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# Housing Affordability

## TGFOA Fall 2024

TACIR (Tennessee Advisory Commission on Intergovernmental Relations)\*

\*“The mere mention of which usually puts people to sleep”

# Overview

**Part I:**  
Housing  
Affordability  
Is a Problem  
—But Why?

**Part II:**  
Thinking  
about Housing  
Costs in Your  
Community

# Part I: Housing Affordability Is a Problem —But Why?

- Housing affordability has gotten worse over time by multiple metrics
- There are many factors that have been blamed for deteriorating housing affordability—but the most obvious factors may not be the root of the problem

## Housing Affordability: Different Measures, Same Result

**\$325,000**

Median sales price of all homes in TN, 2022 (but \$408,000 for new homes)

**86**

TN counties where a teacher on median salary can't afford the median-priced home

**97**

Hours per week at minimum wage needed to afford rent in TN

**5.1**

Ratio of median home price to median household income in TN in 2022

**1.1%**

Homeowner vacancy rate in TN

**~1/8**

TN households are severely cost-burdened—spending at least half of income on housing

## What's Driving the Issue with Affordability?

- **Mortgage Rates:** Federal Reserve started raising interest rates in 2022; by early 2024 a monthly mortgage on a \$400,000 home might be roughly \$1,000 more than it was before.\*
- **Construction/Labor Costs:** Make up 50% to 70% of overall housing costs, and material and labor costs went up significantly following supply chain disruptions in the pandemic.

\* Mortgage rates peaked at 7.8% but have trended down recently to 6.1%.

## What's Driving the Issue with Affordability?

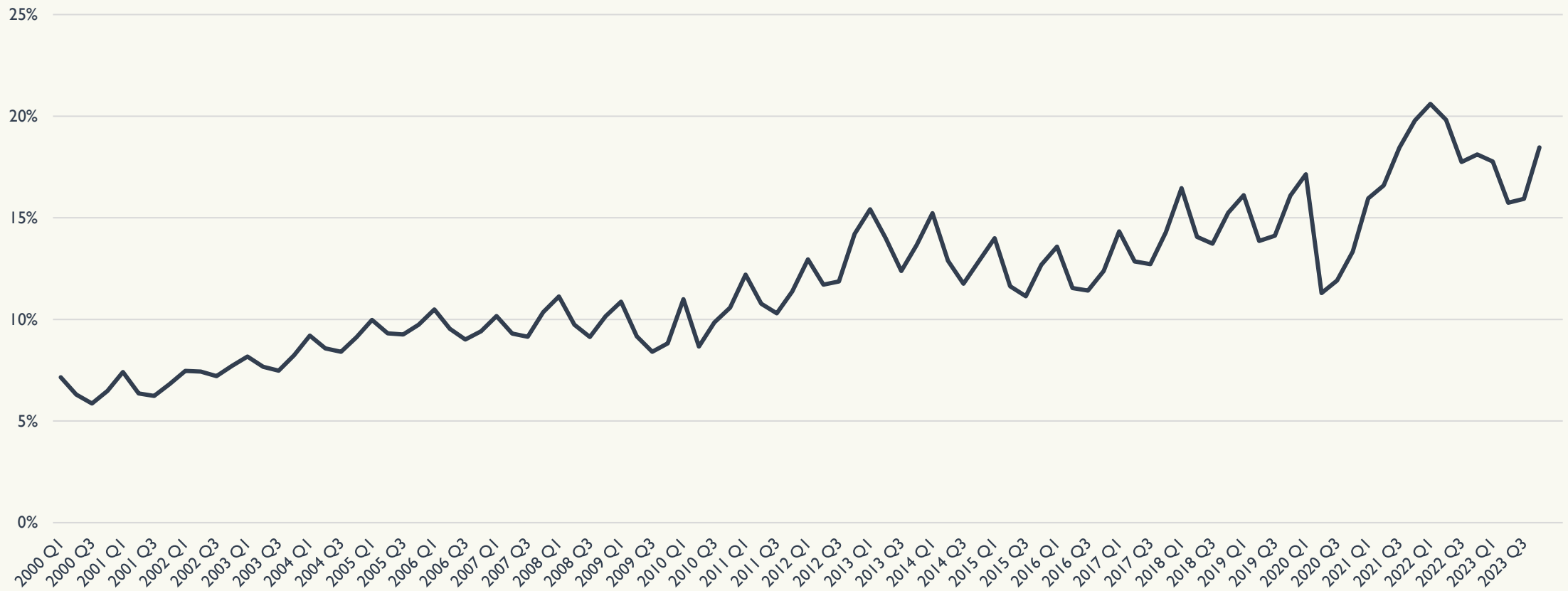
- **Impact Fees:** A National Association of Homebuilders study attributed 23.8% of the cost of a home to regulations of some form—but that included everything from labor regulations to building code changes, and was a national average.
  - 18 counties and 15 cities in TN have impact fees or development taxes.
  - Where present, impact fees and development taxes themselves might add less than 1% to the cost of a house.

# Sample Impact Fees and Development Taxes in Tennessee

County or City	Name of Fee or Tax	Rates
Bedford	School Facilities Tax	\$1 per sq. ft. (residential only)
Cannon	School Facilities Tax	\$0.90 per sq. ft. (residential only)
Cheatham	Development Tax	- Single Family: \$3,000 per lot - Multifamily: \$3,000 per unit (residential only)
	Adequate Facilities Tax	\$0.50 per sq. ft. (residential only)
Kingston Springs	Adequate Facilities Tax	\$0.40 per gross sq. ft. of floor area (residential only)
Pegram	Adequate Facilities Tax	- Residential: \$0.75 per gross sq. ft. of floor area - Non-residential: \$0.40 per gross sq. ft. of floor area
Dickson	Adequate Facilities Tax	- Residential: \$1 per gross sq. ft. - Commercial: \$0.25 per gross sq. ft. - Industrial: \$0.15 per gross sq. ft.

# What's Driving the Issue with Affordability?

- **Institutional Investors:** A growing share of homes sold is going to institutional investors.



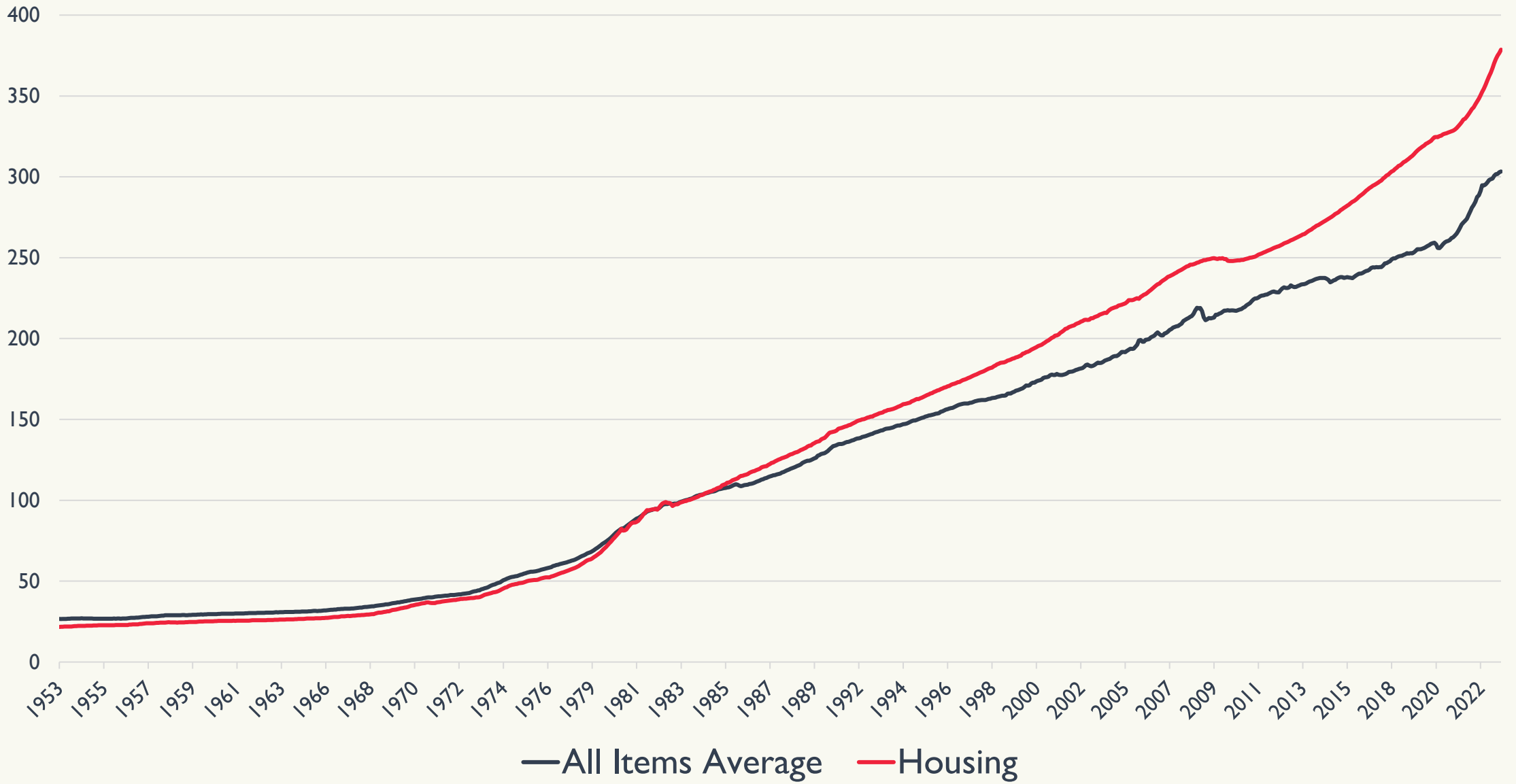


## **What's Driving the Issue with Affordability?**

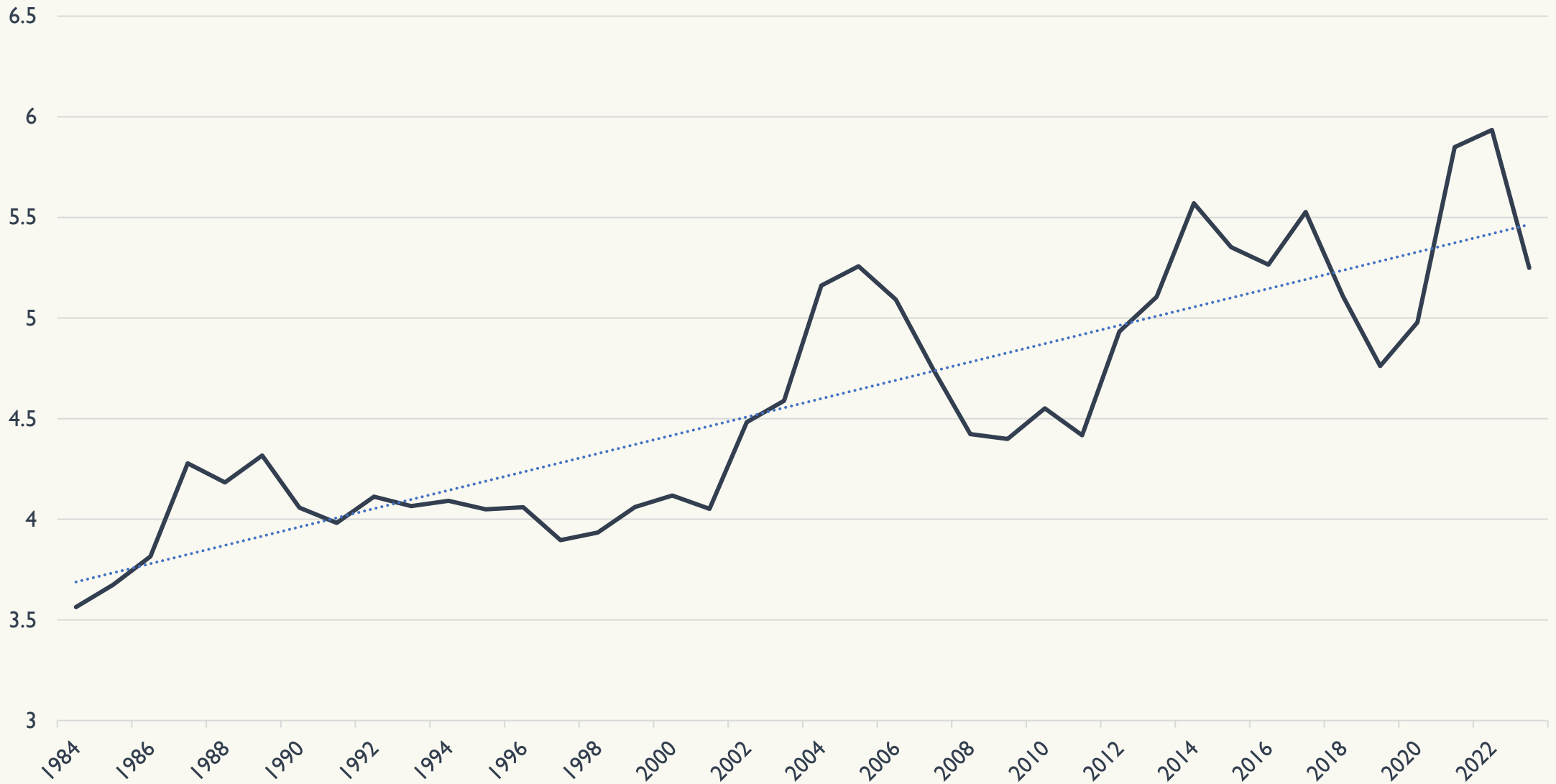
- **Realtor Fees**
- **Short-Term Rentals**
- **Income Inequality**
- **Demographic Change**

There's basically no shortage of factors that have been suggested as driving housing costs and affordability issues. But...

# Housing Inflation vs Total Inflation over Time



# National Median Home Price to Median Income Ratios Have Worsened over Decades



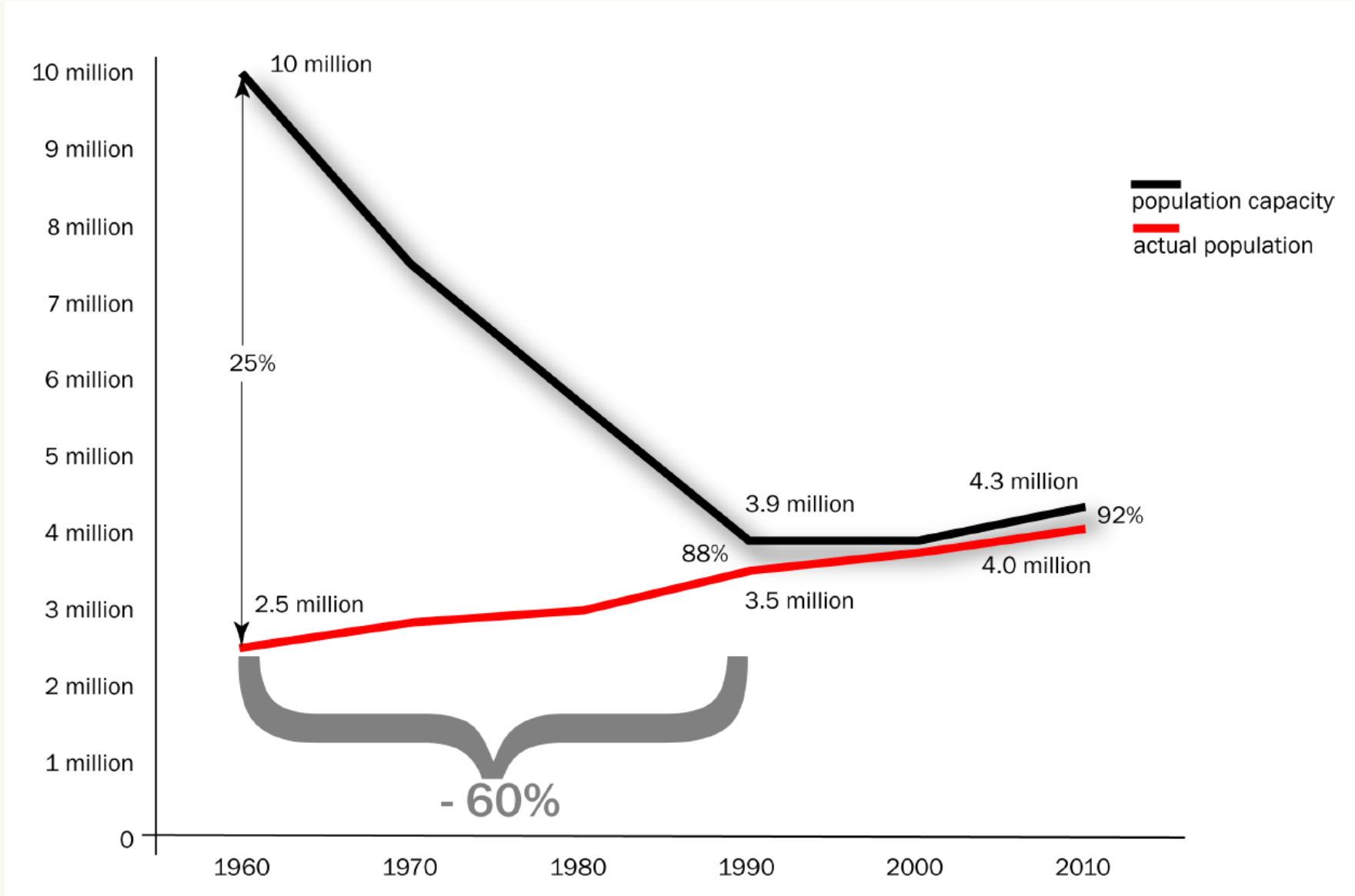
The one driver of housing affordability that stands out above all others is

## **Supply**

—and the growing consensus among housing researchers, economists, and industry experts is that conventional zoning has restricted housing construction.



# Zoning Capacity in Los Angeles over Time



Source: Morrow 2013.

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# Zoning Reform Options

Allow duplexes on any lots zoned for single-family homes

Allow quadplexes, townhouses, cottage courts, etc.

Upzone near transit, business centers

Allow mixed-use multifamily housing in commercial zones

Relax bulk standards, aesthetic requirements

Reduce lot sizes (if sewer allows)

Reduce setback requirements

Reduce parking requirements

Create pattern books of preapproved designs

Let faith institutions, colleges, and hospitals build housing by right

Allow accessory dwelling units

Allow single room occupancies

Allow tiny houses

Allow third-party review

# TACIR Report Recommendations

1. The state should incentivize local governments to adopt zoning reforms, such as by sharing a portion of realty transfer and mortgage tax revenues or other revenues;
2. If the state incentivizes zoning reform, it should also enable local governments to mitigate the effects of increased property values on existing residents;
3. Fund THDA's housing trust fund to allow for low- or zero-interest construction loans for affordable housing by using realty transfer and mortgage tax revenues or some other revenue source;
4. Reserve funding from realty transfer and mortgage tax revenues for infrastructure projects to smooth out the ups and downs of the business cycle and forestall loss of construction employment;
5. Authorize all local governments to create land banks;
6. Let local governments post links on DGS's website for surplus real property.

# Part II: Thinking about Housing Costs in Your Community

- More housing and reformed zoning may help the cost efficiency of government services
- Housing costs can have a wide impact on local economies and workforce recruitment
- Housing costs interact with other major expenditures like transportation



## Government Service Cost by Housing Density

	Bradford Hills (conventional suburban subdivision)	Lenox Village (denser, mixed-use subdivision)	The Gulch (high-density area in downtown)
Total Housing Units	538	1,715	4,552
Housing Units per Acre	2.91	9.27	59.9
Service Costs per Housing Unit	\$1,590	\$1,260	\$1,440
Revenue per Housing Unit	\$1,620	\$1,340	\$3,370
Net Revenue per Housing Unit	\$30	\$80	\$1,930
Net Revenue per Acre	\$100	\$780	\$115,720

Source: Fulton et al. 2013 and commission staff calculations.

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# Housing Costs Affect the Whole Economy

More spending on housing means less money for other goods and services. In New York City, for example, high housing costs may have dampened consumer spending by \$7 billion in 2015.

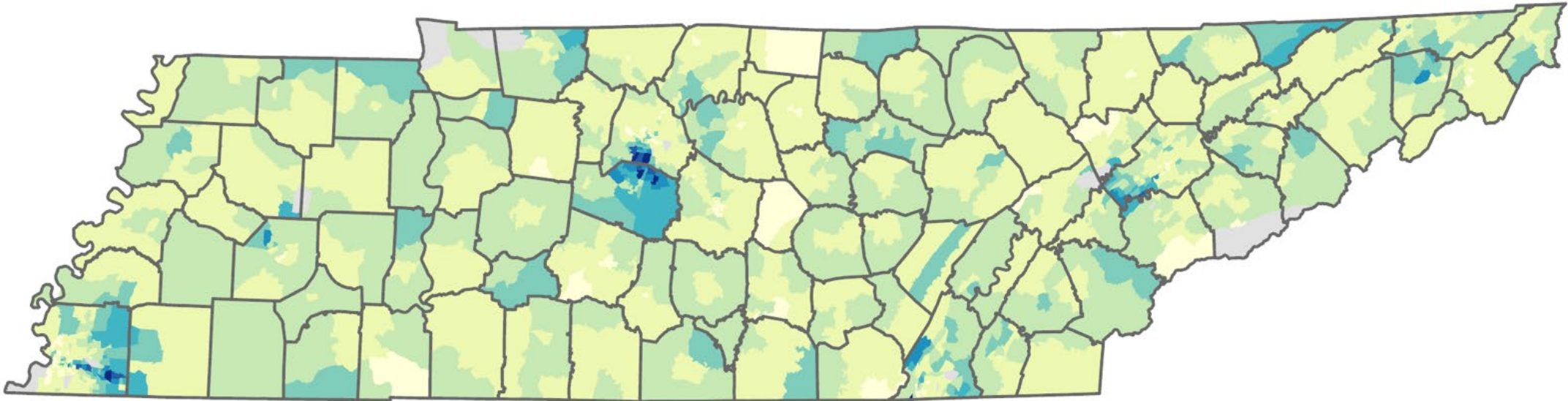
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High housing costs are associated with greater food insecurity, poorer health, and increased rates of homelessness.

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A University of Tennessee survey from last year found 46.5% of businesses cited housing costs as an obstacle to recruiting and retaining workers.

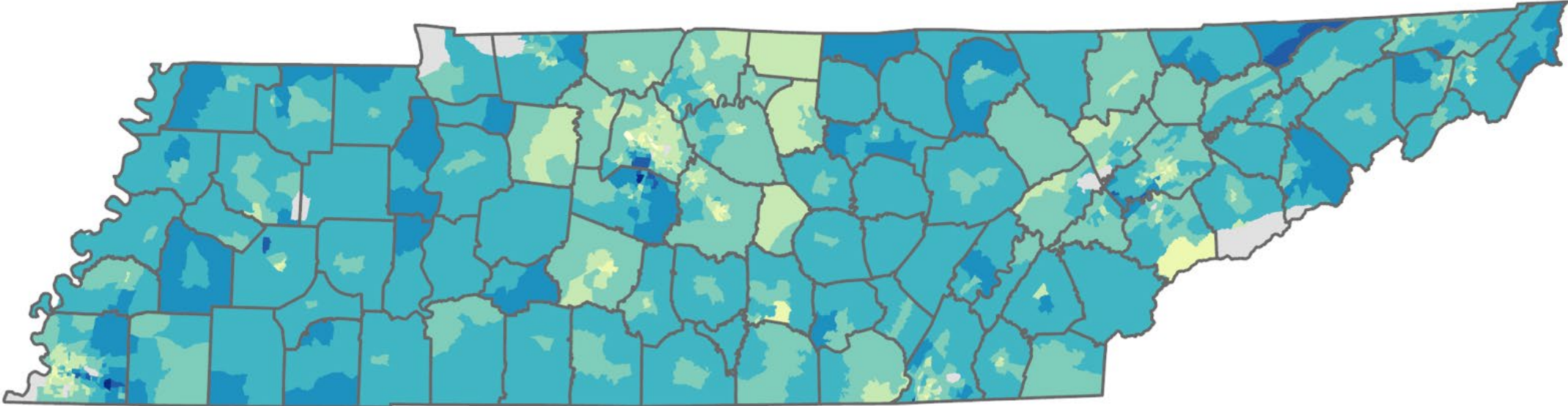
# Housing Costs as Percentage of Income



Housing Costs % Income



# Housing + Transportation as Percentage of Income



Housing + Transportation Costs % Income



# Housing affordability is one enormous, complicated issue, but just remember...

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- This is a problem that has been building for much longer than most people realize, and getting at the root of it means addressing supply and the obstacles to it.
- It's worth thinking about how housing affordability relates to other issues in your community, from the cost of government services to workforce development to transportation costs.

# Thank You

For more information, visit: [www.tn.gov/tacir](http://www.tn.gov/tacir)

## Housing Legislation in 2024: IDBs and Housing

- ✓ **PC 1012** enables local governments to pledge funds to industrial development boards (IDBs) for the purposes of developing or rehabilitating multifamily housing—but a local government must have third-tier credit rating or better.
- ✓ **PC 956** allows IDBs to make/accept loans and grants for public infrastructure in support of housing, provided they are in counties where economic development projects are expected to generate 1,000 or more new jobs.
- ✓ **PC 860** allows local governments to create special improvement districts to finance infrastructure in support of housing, including through IDBs.