

VALLEY PARTNERSHIP



THE HOUSING GAP

THE RIVER AT EASTLINE VILLAGE: Completed in 2019, this Tempe community offers 56 affordable housing units.

Innovative programs and projects help the Valley's workforce withstand skyrocketing home costs

By REBECCA L. RHOADES

Recent studies have underscored what Arizona homebuyers and renters have known for some time: The state, and particularly Metro Phoenix, has a shortage of attainable and affordable housing. The recent population explosion, combined with rising construction costs, a surge in house flipping and the public's desire for top-of-the-line amenities and finishes, a phenomenon known as the "HGTV effect," has resulted in a dearth of homes with price tags that are within reach for the average worker.

Much has been said recently about the need for homes for families at or below the poverty guideline. A report by the National Low Income Housing Coalition found that Arizona has the country's fourth-worst affordable housing shortage; Phoenix also ranked fourth among major cities. Low-income housing is defined as "housing that is affordable to households earning

30 percent of the area median income (AMI)." The AMI is the income for the median, or middle, household in a region. It is used by the U.S. Department of Housing and Urban Development to determine eligibility for federal housing programs. The AMI for a single person in Maricopa County is \$33,000; for a family of four, it's about \$73,000.

Workforce housing requires earnings of 60 percent to 120 percent of the AMI. Sally Schwenn, market president for Gorman & Company, says, "Workforce is your nurses, your firemen, your teachers, your service providers." These are typically people who make too much money to receive government-subsidized housing yet are often priced out of the current market. According to HUD's Fair Market Rents report, the statewide average cost of a two-bedroom apartment is \$1,097; prices are much higher in Maricopa

County. To afford this level of rent (30 percent or less of gross income), as well as utilities, a household would need to earn \$43,892 annually, or an hourly wage of \$21.10. Arizona's minimum wage is \$12 per hour.

Unfortunately, wages have not kept pace with rising rents and home prices. According to Zillow's latest market report, released in March, metro Phoenix recorded the highest annual growth in home values in 2020 — 17.1 percent over the last year, with the average price being \$248,000. "For the workforce, trying to rent a two-bedroom apartment for a few thousand dollars a month or purchase a \$300,000 house is a luxury that's hard to attain," Schwenn notes.

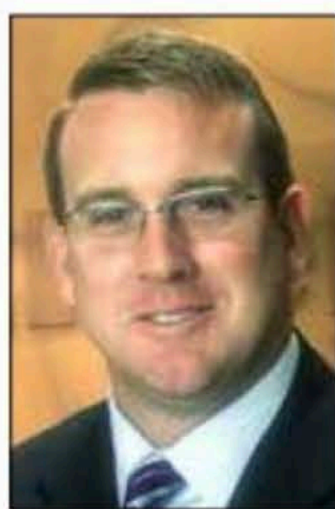
In July 2020, Phoenix Mayor Kate Gallego announced a plan to address the city's housing shortage. Known as the Housing Phoenix Plan, its goal is to develop 50,000 affordable, workforce and market-rate housing units by 2030 by prioritizing opportunities for new housing areas, amending current zoning ordinances and redeveloping city-owned land, among other initiatives.

In Tempe, where demand outstrips inventory and luxury multifamily developments are popping up on just about every corner, Mayor Corey

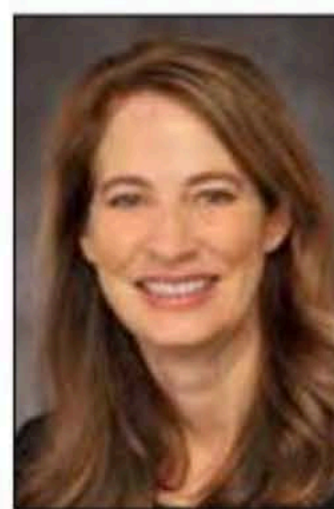
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Woods has prioritized the development of attainable housing. In January, the Tempe City Council approved the Home Town for All initiative, which aims to create more affordable and workforce housing opportunities through developing, acquiring and rehabilitating city properties.

For every project built in Tempe, 50 percent of certain permitting fees paid to the city will be directed to the Tempe Coalition for Affordable Housing. The money will be used to buy and renovate properties, or purchase land and request offers from developers to build affordable and workplace units. "We're also asking for additional voluntary contributions," Woods notes. "If you're building a market-rate complex, that amount would be 20 percent of the total permit and developing fees, while a commercial or office structure would be 10 percent. Between the fees and the voluntary contributions, we will raise between \$2 million and \$4 million per year." To kick off expansion plans, the council in April provided a \$1.2 million transfer from the municipal general fund to the program.



Will Markel



Sally Schwenn



Corey Woods

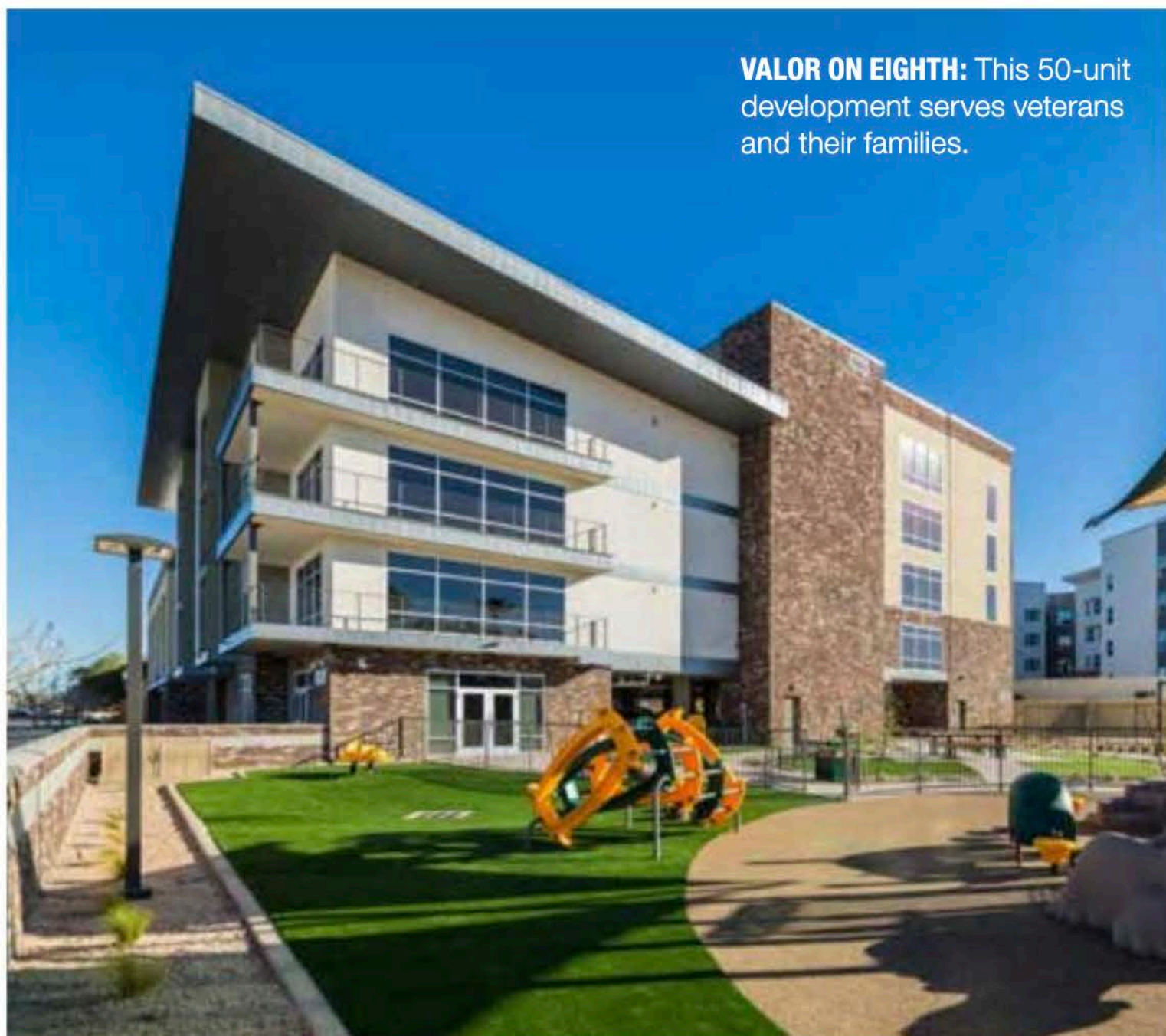
Woods points to best practices used by other states to counter rising home prices, including tax increment financing, whereby cities divert future property tax revenue increases toward economic development; rent control; and inclusionary zoning. All are prohibited in Arizona. "Another challenge is that we have a lot of older multifamily apartments in our community," he says. "Some people will say, 'Well, that's attainable housing right there.' But these places don't have the comforts and amenities that are suitable for 2021. We need to make sure that we have housing in this day and age that people want to live in."

Real estate developer and manager JES Holdings often collaborates with cities to address workforce housing needs. "Municipalities are often hyper-focused on workforce development, but they have to have the housing available or these large companies aren't going to relocate," explains Will Markel, executive vice president for JES Holdings.

"You need a smorgasbord of housing," he continues. "If a city has private developers who focus only on high-end living, it's not addressing an important societal issue. It needs to incentivize the development community to build homes of the same quality but target them to people in a different economic stratosphere."

Markel points to a project his company developed in South Phoenix, in the shadow of South Mountain Park and Preserve. South Summit Estates is a 98-unit 55+ housing development with rents ranging from \$450 for a 600-square-foot studio to \$800 for a 900-square-foot two-bedroom unit. "Many retirees can't afford luxury senior living, but they want a Class A-type apartment," Markel says. The complex was fully rented in three months, and the waiting list is more than 100 people long.

Looking forward, Arizona's growth shows no signs of slowing down. "We realized that we're going to need more than 11,000 more units of housing in Tempe alone by the year 2040, just to keep pace with demand," Woods says. Getting municipalities and developers to invest in this drastic need for housing comes down to getting these projects financed. Adds Wood, "Every family should have the opportunity to achieve the American dream." ■ ■ ■



VALOR ON EIGHTH: This 50-unit development serves veterans and their families.