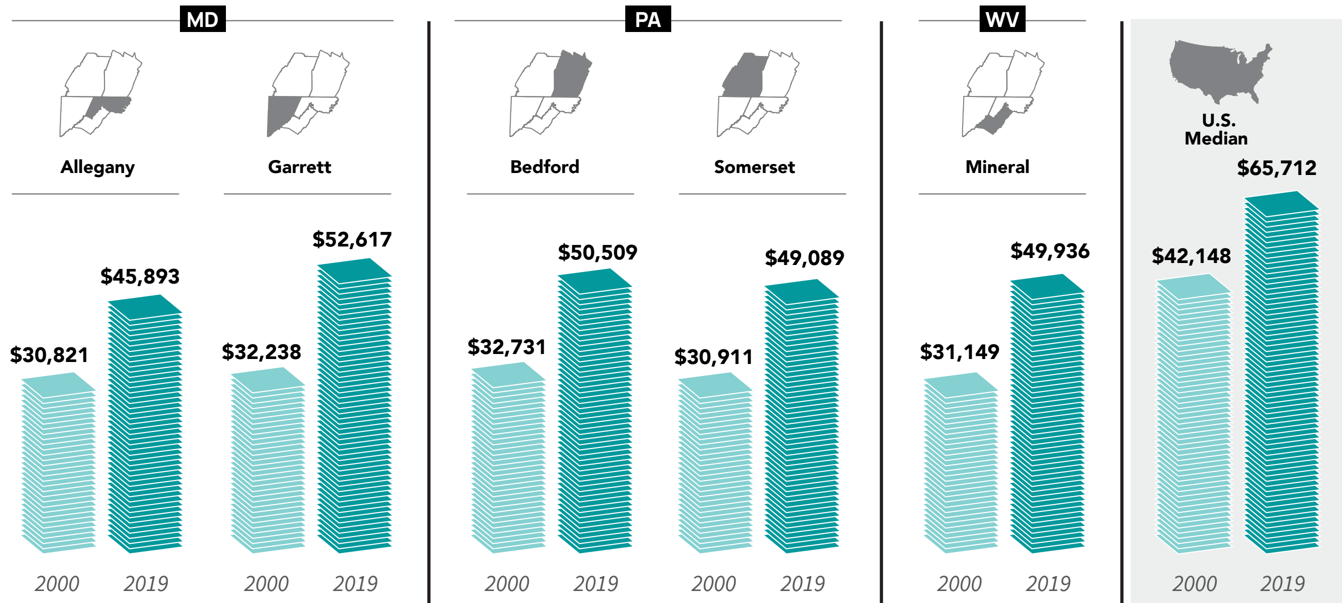
All five counties in the regional have smaller populations today than they had in 2000, with declines ranging from 3.5% in Garrett County to 9.1% in Allegany County. With growth slowing at the national level—a trend expected to continue as birth rates remain low and the population ages—slow or negative population growth in the five counties can be expected to continue for the foreseeable future.

At the same time, change in the total number of households—the actual consumers of housing—is a more complicated story. Shrinking household sizes, with single and two-person households becoming increasingly common, have meant shallower declines in household numbers. Three counties actually have more households today than in 2000 despite their population losses.



Source: U.S. Census Bureau, Decennial Census

MEDIAN HOUSEHOLD INCOME



	Allegany (MD)	Garrett (MD)	Bedford (PA)	Somerset (PA)	Mineral (WV)	U.S. Median
% Change	+49%	+63%	+54%	+59%	+60%	+56%
Inflation Adjusted	*0%*	*+14%*	*+5%*	*+10%*	*+11%*	*+7%*
Median **Affordable Monthly Housing Payment**	$1,147	$1,315	$1,263	$1,227	$1,248	$1,643
Median **Affordable Home Purchase Price**	$138,000	$157,900	$151,500	$147,300	$149,800	$197,100

Source: U.S. Census Bureau, Census 2000 and 2019 American Community Survey (5-Year Estimates)

Household incomes are well below national levels but have managed to keep up with inflation

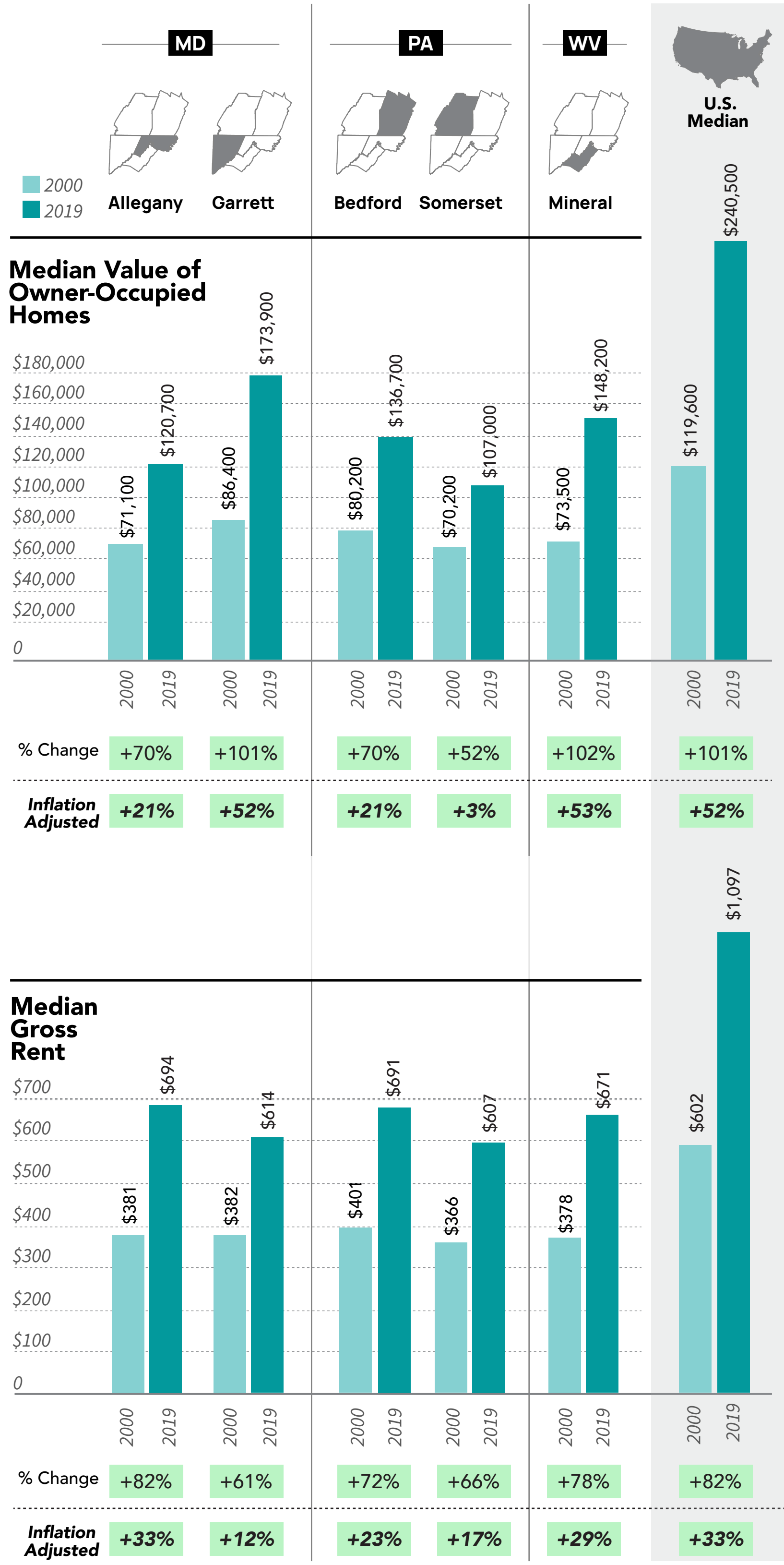
Incomes are a critical determinant of housing demand because they influence what households are able to spend on monthly housing costs and on home repairs and improvements. While median household incomes in all five counties were below the U.S. figure for 2019 (ranging from 70% to 80% of the U.S. median), every county kept pace with inflation between 2000 and 2019. Three of the counties—Garrett, Somerset, and Mineral—experienced income growth rates that exceeded the U.S. growth rate.

Since the 1930s, federal agencies and banks have used 30% of income as a threshold for determining the affordability of housing. If a household spends more than 30% of its monthly income on rent or a mortgage payment, it is considered "cost burdened." For the typical household in the region, 30% of monthly income currently ranges from $1,147 in Allegany County to $1,315 in Garrett County. Similarly, annual income multiplied by three has long been used as a rule of thumb to determine a household's home purchasing power—a figure that ranges from $138,000 for the typical household in Allegany County to $157,900 in Garrett County.

Home values and rents are also well below national levels and reflect slow growth and lower incomes

Similar to incomes, home values and rents in the region are well below national levels. The median value of owner-occupied homes, for example, ranged from 44% to 72% of the U.S. median in 2019, while median gross rents (a figure that includes utilities as well as contract rent) ranged from 55% to 63% of the U.S. median. With a few notable exceptions, values and rents also grew in the region at a slower pace than they did nationwide.

While these relatively low home values and rents reflect lower levels of demand in the region compared to national levels, they do not reflect the region's full capacity to pay for housing. Indeed, the median gross rent in all five counties is far below what the typical household in each county can afford to spend each month on housing (see page 10). And in every county except Garrett, the typical household can afford to purchase the typical house.



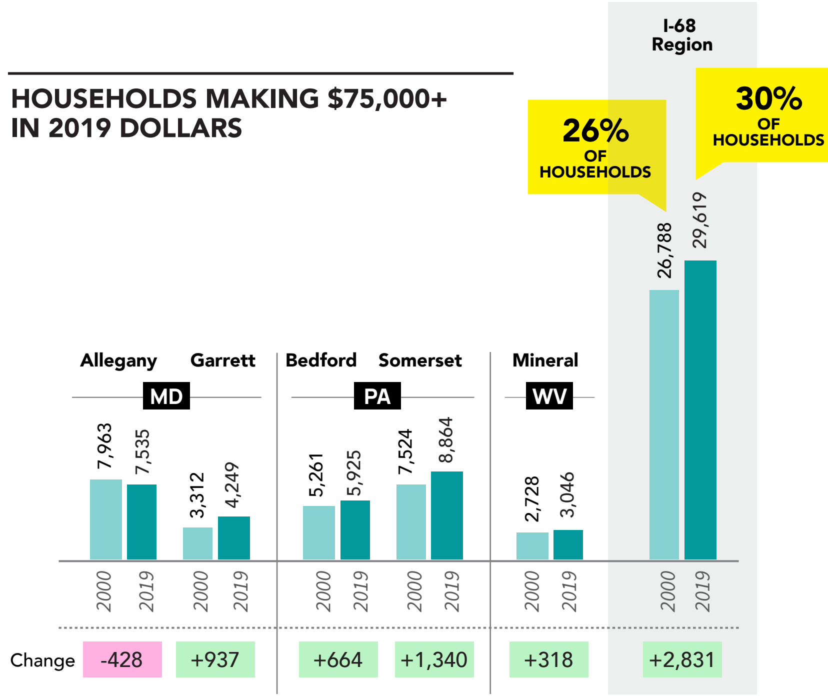
Source: U.S. Census Bureau, Census 2000 and 2019 American Community Survey (5-Year Estimates)

Households earning at least $75,000 are a critical segment of the housing market—and they have grown in number and share since 2000

With capacity to spend at least $1,875 per month on housing costs, households that earn at least $75,000 are an important part of the regional demand for market-rate housing. 30% of households in the region fit this description—a share that has been on the rise.

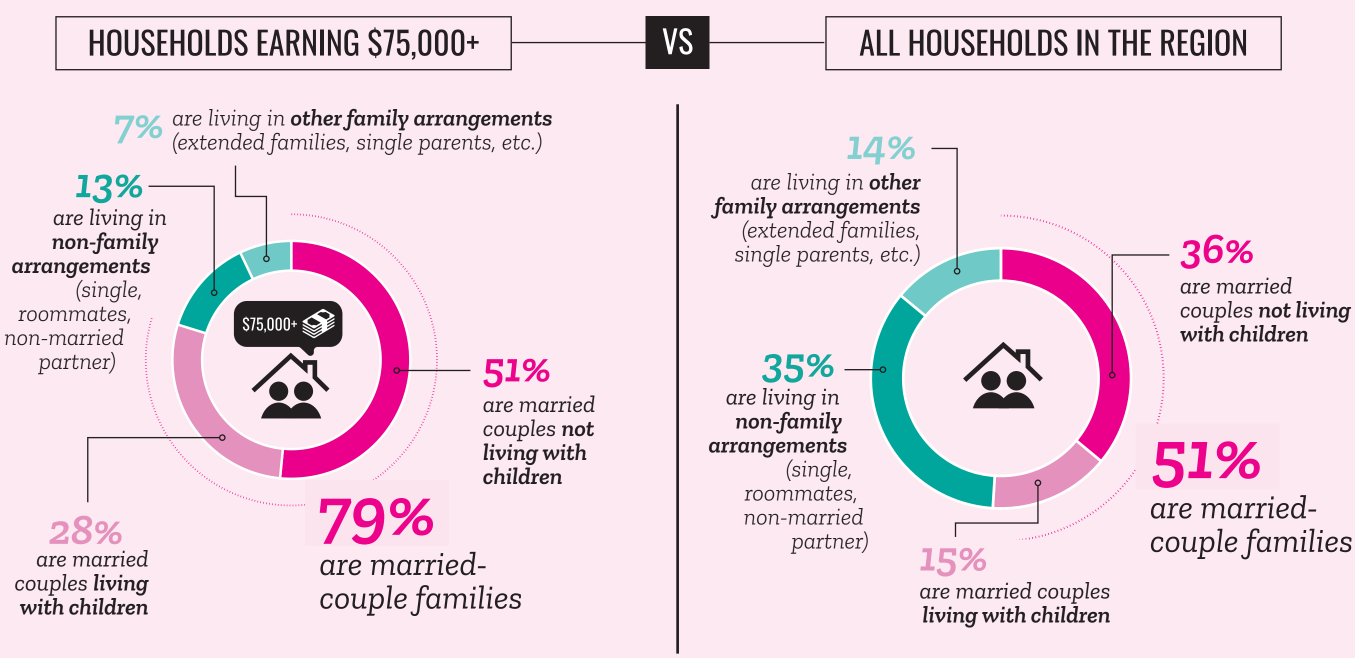
Compared to all households in the region, the subset earning $75,000 or more are much more likely to be married-couple families (79% vs. 51%) with two or more incomes contributing to household purchasing power. While they are also more likely to be living with children 18 years or younger, just over half are married couples without children. They are much less likely to be single-person or single-parent households.

HOUSEHOLDS MAKING $75,000+ IN 2019 DOLLARS



Source: U.S. Census Bureau, Census 2000 and 2019 American Community Survey (5-Year Estimates); figures from 2000 reflect households making $50,000 or more at that time, which is equivalent to $75,000 in 2019 dollars

Who are these households?



Source: U.S. Census Bureau, 2019 American Community Survey (5-Year Estimates)

Households earning $75,000 or more are able to afford at least $1,875 per month for housing and not be considered "cost-burdened," but few actually spend that much or are currently willing to do so

Relatively low home values and rents in the region mean that exceedingly few households earning $75,000 or more spend anywhere close to 30% of their incomes on monthly housing costs. In 2019, only 918 of those 29,618 households (or 3%) spent that much or more on housing. In fact, fully 87% of households earning $75,000 or more spent less than 20% of their incomes on housing.

Again, this is a reflection of the overall housing market—if a household can spend 15% of income on a mortgage payment for a house that they are happy with, why spend more? The problem for the region is that many households with means have become habituated to spending relatively little on housing and, over time, this has had an impact on levels of investment and reinvestment in the housing stock. In 2019 alone, households in the region had capacity to spend upwards of $1.9 billion on housing costs but are estimated to have spent only $950 million. Year after year, resources that are sidelined from the housing market have an impact on future housing conditions and options—especially when low rents limit reinvestment by landlords into their properties and low home values constrain what owners are willing to invest in home improvements.

Households of means that are used to spending relatively little on housing also have an impact on the feasibility of new housing development. A survey distributed by employers in the region to their employees for this study found that 8% of respondents currently spend more than $1,500 per month for housing and only 9% would be willing to spend more than that even if the right product in the right location were offered to them. The actual costs of new development (see pages 24-25) require a willingness to spend more than households are used to—and this is a gap that must be addressed for new development to be feasible.

$75,000+

Households that earn $75,000+ **and are able to spend at least $1,875 per month on housing** *(or 30% of income)*

29,618

Households earning $75,000+ that actually spend...

918

30% or more of their incomes on housing

3,941

20% or more of their incomes on housing

From survey of employees at major regional employers—of whom 66% reported household income of at least $75,000:

8% *reported* ***spending more than $1,500 per month*** *on current housing*

9% *indicated a* ***willingness to spend more than $1,500*** *for the right product in the right location*

I-68 Alliance Region	*2019*
Aggregate Annual Income	**$6.3 billion**
30% of Aggregate Annual Income	**$1.9 billion**
Annualized Aggregate Housing Costs	**$950 million**
Annual difference between capacity to spend on housing and actual spending on housing (untapped capacity)	**$929 million**

Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Demand varies considerably across the region, which has important implications for housing strategies and policies

Even though demand at the county and regional levels can be called soft when compared with national numbers, it is certainly the case that the region's housing market is not monolithic. Demand—in terms of capacity to spend on housing and prevailing prices paid for housing—varies considerably within the region, within each county, and even within the same communities.

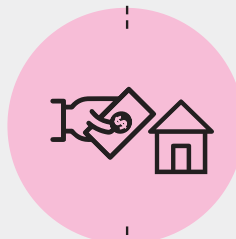
To gauge how demand varies within the region, a market typology was developed for this study that reflects a series of demand-related measurements at the Census Tract level. The five resulting market types—see map on page 15—help to identify areas where demand is at or near the average for the entire region, where it is below average and where it is above average.

Generally speaking, markets that have above average levels of demand share characteristics that make market-rate housing investments more likely to occur. Ability to pay for housing (income) is stronger, the willingness to pay for housing (prices borne by the market) is stronger, and excess or surplus supply (chronic vacancies) are more muted. While these conditions do not guarantee the market's ability to support new market-rate housing investments, they do suggest that the obstacles to new investment are fewer—and that interventions to stimulate new market-rate investments will be less costly than in areas where demand is weaker.

What types of places in the region tend to have stronger levels of demand? They are often places on the edges of, or adjacent to, the region's most densely settled areas—or the strongest "suburbs" of the region's largest cities, boroughs, and towns. They also tend to be areas that can be characterized as seasonal or resort communities, where investments in vacation real estate have a significant influence on the housing market—making those areas somewhat immune to the same market signals that determine pricing and investments elsewhere in the region.

Generally speaking, in areas **where demand is stronger...**

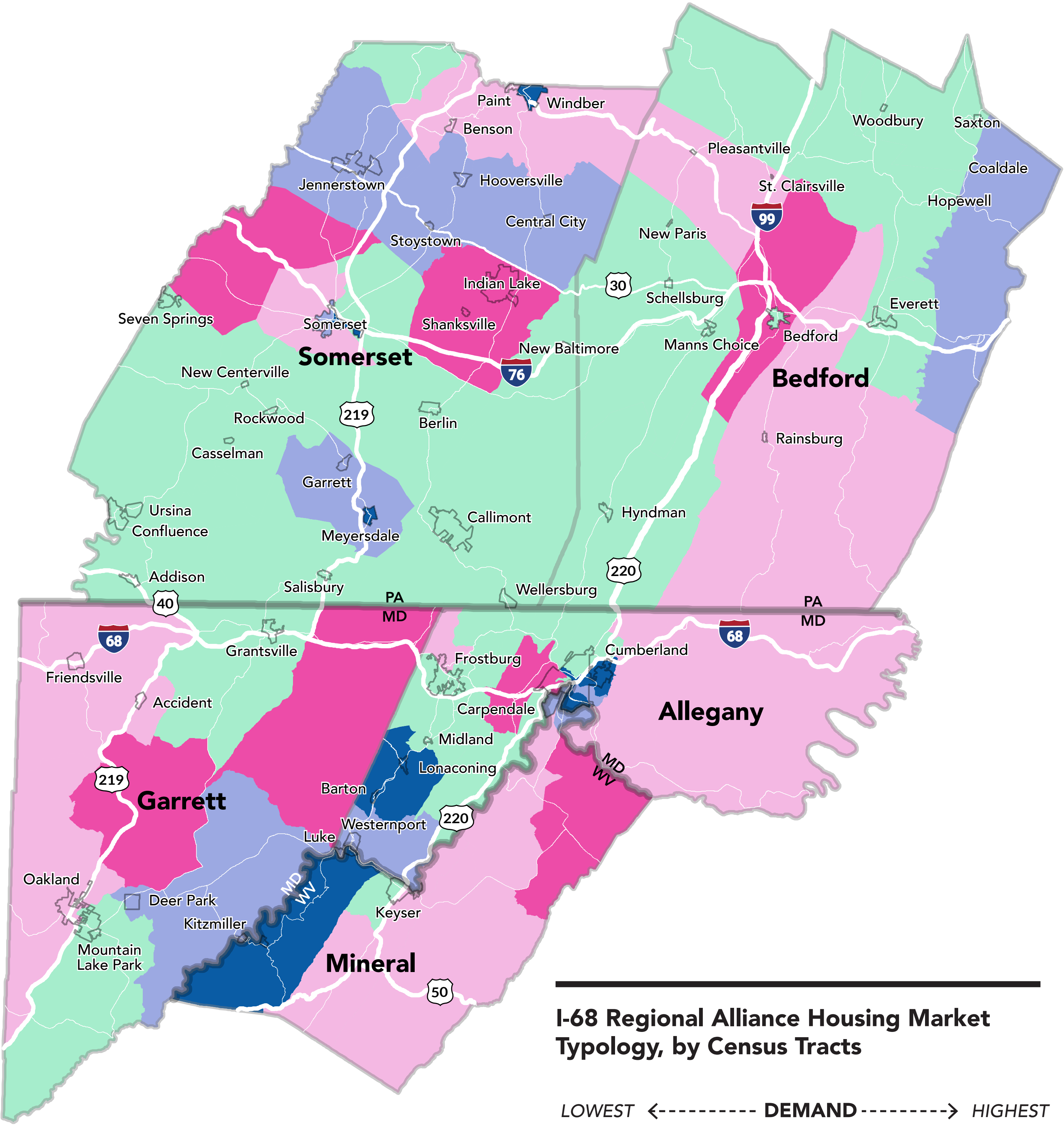
Ability to pay for housing is stronger



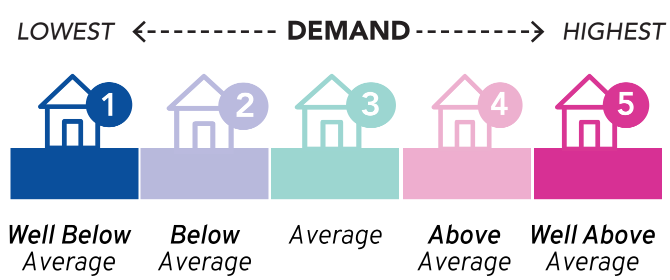
Willingness to pay for housing is stronger

Supply and demand dynamics are healthier

New market-rate housing has fewer demand-related obstacles



I-68 Regional Alliance Housing Market Typology, by Census Tracts



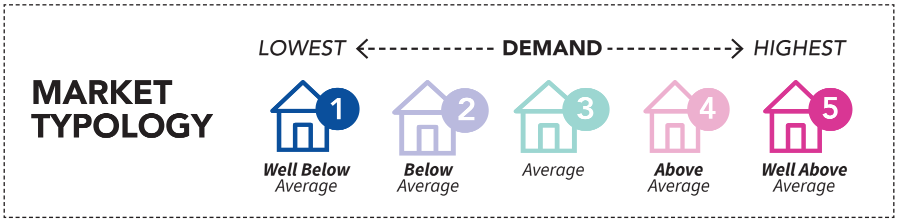
See larger county-level versions of this map in the Appendix

Source: czb Z-score analysis of the following demand-related metrics from the 2019 American Community Survey (5-year estimates): median value of owner-occupied homes, median gross rent, rate of chronic vacancy or abandonment, median family income, and share of households receiving public assistance and/or SNAP

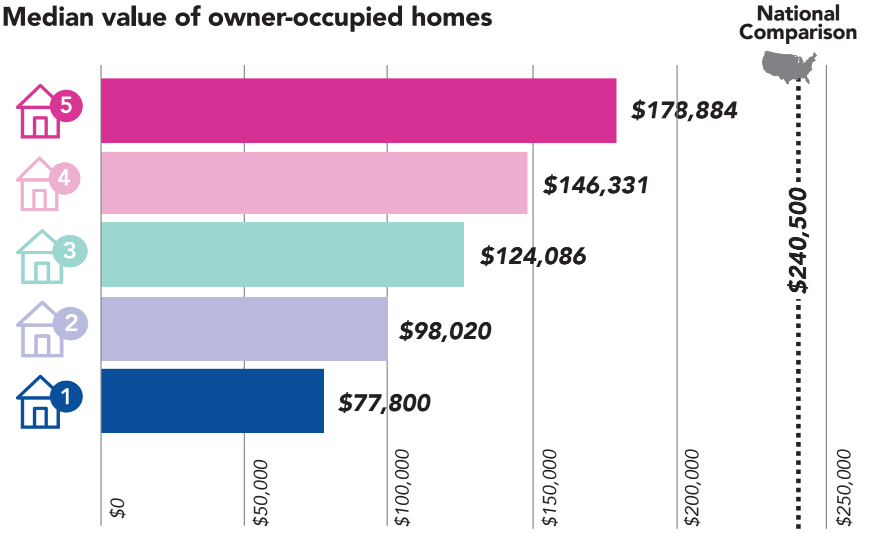
The region's strongest housing markets have incomes that are on par with the national median and lower than average poverty rates, but housing costs that are still well-below national figures

How do the five market types within the region compare to each other and to national levels on key measurements of housing demand? Analysis demonstrates that the very strongest markets in the five-county region are equivalent to the national median when it comes to income levels—with a median household income that is just below the national figure. Also, notably, the share of adults with at least a four-year college degree—an indicator of earning potential—is much higher in these markets than in the U.S. overall (42% versus 33%).

At $63,956, the median household income in the region's strongest markets translates to a capacity by typical households in those markets to spend up to $1,600 per month on housing. But even in these strongest markets, prevailing home values and rents are far below national levels and the spending capacities of typical households. The median value of owner-occupied homes is just 74% of the national median in these strongest markets (and barely 50% in the region's average markets). Similarly, median rents are just 71% of the national figure in these strongest markets.

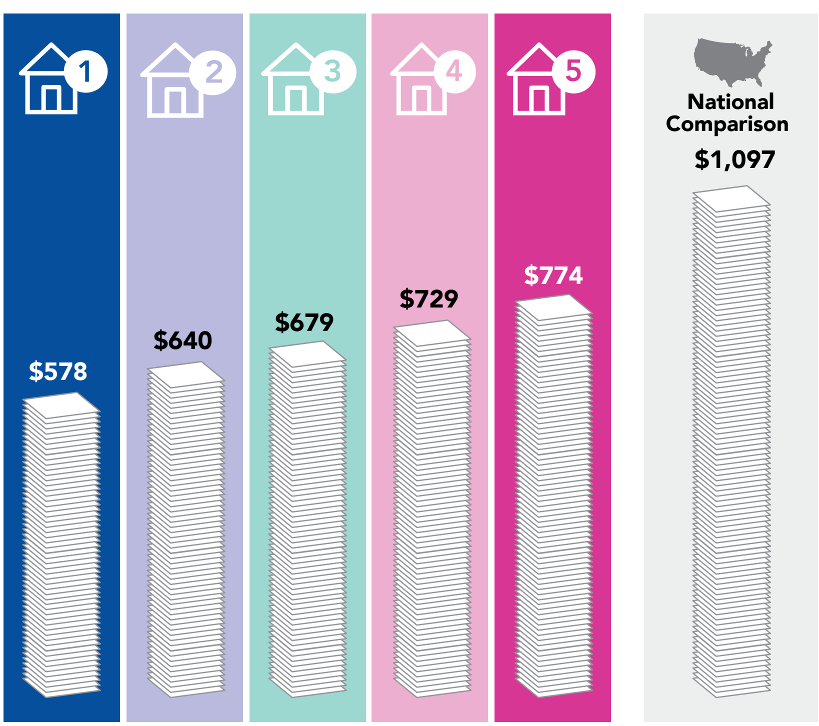


Median value of owner-occupied homes



Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Median gross rent

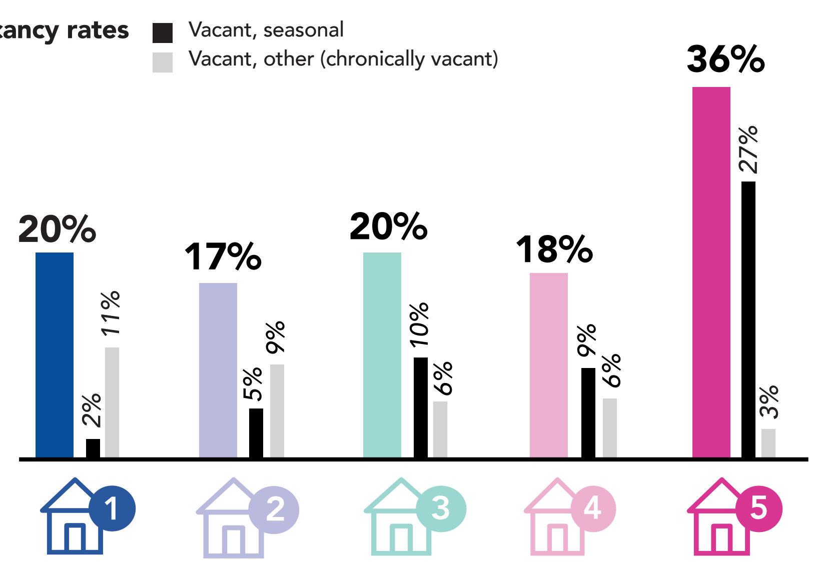


Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

	1	2	3	4	5	US
Median household income	*$33,724*	*$45,885*	*$49,001*	*$52,622*	*$63,956*	*$65,712*
% of households making $75,000+	18%	25%	29%	32%	42%	44%
Poverty rate for individuals	*26.6%*	*13.2%*	*12.9%*	*11.5%*	*8.8%*	*12.8%*
% of adults 25+ with a Bachelor's or more	18%	25%	29%	32%	42%	33%

Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Vacancy rates



Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Vacancy rates are high in every market, with the strongest markets influenced heavily by seasonal housing

In a healthy housing market, vacancy rates tend to be between 5% and 8%—high enough so that households are able to move into, out of, and within the market when they need to, but low enough to not be a drag on pricing and a source of blight.

In each of the region's five market types, the overall vacancy rate is far higher than this heathy range. If seasonal vacancies are subtracted from the overall rate, however, rates for the average and stronger markets are much closer to, but still higher than, the heathy range—at around 9% to 10%.

The very high seasonal vacancy rate in the region's strongest markets underscores the role that vacation real estate plays in those areas—with 27% of all housing units falling into that seasonal status. The seasonal influence is much lower in all other markets.

Notably, around 10% of all housing units in the region's weaker markets are chronically vacant or abandoned—they are not occupied nor are they on the market. They represent excess housing supply that no longer has demand to speak of. As sources of blight or uncertainty, however, they very much have an impact on levels of confidence and the outlook of current or potential property owners nearby—influencing their willingness to invest in areas that appear to be on the decline.

Housing Supply: What do we know?

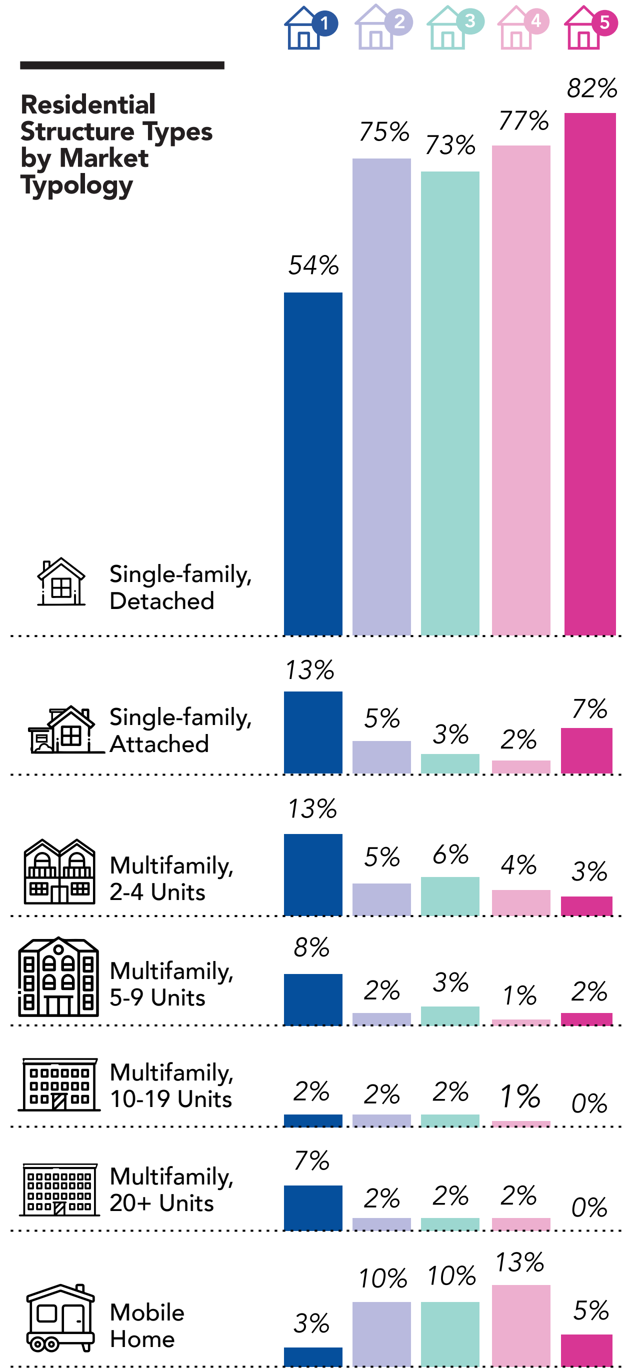
The region's strongest markets have the highest concentrations of single-family homes and housing built in recent decades

While demand in the region's five housing market types can be understood and described in terms of household capacity to spend on housing and what households are actually paying, the nature of the housing in those markets—the physical supply—adds important context to an understanding of how these markets operate and the types of housing and residential environments that people seek out.

What becomes clear when looking at the types of housing units in each of the five market types is that the very weakest markets have the oldest housing (nearly 50% of units built before 1940) and the largest concentrations of rental properties. With the concentrations of older rental units in these weakest markets, alongside the fact that median rents in these markets are less than $600, it can be inferred that the bulk of market-rate rental housing in these areas—which constitute parts of the region's densest communities—are in very poor condition, generating rental incomes for property owners that are insufficient to pay for more than the most basic upgrades (if that). If a household has options, they are likely to steer clear of those units, making them the default housing supply for many of the region's poorest residents, many of whom are cost-burdened by these rentals despite the low costs.

Conversely, what is clear about the region's stronger markets is that they tend to have the largest concentrations of single-family housing and housing built in recent decades. Not only is the supply in these stronger markets in better condition on account of their age, but they are also likely to be receiving stronger levels of reinvestment due to the higher incomes of households in those markets and home values that give owners more confidence that their investments can, to some extent, be recouped.

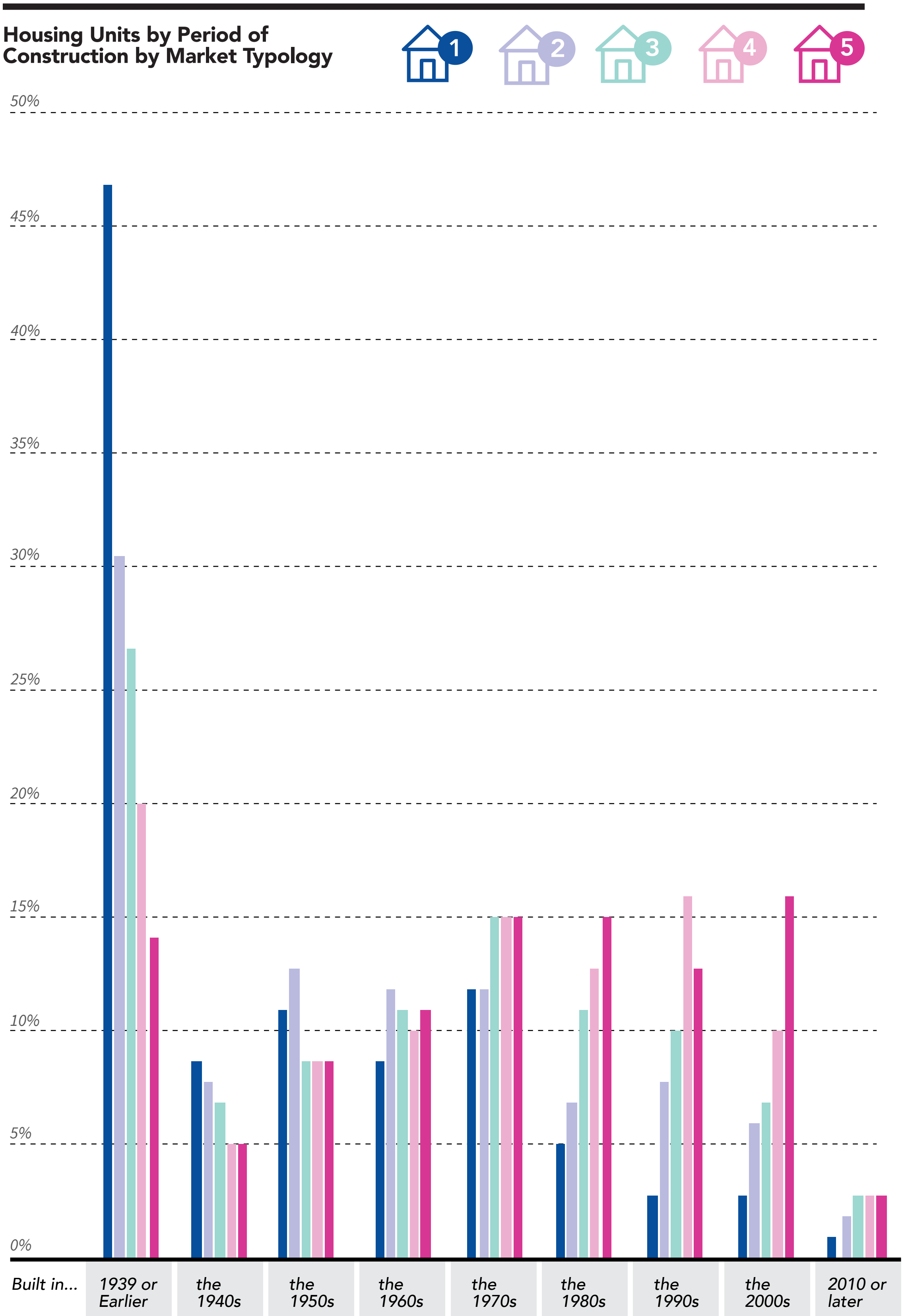
Residential Structure Types by Market Typology



Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

In terms of the feasibility of new investments in market-rate housing, a few key takeaways emerge from this analysis:

- The willingness of households with means to spend on rental housing is very likely influenced by the prevailing condition of the region's rental supply—which is poor and in residential environments beset by numerous social challenges.
- Households with means have sorted themselves, over time, into areas with newer, single-family housing. In many cases, these are likely to be areas where existing land use regulations and infrastructure will not support the development of more diverse housing types without changes to underlying policies



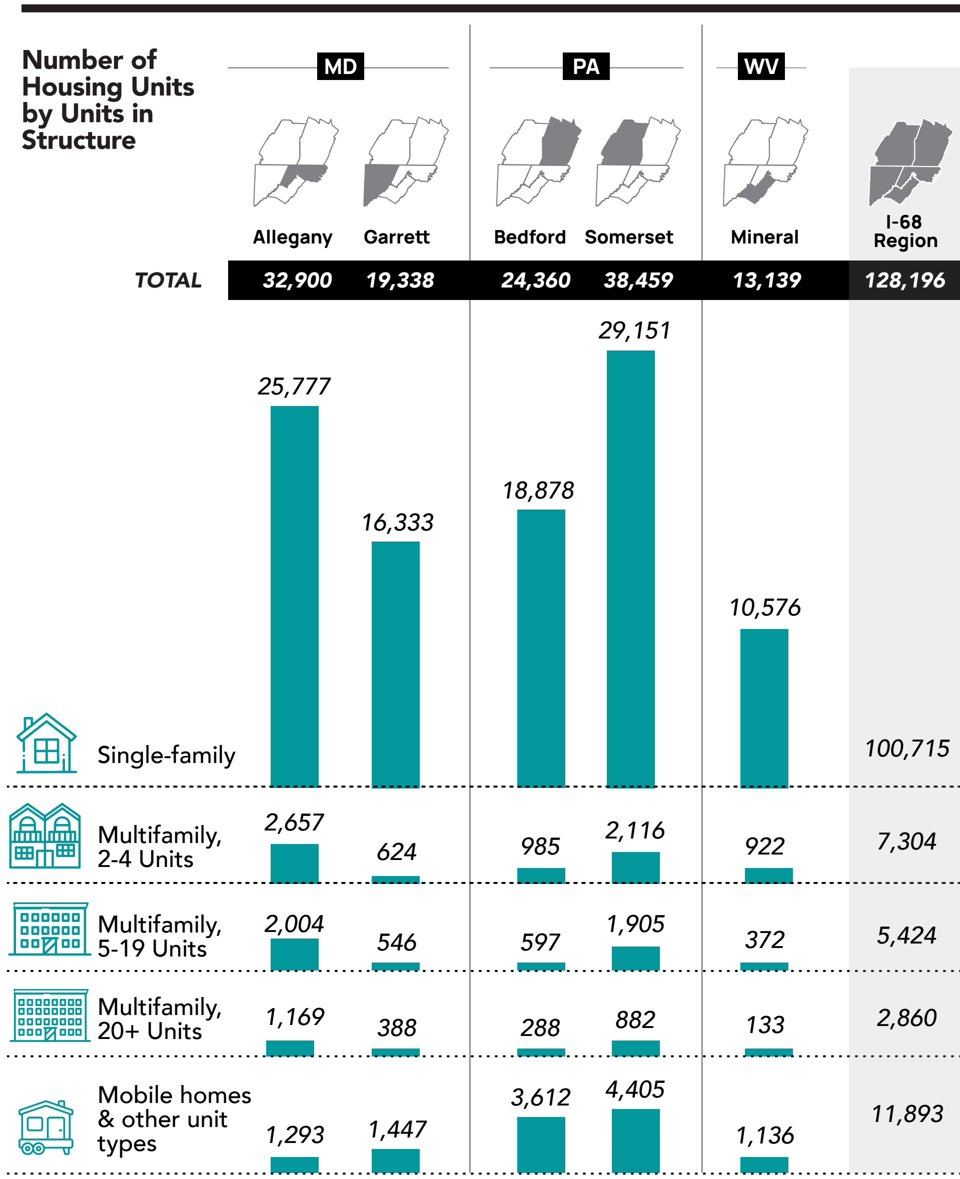
Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Most new housing units in the region have been single-family homes

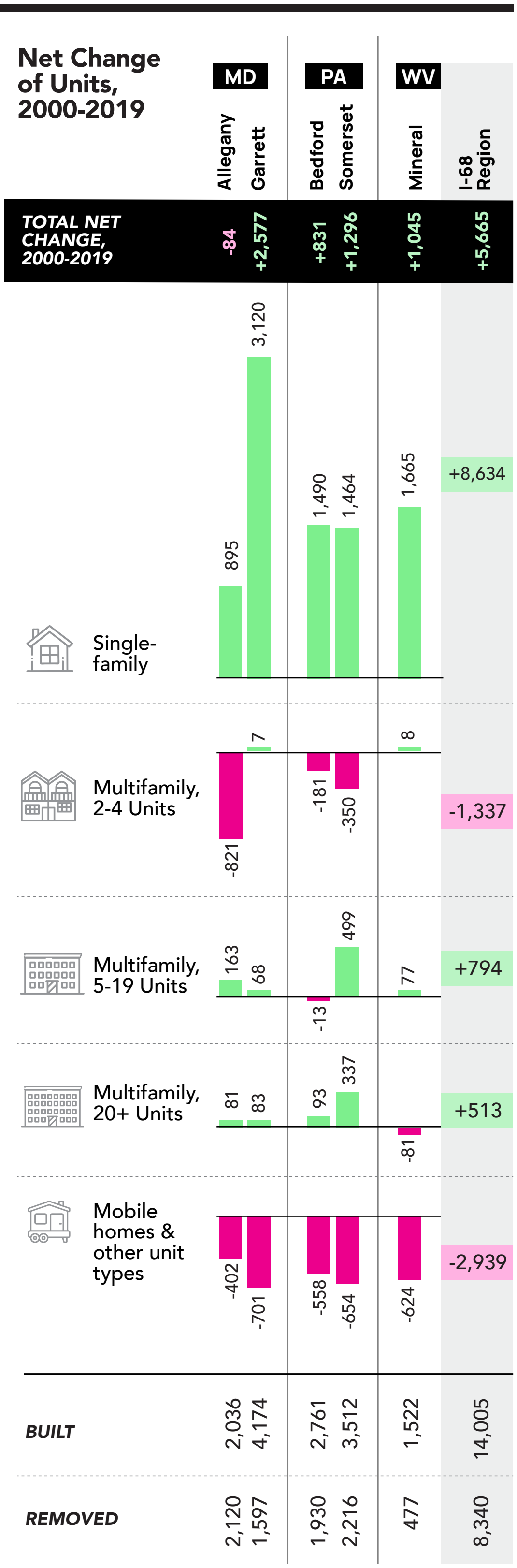
Single-family homes are, by far, the dominant form of housing in all parts of the region—ranging from 76% of all units in Somerset County to 84% in Garrett County. And, between 2000 and 2019, they represented the largest source of new housing units in the region, with a net addition of nearly 9,000 new single-family homes over that period—most of which were added during the first decade of the century, before the Great Recession.

During the same period, the region's rental supply was in flux. There was a net reduction in rental units in small multi-family structures—most likely the result of demolitions that removed abandoned or fire-damaged properties. At the same time, there were modest net increases in the number of units found in larger multi-family complexes—many of which may be a reflection of new affordable and senior housing complexes.

An across the board decrease in the number of mobile homes and other less-than-permanent housing types since 2000 is a notable part of recent changes in the housing supply. Rather than having an influence on market-rate dynamics in the region, however, this is more likely to impact affordable housing needs.



Source: czb analysis of 2019 American Community Survey (5-Year Estimates)



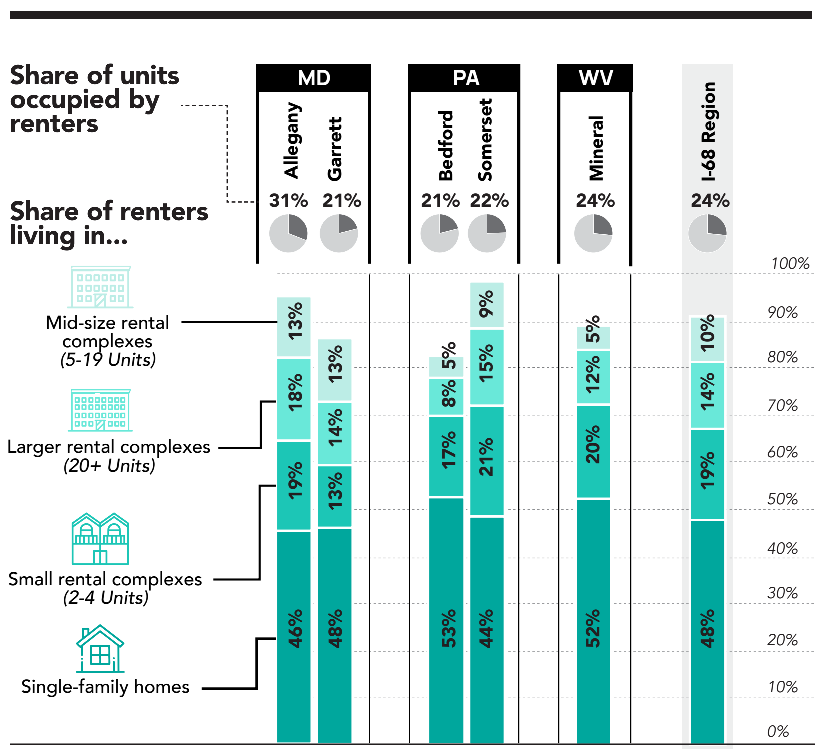
Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Single-family homes are the predominant form of rental housing throughout the region

The share of housing units that are rented in the region ranges from 21% in Garrett and Bedford counties to 31% in Allegany. In all five counties, however, the single largest source of rental housing is the single-family housing stock—which accounts for nearly half of all rental units in each county.

To some extent, the dominance of single-family homes in the rental supply—which will rent, on average, for more than the typical rental in an apartment house or complex—can be attributed to shortcomings in the multi-family housing supply. For many renters who have choices, a single-family house is likely to be more appealing than the alternative—better condition, more space, more privacy, more control over the environment than in multi-family structures that tend (as noted) to be older and in need of substantial investment. It may also provide flexibility for renters who technically have enough income to buy a house in the region but would rather rent than commit to homeownership.

However, the fact that such large numbers of single-family homes have transitioned into the rental supply is a sign of trouble. The price of a single-family house only makes business sense to a landlord if demand from aspiring homeowners is very soft. Thus, the typical single-family rental is an indicator of weak demand for homeownership and a troubling long-term sign for the property in question, which is unlikely to receive the same level of investment from a landlord that it would receive from a homeowner. Exceptions to this general rule may be found in cases where single-family rents are especially high due to vacation rentals.



Source: czb analysis of 2019 American Community Survey (5-Year Estimates)

Insights Gleaned from Survey and Interviews

Data analysis was supplemented by an **online survey and stakeholder interviews** to better understand housing demand and satisfaction in the region, especially from the standpoint of workers that the region is trying to retain or attract. The online survey was sent to selected employers in all five counties for distribution to their employees and resulted in 505 completed responses.

What were the key takeaways from survey responses and interviews?

Satisfaction with current housing is generally strong

Among all survey respondents, 86% reported satisfaction with their current housing arrangement and 14% reported dissatisfaction. For current homeowners, levels of satisfaction were even higher—89% compared to 64% among renters.

While levels of satisfaction were generally high, they were lower than national levels of satisfaction found in the 2019 Survey of Household Economics and Decisionmaking (SHED) by the Federal Reserve. That survey found that 93% of homeowners were satisfied with their current housing, as were 74% of renters.

Dissatisfaction is strongest among renters, younger people, and certain income groups

Renters, as noted, were more likely to signal dissatisfaction in their current housing arrangement (36%) than owners (11%). Other respondents who were more likely to be dissatisfied included younger people—many of whom are renters. 40% of respondents under age 25 were dissatisfied, as were 25% between ages 25 and 34.

People in households that earn under $75,000 were also more dissatisfied, on average, than those making more—including 32% in households that earn $35,000 to $50,000. Also, notably, households earning more than $150,000 signaled greater dissatisfaction (14%) than households earning between $75,000 and $150,000.

A large share of households indicate that a move in the next five years is likely or something they are open to

While only 14% of all respondents voiced dissatisfaction with their current housing, 29% signaled that a move within the region in the next five years was very or somewhat likely—and another 16% reported being open to a move if the right product became available in the right location.

Those who foresee a move to new housing or are open to a move included 90% of renters, 89% of people dissatisfied with their current housing, 72% of respondents under age 35, and 49% of those between ages 35 and 44—prime members of the region's workforce.

Note: See the Appendix for a full summary of general survey results.

Single-family homes in rural settings are highly preferred and reflect previous decisions

When survey respondents who are considering or open to a move in the next five years were asked about the types of housing and residential environments they prefer, a clear preference for single-family homes in rural settings emerged.

45% signaled interest in moving to housing in a rural setting—the most popular single response regardless of age group but especially among those between ages 35 and 54. And 69% signaled interest in either existing or new single-family homes—far more than signaled interest in any other type of housing.

It is also true that 51% of survey respondents who own a home reported that they already live in single-family homes in rural settings.

Denser environments hold the most appeal among younger and older respondents

Reported preferences for housing (rentals or owned homes) in cities, boroughs, and towns was lower than for rural or even suburban settings, with 8% reporting a preference for downtown or Main Street settings and 19% indicating a preference for a traditional city/borough neighborhood.

Those who did indicate a preference for denser environments tended to be younger people and older people—groups that tend not to live with young children.

Willingness to spend on housing is low—even when options are optimal

When asked what they would be willing to spend on the right product in the right location, 9% of respondents who indicated that a move is likely or possible in the next five years indicated a willingness to spend more than $1,500 per month on housing costs (in rent or mortgage payment). Another 9% indicated a willingness to spend no more than $1,500, while 14% said that $1,250 would be their limit.

Altogether, that means that 30% are willing to pay at least $1,250 per month if not more, compared to the 16% who actually spend that much on current housing. But that compares to the 84% of survey respondents who are technically able to afford at least $1,250 per month based on their reported household incomes.

A lack of newer housing with good amenities viewed as a barrier by those who decide not to pursue employment opportunities in the region

Interviews with representatives from some of the region's largest employers—in the health care, technology, hospitality, and financial sectors—provided insights on what the region's housing market lacks according to people who have turned down opportunities to work in the region or have moved away. Difficulties with finding newer housing with good amenities was the primary issue described during these interviews.

On the rental side, this meant modern or recently refurbished apartments with the in-unit or in-building features found in comparable properties in larger metro areas (laundry, work-out areas), as well as good neighborhood amenities nearby (retail, food, services, etc.).

On the ownership side, the major deficiency was a lack of newer housing in subdivisions with amenities for young families such as sidewalks and play areas.

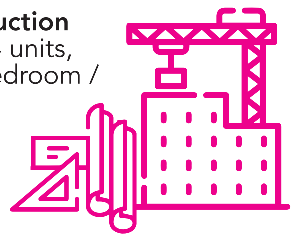
The Cost of Market-Rate Development

As noted earlier in Part 1, prevailing housing costs for existing housing in the region are well below costs at the national level, not to mention costs in many major metropolitan areas. But they are also well below what it actually costs to develop housing. How much of a difference is there for both rentals and owner-occupied housing?

RENT Rental

What does the rent need to be for a project to be feasible?

New construction with 24 units, all 2 bedroom / 2 bath



Major rehab or adaptive reuse of an existing building with six or fewer units

Cost Components

- Bank Debt
- Equity Financing
- Acquisition Cost
- Construction Cost
- Developer's Cost
- Property Management Cost

New construction	Major rehab or adaptive reuse
$2,050 - $2,325 /mo	$1,725 - $2,300 /mo

$69,000-$93,000

These monthly rent ranges are technically affordable to households earning $69,000 to $93,000+ per year using 30% of income to determine affordability. Over 30,000 households in the region currently make more than $69,000.

But, only 3% of current renters spend more than $1,500 per month in rent. And only 9% of employees surveyed for this project indicated a willingness to spend this much for the right housing in the right location.

To bring rents into line with existing levels of willingness, subsidies are needed to offset costs and lower risks for developers, lenders, and investors.

Note: See Appendix for summary of cost assumptions that drive rent requirements.

What would a house have to cost for a developer to undertake a new subdivision?

OWN

Homeownership

1,800 square foot new home of above-average quality in new subdivision

2,200 square foot new home of above-average quality in new subdivision

Cost Components

- Land Acquisition
- Site Preparation
- Shared Infrastructure and Amenities
- Construction Cost
- Developer Profit

$300,000 - $350,000

$425,000 - $500,000

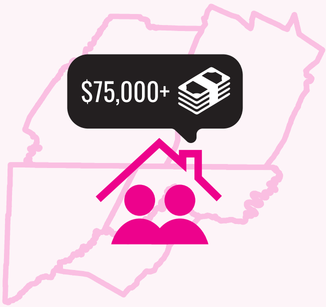
$100,000-$170,000

These home prices are technically affordable to households with incomes of between $100,000 (for a $300,000 house) and $170,000 (for a $500,000 house), assuming they have the down payment for a traditional loan. Monthly mortgage costs would range from $1,500 to $2,500 depending on rates.

Only 10% of the existing owner-occupied housing stock in the region currently has a value over $300,000 and, again, only 9% of employees surveyed for this project indicated that they were willing to spend more than $1,500 per month on housing—rent or mortgage.

Subsidies or guarantees—for the developer and the buyers—are likely to be needed to lower risks and coax new subdivisions into existence.

For both new or substantially rehabbed rental housing and for new owner-occupied homes, there is a significant difference between what it costs to produce market-rate housing products and what the market has demonstrated an appetite to pay for given the abundance of inexpensive options in the region. These differences represent gaps that need to be addressed if different housing outcomes for the region are sought in the coming decade.



Conclusions from Part 1 Analysis

The target market for new market-rate housing in the region already lives here

If the region’s population and the number of households were growing in a sustained and predictable manner, those new or incoming households would play an important part in the planning equation for new housing—just as they do today in Austin, Nashville, or Montgomery County.

Since growth cannot be counted on to support aspirations for new market-rate housing in the counties of the I-68 Regional Alliance, the region must look within, especially at the nearly 30,000 (and growing) households that make $75,000 or more and have the ability—if not yet the willingness—to pay what new development is likely to cost.

On average, just under 10% of American households move from one housing unit to another every year—a figure that tracks with responses to the employee survey conducted for this project. For this region, that means that roughly 3,000 net households making $75,000 or more are on the move each year. If just 1 in 20 were willing to pay more than prevailing housing costs for new rental or ownership products—especially if subsidies were in place to lower those costs or perceived risks—that would amount to 150 households per year occupying new market-rate spaces and 1,500 households over 10 years. This can be viewed as a conversative but viable target market for new market-rate housing in the region.

Over time, as housing options in the region improve and its economic position improves, it will be increasingly plausible to consider households beyond the region as part of a target market. But, for now, it is recommended that the focus be fixed on households that currently have a reason for being in the region.

150

households per year

Region’s viable target market for new market-rate housing

Strategies must focus on addressing relatively soft demand

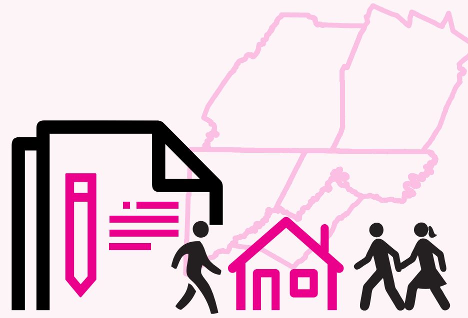
Regardless of any tailwinds that may have boosted the vital signs of the region's housing market during the COVID-19 pandemic—the temporary or permanent impacts of which will take a few more years to come into complete focus—the region's well-established market patterns are clear: even its strongest housing markets struggle to match U.S. median figures on determinants and expressions of housing demand (income, property values, rents, vacancy rates, etc.). And those strongest markets tend to be strongly influenced by seasonal demand.

This means that strategies to improve the region's inventory of market-rate housing must, at their core, be aimed at bolstering demand by improving the willingness of households to spend more money on housing (new or existing) in order to sustain healthier levels of investment and reinvestment in the housing stock.

In some cases, this will mean subsidizing development on the front or back ends to bring the prices borne by households closer to their current levels of willingness—coaxing them to pay more than they are used to paying for housing in the region but not too much more ($1,500 for a new apartment instead of an unsubsidized price of $2,200, for example).

In other cases, this will mean identifying the indirect factors that influence a household's willingness to pay. Does the neighborhood feel safe and inviting? Does it have amenities worth locating next to? In other words, is the "lifestyle" of the place of a high enough quality that it makes households more confident and willing about paying what the housing actually costs to build?

Given the region's slow population growth and existing levels of chronic housing vacancy, ongoing efforts to remove obsolete and blighted housing is likely to be an important part of efforts to strengthen demand—and make new housing investments feasible—in many parts of the region.



Implementation of any strategies must be tailored to fit local demand and strategic needs

Market conditions across the region vary widely, and the exact combination of factors that constrain investment in new or improved housing will be different in each place. Costs to address these factors—which will generally be higher where demand is lower—will also be different.

Different, too, will be the capacity of local stakeholders—public and private—to agree on a strategy that is responsive to local economic development needs and to commit resources to implementing the strategy. In some cases, major employers will be the driving force. In others, it might be elected officials. In still others, it might be a civic partnership created for other reasons that is well-suited to take the lead on market-rate housing.

The bottom line is that a region that is home to a quarter of a million people and that covers 3,500 square miles will require locally customized strategies and implementation mechanisms. There is a great potential for regional collaboration and learning on this issue—but implementation will hinge on whether local stakeholders see market-rate housing as a priority and are willing to patiently devote attention and resources to it.

PART 2

Problems to Solve and a Regional Housing Toolkit

Problems that need solving

Market-Rate **Housing Investment Toolkit** for the I-68 Region

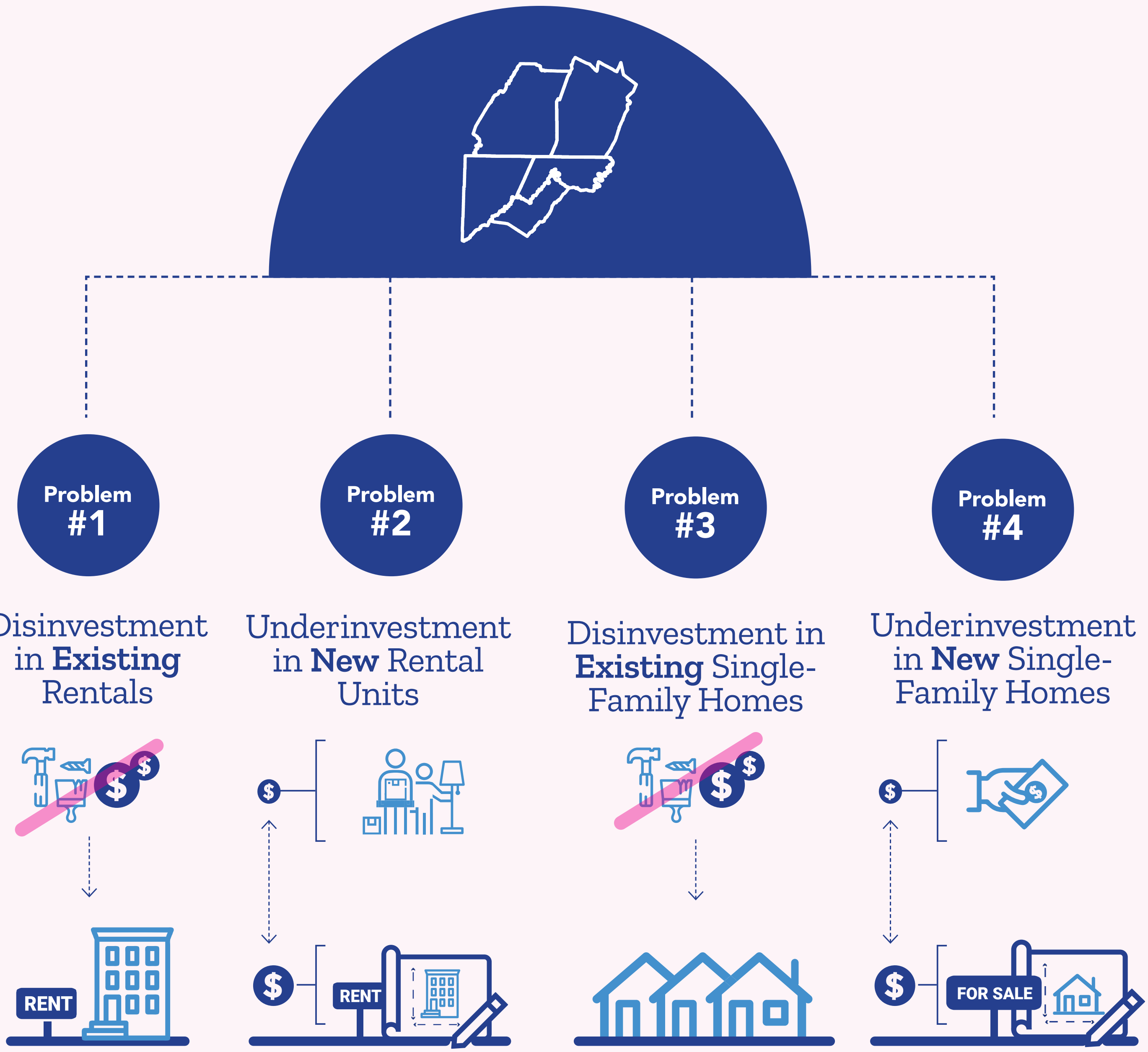
What are the **problems that need solving**?

Part 1 identified an **overarching dilemma** that the region must address if it wants to see an improvement in market-rate housing options to help it compete for and retain skilled workers: **relatively weak levels of demand** that are expressed by generally low rents, low home values, and a low "willingness to pay" even by households with resources and spare capacity to spend on housing.

Part 2 begins by parsing this overarching dilemma into four problems to solve and translates those problems into responsive tools. It concludes by assembling those tools into a regional toolkit.

While this report describes problems to solve that relate to market-rate housing goals and strategies, it must be recognized that these do not constitute a comprehensive set of housing problems to solve. Other problems, such as housing affordability for low-income households, is a significant issue in the region—but it constitutes a different set of problems to solve that utilize very different policy tools.

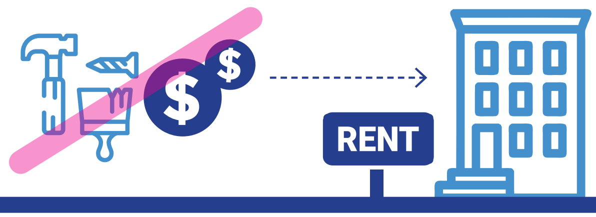
Problems that need solving



Problem #1

Disinvestment in **Existing** Rentals

Due to low demand, market rents are too low to spur the levels of reinvestment needed to resolve decades of deferred maintenance found in typical rental units.



How is this problem expressed?

The prevailing condition of rental units is poor and lacks appeal for households with an abundance of options—especially households with skilled workers.

Communities that have the largest shares of rentals in the region tend to be weaker markets with relatively low levels of demand and outdated supply.

What tools can be used to address this problem?

DIRECT

Rental rehab subsidies that support owners of existing units in making above-market investments to their properties if they meet certain requirements.

EXAMPLE

A local redevelopment authority partners with a landlord who owns a 6-unit building in a strategic location. Together, they create a plan for $40,000 in upgrades, per unit, to set a higher standard for rentals in the market. To keep rents in line with what the current market will bear, the authority provides a no-interest loan to cover 50% of the cost. The loan converts to a grant after five years if the owner doesn't sell the property and makes major curb appeal improvements to the exterior.

INDIRECT

Investments in quality of place and blight removal that bolster demand in areas of impact and encourage broad levels of reinvestments by all sectors.

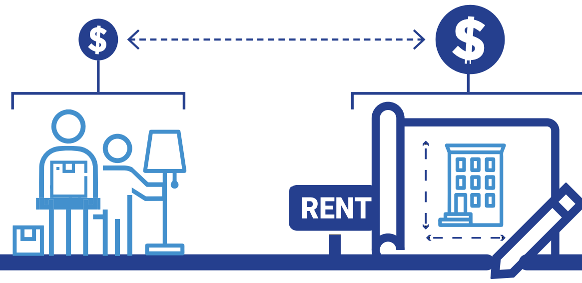
EXAMPLE

On the same block as the example above, the local redevelopment authority and municipality invest in street trees, improved lighting, and demolish a boarded-up house to bolster demand.

Problem
#2

Underinvestment in **New** Rental Units

Due to low demand and a plethora of less expensive options in the market, there is insufficient willingness by renters to pay in rent what new rental units actually cost to produce—even renters who are able to afford that cost.



How is this problem expressed?

Limited production of new market-rate rental units in recent decades—either as new construction or as adaptive reuse of existing buildings due to the presence of two financial gaps that generally need to be closed but are not: a "willingness" gap to bring rents into line with market expectations and an "equity" gap to manage risk for debt holders.

What tools can be used to address this problem?

DIRECT

Rent subsidies that allow the project owner to charge lower rents without compromising on maintenance or unit quality.

EXAMPLE

A redevelopment authority, in partnership with a local foundation, contributes $50,000 per unit towards the development of a new, 24-unit apartment complex near a hospital. The subsidy allows the project to go forward with an average rent of $1,400 instead of $2,000.

DIRECT

Pooled local/regional equity that provides extremely patient capital to project developers.

EXAMPLE

A group of 10 business owners and professionals who want to support local housing investments pool $3 million in investment capital with the help of a local redevelopment authority. Over time, that capital becomes patient equity in three separate housing developments.

INDIRECT

Investments in quality of place and blight removal that bolster demand in areas of impact and encourage broad levels of reinvestments by all sectors.

EXAMPLE

When a vacant lot becomes the proposed site of the new 24-unit complex referenced above, a concerted effort is made to repave the blocks around it, improve sidewalks and lighting, and help other property owners invest in facade repairs.

Problem #3

Disinvestment in **Existing** Single-Family Homes

Due to low demand, home values are insufficient to support strong and needed levels of reinvestment by owners for fear of appraisal gaps and not getting their money back upon resale.

How is this problem expressed?

Stock of existing single-family homes that suffers from deferred maintenance and outdated features, even though many owners have the financial capacity to invest in upgrades.

What tools can be used to address this problem?

DIRECT

Financial support (forgivable loans, grants, etc.) to owners who make above-market upgrades to their homes

EXAMPLE

A non-profit housing developer secures resources from local employers, foundations, and banks to assist homeowners with major renovations, regardless of income. The first project includes a partnership with an owner to invest $80,000 in an added bathroom, remodeled kitchen, pantry, and garage replacement. The non-profit covers half the cost in the form of a loan that becomes a grant after five years if the homeowner stays in the house. The work must be done to spec to ensure quality.

DIRECT

Acquisition, rehab, and resale of single-family properties in a manner that sets higher standards for the market.

EXAMPLE

The same non-profit housing developer referenced above acquires a 2 bedroom / 1 bathroom house in a strategic location to keep it from flipping to a rental. $125,000 is invested on highly marketable improvements and the home is re-sold to a committed homeowner.

INDIRECT

Investments in quality of place and blight removal that bolster demand in areas of impact.

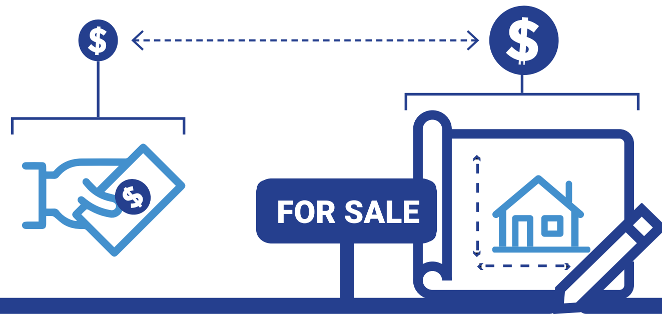
EXAMPLE

A borough invests in infrastructure and blight removal within two blocks of a small park, in an area that is stable and has well-built housing but could use a shot of confidence to encourage owners to invest more in their properties.

Problem #4

Underinvestment in **New** Single-Family Products

Due to low demand, there is insufficient willingness to pay prices likely required for developers to build new subdivisions with homes of high quality and with good neighborhood amenities.



How is this problem expressed?

Production of new single-family housing for non-seasonal use that is mostly relegated to one-off, build-to-suit houses on rural lots. Very few subdivisions with good infrastructure and good amenities that have product ready to buy or build on-demand.

What tools can be used to address this problem?

DIRECT

Subsidies for infrastructure and amenities to developers in order to lower their risks and bring down asking prices for new homes.

EXAMPLE

As part of a bond issue for capital improvements, a township includes resources to complete new streets and other infrastructure in a proposed subdivision. In so doing, it allows the developer to set a minimum asking price of $300,000, instead of $400,000, for the new homes it builds.

DIRECT

Purchase commitments on new homes at sufficient prices in order to get product produced for immediate resale.

EXAMPLE

In order to get a supply of new turnkey homes on the market, a local redevelopment authority enters into purchase agreements for five new homes. After they are built, they go on the market and sell to the highest bidder.

DIRECT

"Buy back" agreements, where an agreed-upon level of price appreciation is guaranteed to the purchaser.

EXAMPLE

To reduce the level of perceived risk by new home purchasers, a non-profit housing developer backed by a group of local employers offers buy-back agreements to incoming employees who buy new homes. They are guaranteed to get back what they paid, plus inflation, if they move within seven years.

INDIRECT

Investments in quality of place and blight removal that bolster demand in areas of impact.

EXAMPLE

Within a quarter-mile of a proposed subdivision, local stakeholders identify a collapsed farmhouse to acquire and remove and assist a gas station owner with the installation of better signage and landscaping.

Market-Rate Housing Investment Toolkit for the I-68 Region

Collectively, the tools that most directly respond to the problems to solve in the five county region form a toolkit that can be used in a variety of combinations to address localized priorities throughout the region. Part 3 describes how local market-rate housing coalitions might go about the process of selecting and implementing the right tools for the needs of their markets.

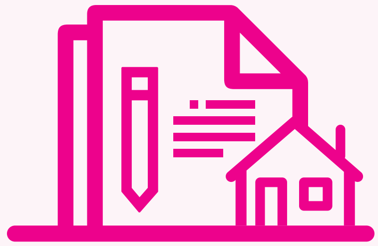
The key activating ingredient for all of these tools is the willingness of local public and private stakeholders to commit resources and share risks with private property owners and developers in order to realize investments that are not being made by the market on its own.

Direct Tool	Potential Delivery Mechanism
Rental rehab subsidies for existing units	Matching grants or forgivable loans to rental property owners who rehab existing units
Rent subsidies to developers/owners of new units	Grants or forgivable loans (toward total development cost) and/or tax exemptions (toward operating costs) to bring rents in line with market willingness
Pooled local/regional equity for new rental or mixed-use developments	Wholly owned subsidiary of a local economic development agency that gathers equity commitments and provides ownership structure (LLCs) for individual projects
Financial support to homeowners for above market home upgrades	Grants or forgivable loans to homeowners who make above market (or beyond appraisal) improvements to their homes
Acquisition, rehab, and resale of existing homes	Not-for-profit development corporation that uses revolving capital to support above market rehabs by: • Partnering with private housing rehabbers on above market rehabs of existing homes, or • Directly acquiring, rehabbing, and re-selling existing homes
Subsidies for infrastructure and amenities to developers of new subdivisions	Full or partial coverage of new infrastructure costs (road, sewer, water, lighting, greenspace) via bond or other revenues to lower development costs incurred by developers
Purchase commitments for new homes at sufficient prices	Via not-for-profit development corporation, address developer risk by committing to purchase yet-to-be-built homes at a price that ensures a sufficient but not excessive profit to the developer.
Buy-back agreements for buyers of new homes	As an alternative or supplement to purchase commitments for new homes, enter into a buy-back agreement with new home buyers that guarantees original sale price plus inflation when the owner decides to sell

Estimated Cost or Requirements Per Use		Potential Conditions of Use or Strategic Considerations
STRONGER MARKETS	SOFTER MARKETS	
$15,000 subsidy per rehabbed unit	$35,000 per rehabbed unit	• Rehab should be required to meet specifications for above market quality
$50,000 per unit	$75,000 per unit	• New construction should meet specifications for above market quality • Rents should be maintained at below-cost for an agreed-upon period of years
Equity commitments of up to ¼ of total development cost	Equity commitments of up to 1/3 of total development cost	• Equity must be patient—minimum of 15 years
Upwards of $50,000 per project, depending on work	Up to $100,000 per project, depending on work	• Scope of work should be required to meet specifications for above market quality • Graduated repayment requirements upon resale based on when the owner sells (how long they stay) and resale price
All markets Upwards of $500,000 in capital per project (acquisition plus rehab) depending on extent of rehab required; to be recouped in whole or part at resale; acquisition will be more costly in stronger markets and rehab needs are likely to be more costly in weaker markets		• Re-sell to owner-occupants • Craft partnerships with private rehabbers that guarantees sufficient but not excessive profit regardless of sale price after rehab • Use profits from sales (when profits are made) to offset losses or capitalize other projects
Potential for shared coverage of certain infrastructure costs with developer, depending on impact on new product prices	Expectation of full public sector coverage of infrastructure costs	• Use infrastructure investments to elevate market standards and expectations for quality of place; cultivate stronger demand
Assume purchase price is at cost plus 15%; sell at market value (result may be narrow profit or loss)	Assume purchase price is at-cost plus 15%; sell at market value (result very likely to be a loss between 10% and 25%)	• Lower the liability posed by purchase commitments by investing in quality of place to stimulate demand by future buyers
Cost of agreement may be minimal or zero and serves to give original buyer confidence	Cost of agreements likely to be greatest for near-term re-sales in softer markets	• Require occupancy of home for a minimum period of time for the agreement to take effect (such as three years) • Lower the liability posed by buy-back agreements by investing in quality of place to stimulate future demand

PART 3

Framework for Local **Strategy Development** and Implementation



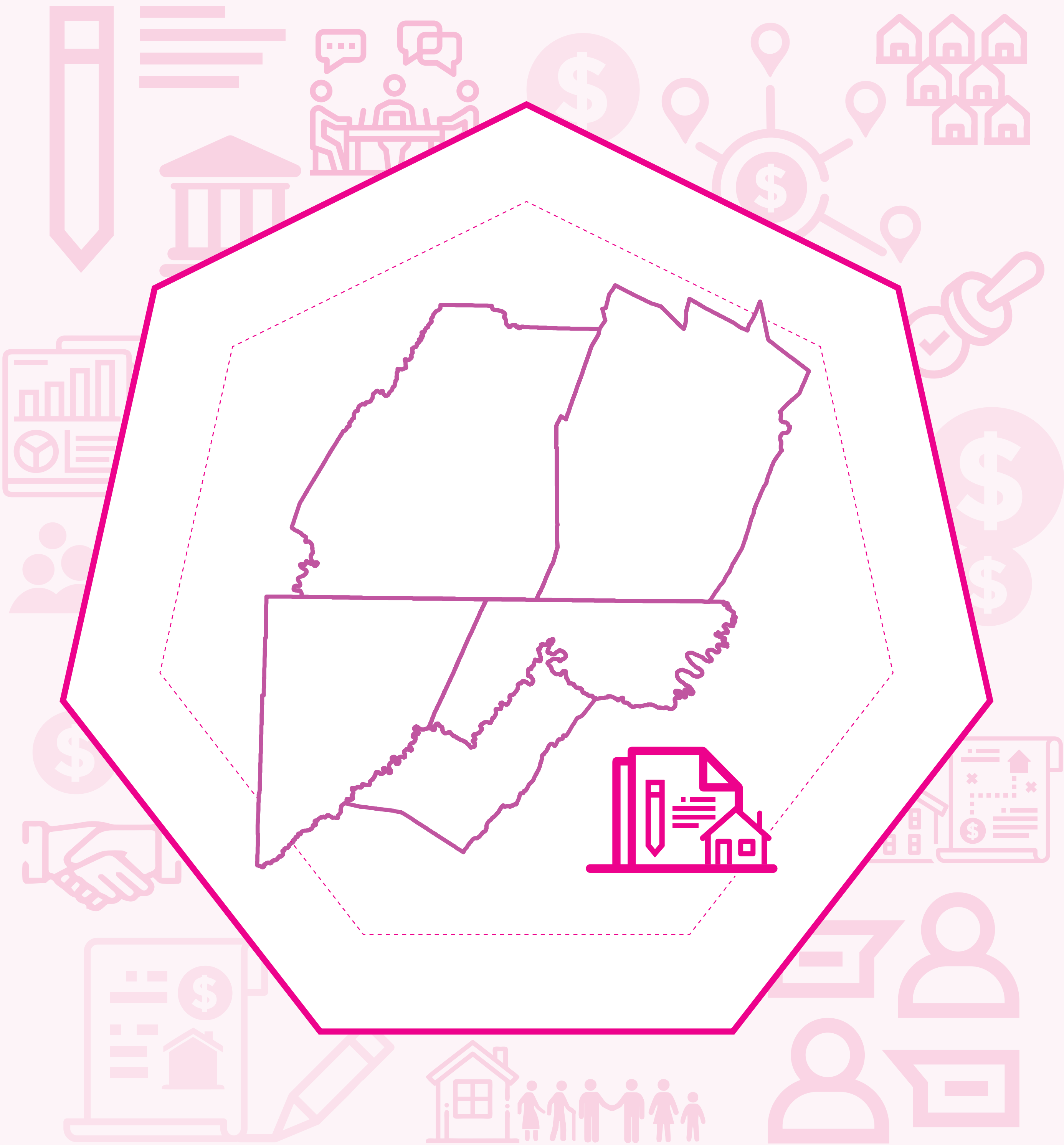
Local Market-Rate **Housing Coalitions**

Local Strategy Development **Steps**

The regional toolkit presented in Part 2 is a reflection of prevailing housing market conditions in the five counties and the general problems that would need to be addressed to produce housing investments that the market is not yet undertaking on its own.

The toolkit, however, cannot be implemented at a regional scale—not with five counties in three states and hundreds of local jurisdictions forming the political backdrop. Nor with the range of market conditions that exist within the region and the reality that market-rate housing will not be a prioritized issue in some places—not to the point, at least, that local resources are ready to be committed.

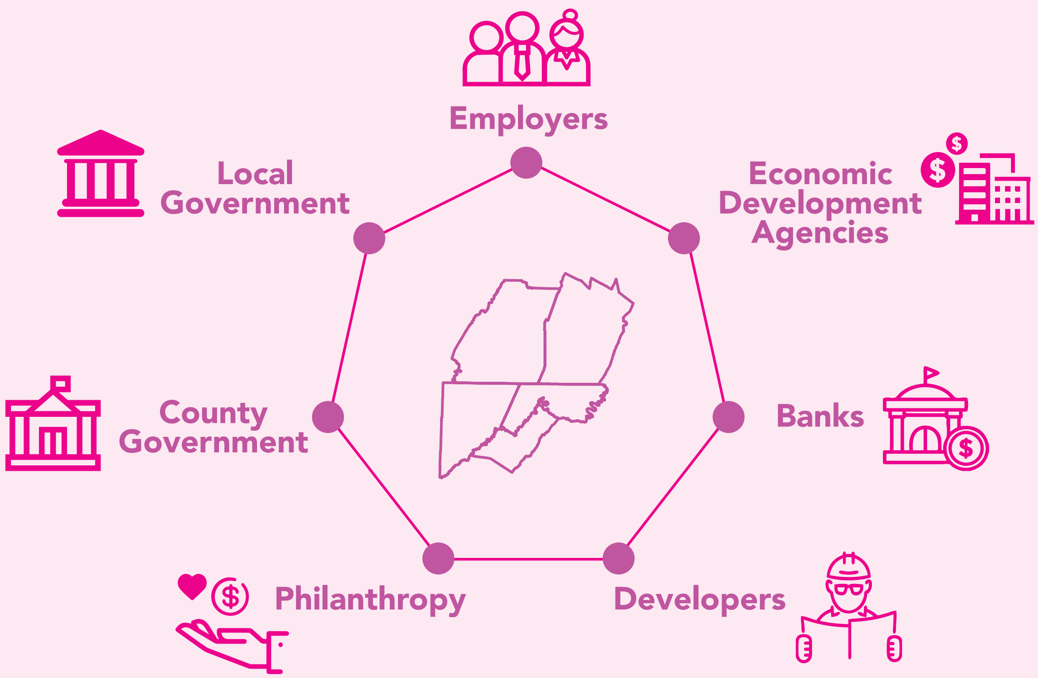
Consequently, implementation must be locally driven by groups of public and private stakeholders who are willing to work together to identify a strategy that makes use of the regional toolkit in ways that advance local housing and economic development goals. Part 3 describes how these coalitions might be comprised and how they might function—but the key will be the degree to which the members of a coalition are able to work together in a manner that supports risk-taking and experimentation in the pursuit of well-defined goals.



Local Market-Rate **Housing Coalitions**

Who should be at the table?

Every coalition will be different and a reflection of local context. But coalitions are likely to require a similar set of components or partnerships to have a high probability of success. What are they?



Who convenes?

A convening force is the essential starting point for any local market-rate housing coalition, and it could be any of the potential partners identified here. Unless an individual and/or entity is willing to throw their energy and relational capital into this, a coalition will not materialize or will not be sustainable.

It is likely to be the case that only a few coalitions will emerge throughout the region early on, in areas where market-rate housing is already a subject of discussion and where conveners exist and are in a position to act. These early coalitions can serve as models for other parts of the region as their actions take tangible form and inspire other potential conveners.

Employers

Having one or more influential local employers as part of a coalition—be it a business or an institution such as a hospital or college—will be helpful in making the case that market-rate housing is an economic development issue worthy of local attention and investment. They can bring credibility to the work of the coalition as well as capital and non-financial resources (capacity to convene, financial analysis skills, etc.).

Local Government

A coalition should include representatives from the local governments in the coalition's desired area of work—which may be hyper-focused on one part of one jurisdiction or stretch across several jurisdictions. Local government partners are likely to serve a number of critical roles which may include updating land use regulations, assembling real estate, investing in infrastructure, and ensuring that housing investments are well-aligned with other quality of place strategies.

County Government

Participation by county government will bring planning capacity, regional perspective, and regional resources to the work of local coalitions—especially in cases where county officials are helping to shepherd the work of multiple coalitions at once.

Economic Development Agencies

Similar to the participation of employers in a coalition, the presence of a local or county-level economic development agency will signal the importance of housing as an economic development issue. These agencies may also play fundamental roles in designing and administering financial tools, setting up project ownership structures as conduits for pooled equity, and ensuring that projects are aligned with local workforce development goals.

Philanthropy

Where present, and where their missions dovetail with housing and quality of place endeavors, foundations can serve as a critical source of leadership and flexible, patient capital.

Banks

The presence of local or regional financial institutions in a coalition will ensure that the needs of debt holders are a grounding force in the development of local strategies and the calibration of tools to reflect the size and nature of local financial gaps. It is often the case that banks with strong local stakes are motivated to find risk management solutions for projects that have the potential to elevate the local market and that have strong support from a range of committed partners.

Developers

As with the presence of a bank in a coalition, the presence of a real estate developer with local knowledge and experience can provide perspectives that ensure that tools are effectively resolving financial barriers to project feasibility.

Local Strategy Development **Steps**

Regardless of the combination of stakeholders that ultimately form a Housing Coalition, each coalition will need to follow a similar sequence of steps to ensure that the tools that are ultimately implemented are grounded to a thoughtful strategy that has broad buy-in from coalition members and others in the area where the tools will be applied. Four broad steps are outlined here to provide a starting point for local strategy development.

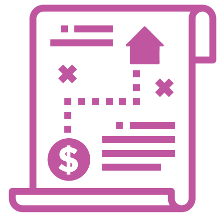
1 Self-identified conveners initiate coalition formation

Local market-rate housing coalitions will begin to form when self-identified conveners initiate conversations with potential coalition partners about market-rate housing and how it fits into broader efforts to strengthen the quality of place and economic competitiveness of a specific area. In some cases, there may be existing partnerships in place doing work on related issues that could be adapted or expanded to include a focus on market-rate housing. In other cases, a coalition of the required breadth might not exist and will need to be built from scratch.

Whatever the local context is, there needs to be a convener and core group of partners who agree that expanding market-rate housing opportunities is a priority in their community.

2

Partners define and begin to resource a local strategy



As a coalition takes shape, the partners will need to focus their efforts to ensure that limited resources and capacity are effectively channeled. This includes:

Choose specific problems to solve in a defined area

Part 2 identifies four general problems to solve based on prevailing market conditions in the region. These problems are almost certainly more than a local coalition will have the capacity to address. Partners should choose one or two problems that are particular priorities for their communities and that relate to existing assets, opportunities, or needs. They should also choose where exactly they aim to address those problems—in one neighborhood or downtown district? In one municipality or a group of municipalities?

Choose specific tools to assemble

Selection of specific problems to solve will helpfully limit the number of tools that need to be designed, resourced, and assembled. This is important because getting the tools calibrated to local conditions—ensuring that they are sufficient to overcome barriers to development—will require due diligence and collaboration.

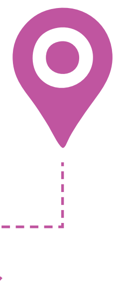
Define a clear and realistic output tied to a clear outcome

It is possible, but not at all necessary, to overcomplicate the selection of an output target. A market absorption study might suggest, for example, that a given sub-market in Allegany County is capable of absorbing 100 new units of market-rate housing. Focusing on a such an abstract number takes attention away from the task at hand—putting the tools in place to put the first few units into service, seeing how they perform, and then applying that experience to the next handful of units. Coalitions should start with a small output goal related to the chosen problem to solve and be clear about the larger outcomes (improved tax base, stronger demand, better quality of place) that the goal supports.

Commit resources to chosen tools

What resources are needed to make the chosen tools work and to realize chosen output goals? Some needs will be related to capacity—the administrative ability to oversee a program effectively, for example. Other needs will be related to capital—having funds committed to plugging equity gaps, to improving site infrastructure, to paying down the asking rent or price for a new or refurbished housing unit. Piecing together the right combination of resources from coalition partners and others will determine whether the tools stand a chance of being implemented. If resource commitments fail to materialize, the question must be asked: is this really a priority?

3 Identify a demonstration project and test the tools



The only way to know if the chosen tools work as intended is to put them to the test on a demonstration project. In some cases, a specific project may be the impetus for a coalition's formation in the first place, with partners aiming to address a problematic building or site. In other cases, one or more sites may come to the attention of partners as they work on defining a local strategy.

Whatever potential projects are out there to choose from, selection of the right project is essential to gain experience, build further support, and create momentum for future projects. Wise selections will generally have these characteristics:

They are adjacent to community assets

Using a demonstration project to bolster the strength of community assets pays dividends beyond the project itself and broadens the stake the community as a whole has in the project's success.

They relate to other investments or strategies

If a project is located along a corridor that is receiving new infrastructure, or in a neighborhood that is the focus of revitalization efforts, it has the potential to benefit from positive market expectations.

They are visible

If a project is on a street or road that is highly visible in a community, it has a chance to broadcast confidence to the surrounding market—improving the long-term prospects of the project itself while building demand for future investments in the same area.

They are modest in scale

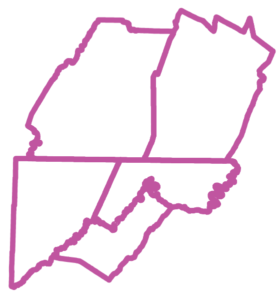
Small is better than big for a demonstration project, with fewer moving parts and less potential for unanticipated risks to bog it down. Worst of all is choosing a 'white elephant' property that has a range of known liabilities and had resisted previous interventions.

A demonstration project should be expected to take 18 to 36 months to be completed and will inevitably reveal the need to modify or add to the chosen tools.

For communities that already have experience with supporting market-rate development, this step offers an opportunity to test a reconfigured set of tools with a potentially broader set of partners.

4

Refine tools, identify new opportunities, and share experiences

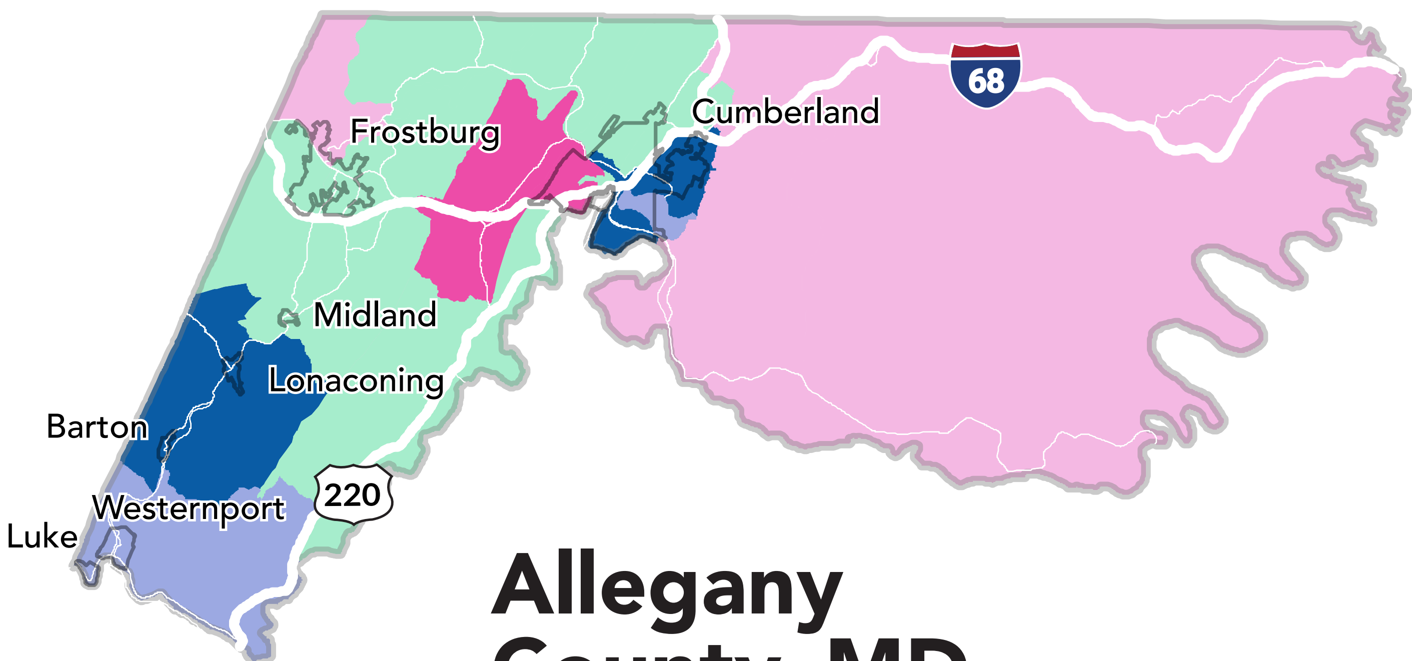


Before a demonstration project concludes, coalition partners should have a feel for the types of tool modifications or additions that might be needed to improve future projects. They should also have a sense of what the next project should be and the resources that might be needed to put the tools to the test once again. The same characteristics of a well-selected demonstration project will apply going forward.

Importantly, the lessons learned from each demonstration project should be shared with other coalitions. The five counties and the I-68 Regional Alliance have the potential to serve an important role in this regard—connecting coalitions and sharing experiences to ensure that each new project in the region is starting from a stronger foundation.

Appendix

County-Level Market Typologies



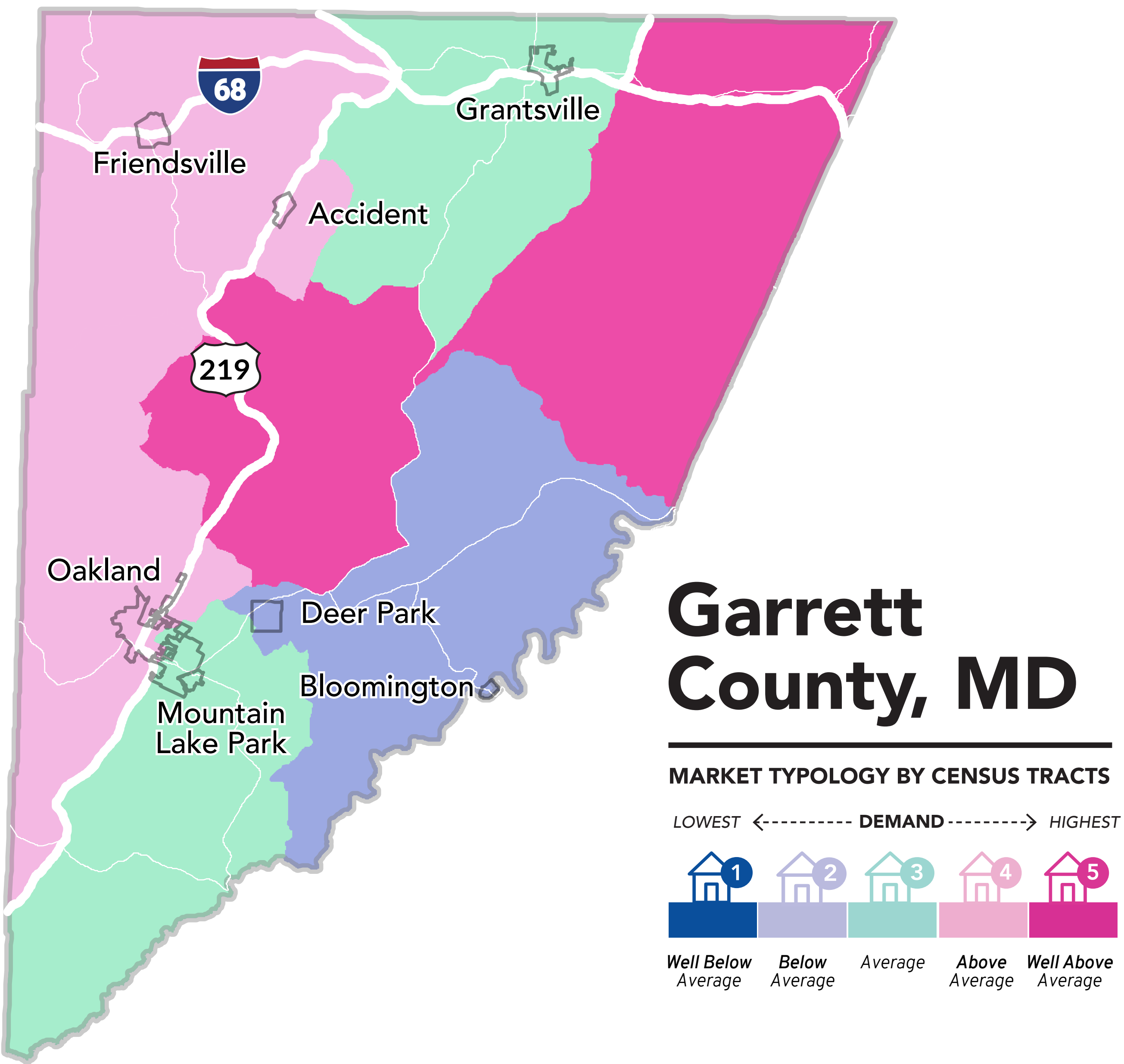
Allegany County, MD

MARKET TYPOLOGY BY CENSUS TRACTS

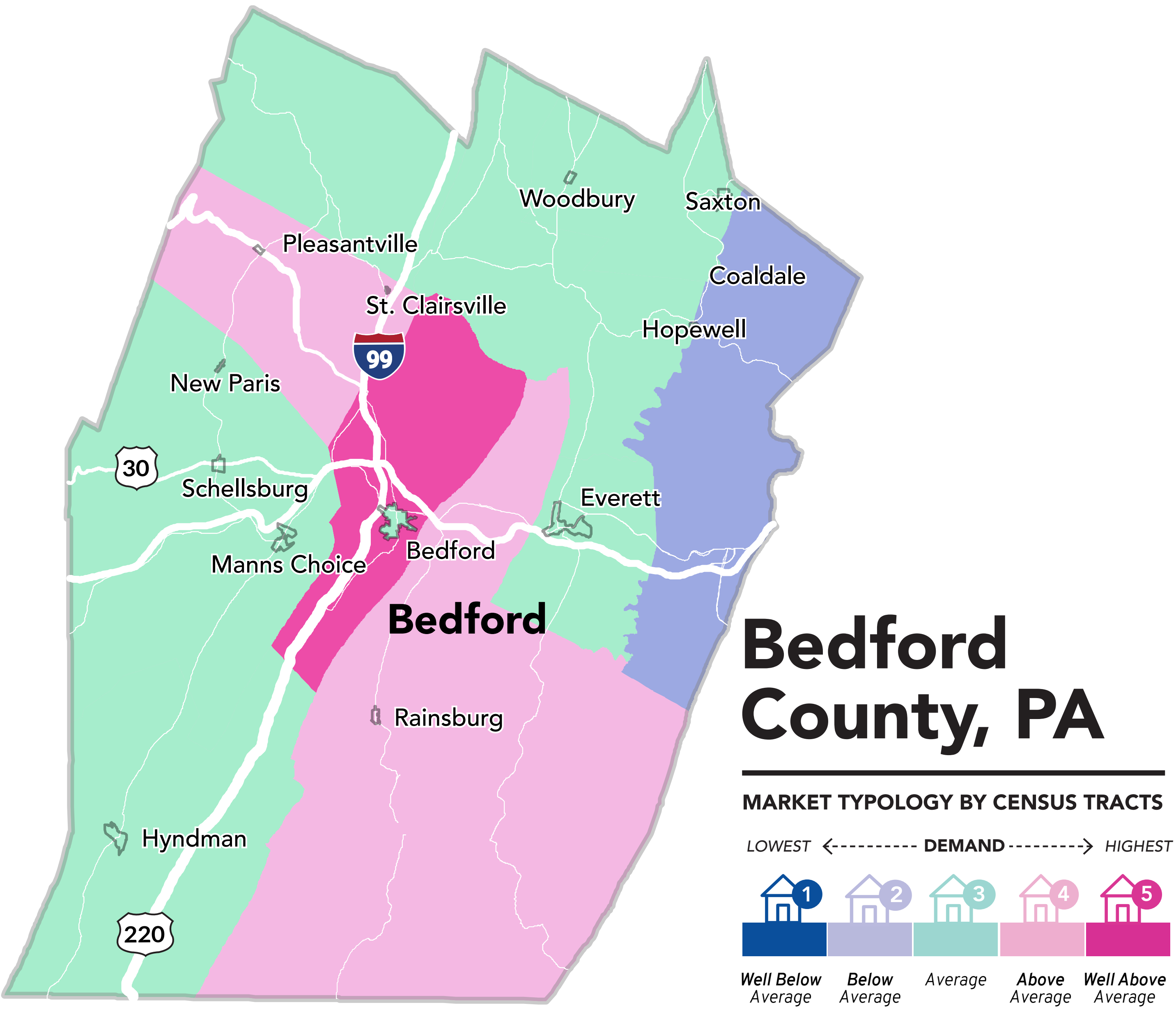
LOWEST <---------- **DEMAND** ---------> *HIGHEST*

1	2	3	4	5
Well Below Average	*Below Average*	*Average*	*Above Average*	*Well Above Average*

County-Level Market Typologies



County-Level Market Typologies



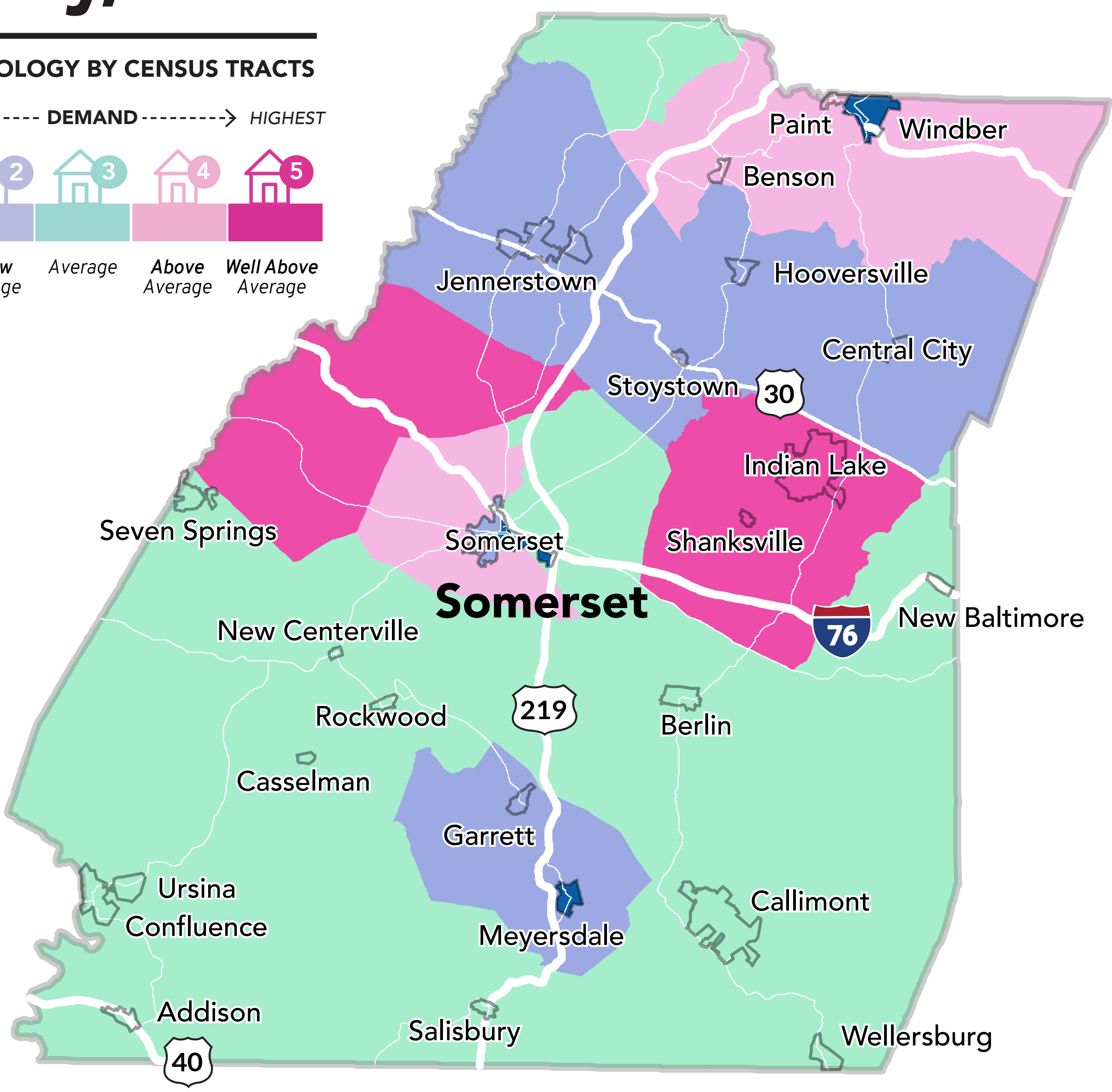
County-Level Market Typologies

Somerset County, PA

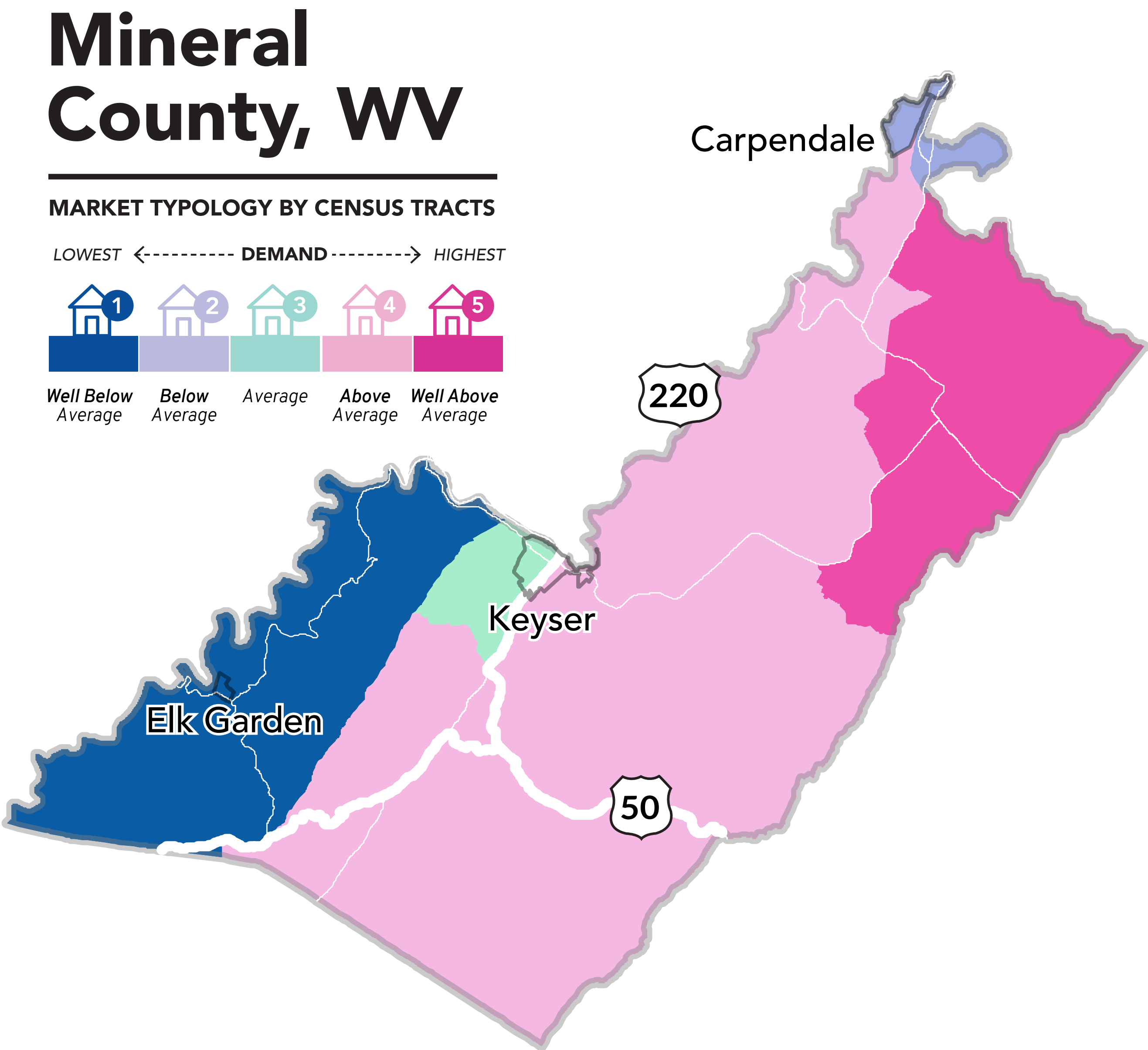
MARKET TYPOLOGY BY CENSUS TRACTS

LOWEST ←---------- **DEMAND** ---------→ HIGHEST

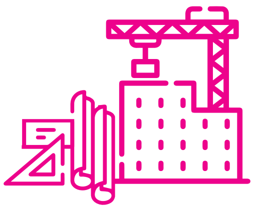
1	2	3	4	5
Well Below Average	*Below Average*	*Average*	*Above Average*	*Well Above Average*



County-Level Market Typologies



Development Cost and Rent Assumptions for New Rental Development (of a 24-unit, three story building)



		Median of Regional Cost Considerations
Development Cost Assumptions	Acquisition of 1 acre	$194,000
	Construction of 22,000 sq.ft. three-story apartment building	$4,285,913
	Total land and hard costs	$4,479,913
	Developer's fees	$783,985
	Total development cost	$5,263,897
	Units	24
	Cost per unit	$219,329
	Bank financing	3.5%
	Bank loan-to-value ratio	67.5%
	Equity financing	9.5%
	Owner equity	5.0%
	Investor equity	27.5%
Rent Assumptions	Break even rent	$2,120
	Less vacancy at 5%	$2,014
	Operations	$755
	Net operating	$1,259
	Mortgage	-$665
	Equity payment	-$480
	Cash flow	$108
	Debt service coverage ratio	1.10

Source: czb analysis of development cost factors in the region as of January 2022, including available real estate for projects

Development Cost and Rent Assumptions for Small Gut Rehab or Adaptive Reuse (small multi-unit building)

		Median of Regional Cost Considerations
Development Cost Assumptions	Existing building acquisition	$284,950
	Projected rehab costs	$577,500
	Total acquisition and hard costs	$786,200
	Developer's fees	$137,585
	Total development cost	$923,785
	Units	4
	Cost per unit	$246,295
	Bank financing	3.5%
	Bank loan-to-value ratio	67.5%
	Equity financing	9.5%
	Owner equity	15.0%
	Investor equity	17.5%
Rent Assumptions	Break even rent	$2,058
	Less vacancy at 5%	$1,955
	Operations	$733
	Net operating	$1,222
	Mortgage	-$747
	Equity payment	-$362
	Cash flow	$113
	Debt service coverage ratio	1.10

Source: czb analysis of development cost factors in the region as of January 2022, including available real estate for projects

Development Cost Assumptions for New Homes

For 1,800 sq. ft. home of above-average quality in a new subdivision, construction costs were estimated to range between $167 and $195 per sq. ft.

For 2,200 sq. ft. home of above-average quality in new subdivision, construction costs were estimated to range between $195 and $225 per sq. ft.

Source: czb analysis of prevailing costs for new single-family home construction in spring 2022

Online Survey Results

The following are detailed results from an online survey that was distributed by major local employers to their employees during February and March 2022. 505 completed responses were received, with key findings summarized on pages 22-23 of this document.

Questions about the survey takers, their households, and their current living arrangements

1. Where do you currently live?

	Answer	Count	Percent
1.	Bedford County, PA	87	17.23%
2.	Somerset County, PA	126	24.95%
3.	Allegany County, MD	89	17.62%
4.	Garrett County, MD	96	19.01%
5.	Mineral County, WV	38	7.52%
6.	Not in any of the counties listed above	69	13.66%
	Total	505	100%

2. Where is your job based? (Where do you go when you report to work in person?)

	Answer	Count	Percent
1.	Bedford County, PA	105	20.79%
2.	Somerset County, PA	122	24.16%
3.	Allegany County, MD	93	18.42%
4.	Garrett County, MD	116	22.97%
5.	Mineral County, WV	47	9.31%
6.	Not in any of the counties listed above	22	4.36%
	Total	505	100%

3. Do you own or rent your residence?

	Answer	Count	Percent
1.	Own	435	86.14%
2.	Rent	70	13.86%
	Total	505	100%

4. If you rent, please select the option that best describes your rental environment.

	Answer	Count	Percent
1.	I rent a single-family house.	38	54.29%
2.	I live in a building with two to four units.	22	31.43%
3.	I live in a building with five to ten units.	2	2.86%
4.	I live in a building or complex with more than ten units.	8	11.43%
	Total	70	100%

5. If you rent, please select the option that best describes your current rental unit's configuration.

	Answer	Count	Percent
1.	Studio or efficiency	1	1.43%
2.	1 bedroom or loft	18	25.71%
3.	2 bedrooms	24	34.29%
4.	3 bedrooms	25	35.71%
5.	4 or more bedrooms	2	2.86%
	Total	70	100%

6. If you own, please select the option that best describes your home.

	Answer	Count	Percent
1.	Single-family detached house in a city, borough, village, or town	154	35.40%
2.	Single-family detached house in a suburban environment	49	11.26%
3.	Single-family detached house in a rural environment	223	51.26%
4.	I own and live in a duplex or another type of multi-family property	3	0.69%
5.	Condominium or townhouse	4	0.92%
6.	Other	2	0.46%
	Total	435	100%

7. How long have you lived in your current residence?

	Answer	Count	Percent
1.	Less than 2 years	73	14.46%
2.	2-5 years	100	19.80%
3.	6-10 years	75	14.85%
4.	More than 10 years	257	50.89%
	Total	505	100%

8. Please select the option that best describes your household or living arrangement.

	Answer	Count	Percent
1.	I live alone	50	9.90%
2.	I live with one or more roommates (who are not related to me)	7	1.39%
3.	I live with a spouse or partner, but no children	203	40.20%
4.	I live with one or more school-aged or adult children (with or without a spouse or partner)	205	40.59%
5.	I live with my parents, adult siblings, or extended family	21	4.16%
6.	Other	19	3.76%
	Total	505	100%

9. How old are you?

	Answer	Count	Percent
1.	Younger than 25	20	3.96%
2.	25-34	75	14.85%
3.	35-44	146	28.91%
4.	45-54	111	21.98%
5.	55-64	122	24.16%
6.	Above 64	31	6.14%
	Total	505	100%

10. Did you spend any part of your childhood in this region (if you are younger than 35)?

	Answer	Count	Percent
1.	Yes	67	70.53%
2.	No	28	29.47%
	Total	95	100%

11. Please select the income range that best describes the combined annual income (gross) of your household?

	Answer	Count	Percent
1.	Less than $20,000	2	0.40%
2.	$20,000 to $34,999	30	5.94%
3.	$35,000 to $49,999	47	9.31%
4.	$50,000 to $74,999	92	18.22%
5.	$75,000 to $99,999	117	23.17%
6.	$100,000 to $149,999	129	25.54%
7.	$150,000 or more	88	17.43%
	Total	505	100%

12. Please select the range that best describes your household's current monthly housing payment (in the form of your monthly rent payment or your monthly mortgage payment).

	Answer	Count	Percent
1.	Less than $500	65	12.87%
2.	$500 to $649	58	11.49%
3.	$650 to $799	65	12.87%
4.	$800 to $999	70	13.86%
5.	$1,000 to $1,249	64	12.67%
6.	$1,250 to $1,499	40	7.92%
7.	$1,500 or more	42	8.32%
8.	I own my home free and clear	101	20.00%
	Total	505	100%

Questions about satisfaction with current housing, likelihood of near-term move, and housing/location preferences

13. How satisfied are you with your current housing arrangement? Select the answer that best describes your level of satisfaction:

	Answer	Count	Percent
1.	Very satisfied	260	51.49%
2.	Satisfied	173	34.26%
3.	Somewhat dissatisfied	63	12.48%
4.	Very dissatisfied	9	1.78%
	Total	505	100%

14. If you are dissatisfied, please select the answers that best describe the reasons for your dissatisfaction. Choose all that apply:

	Answer	Count	Percent
1.	Layout or configuration do not meet the current needs or life stage of my household	36	33.33%
2.	Condition is poor; it needs significant repairs or updates	21	19.44%
3.	Location is a problem—inconvenient to employment or services	17	15.74%
4.	Location is a problem—not the right neighborhood or amenities for my household	27	25.00%
5.	Other	7	6.48%
	Total	108	100%

15. In the next five years, what is the likelihood that you would move from your current home to another location in this region?

	Answer	Count	Percent
1.	Very likely	77	15.25%
2.	Somewhat likely	68	13.47%
3.	Not likely, but I could be persuaded by the right opportunity	80	15.84%
4.	Not likely	110	21.78%
5.	Extremely unlikely	145	28.71%
6.	A move is very or somewhat likely, but it would be outside the region	25	4.95%
	Total	505	100%

16. If you were to move in the next five years, what type of housing would you find most attractive or suitable to your needs and preferences? Select all that apply.

	Answer	Count	Percent
1.	Rental – An apartment in a renovated older building	19	4.53%
2.	Rental – An apartment in a brand-new building.	22	5.25%
3.	Rental – A rented townhouse or rowhouse.	26	6.21%
4.	Own – A new single-family house	139	33.17%
5.	Own – An existing single-family house	149	35.56%
6.	Own – A townhouse or rowhouse..	21	5.01%
7.	Own – A condo in a renovated older building	14	3.34%
8.	Own – A condo in a brand-new building.	19	4.53%
9.	Other	10	2.39%
	Total	419	100%

17. If you were to move in the next five years, what combination of bedrooms and bathrooms would best suit your needs? Select all that apply:

	Answer	Count	Percent
1.	Studio apartment	1	0.31%
2.	1 bedroom / 1 bathroom apartment	9	2.80%
3.	2 bedroom / 1 bathroom home or apartment	26	8.10%
4.	2 bedroom / 1.5 bathroom home or apartment	41	12.77%
5.	2 bedroom / 2 bathroom home or apartment	49	15.26%
6.	3 bedroom / 2 bathroom home or apartment	126	39.25%
7.	4+ bedroom / 2+ bathroom home or apartment	66	20.56%
8.	Other	3	0.93%
	Total	321	100%

18. If you were to move in the next five years, what type of environment or community would you want to move to? Select all that apply:

	Answer	Count	Percent
1.	A downtown or "Main Street" setting in a city, borough, or village	29	8.08%
2.	A traditional neighborhood setting in a city, borough, or village	70	19.50%
3.	A suburban setting (lower density than a borough or village, but neighbors are close by)	102	28.41%
4.	A rural setting	156	43.45%
5.	Other	2	0.56%
	Total	359	100%

19. If you were to move in the next five years, please indicate the most that you would be willing to pay for housing (in terms of a monthly rent or mortgage payment) if the type of housing that most suits your needs and location preferences were made available:

	Answer	Count	Percent
1.	No more than $700	64	25.60%
2.	No more than $800	42	16.80%
3.	No more than $900	19	7.60%
4.	No more than $1,000	39	15.60%
5.	No more than $1,250	35	14.00%
6.	No more than $1,500	27	10.80%
7.	I'd be willing to spend upwards of $2,000 or more for the right product	24	9.60%
	Total	250	100%

20. If you were to move in the next five years, please rank the following amenities or characteristics (1-6) by the extent to which they would influence your decision to relocate to new housing.

Amenity	Average Rank (lower score = higher ranking)
Connections to public recreational assets (trails, bike paths, parks)	4.18
Restaurants and businesses to visit	3.59
Sense of safety (personal and property)	2.11
Events and activities	4.50
Sense of privacy / access to private outdoor space	2.64
Pet-friendliness	3.99

I-68 Regional Alliance
Housing Study

A Strategy for Action on Market-Rate Housing

APRIL 2022
Prepared by czbLLC