



# Is There Linkage in Florida's Future?

BY JAMES C. NICHOLAS

Dr. Nicholas will be presenting the workshop on linkage/mitigation ordinances at the Florida Housing Coalition's statewide annual conference on Sept 6<sup>th</sup>, and will also be a panelist during the plenary session on the Economics of Housing on September 5<sup>th</sup>.

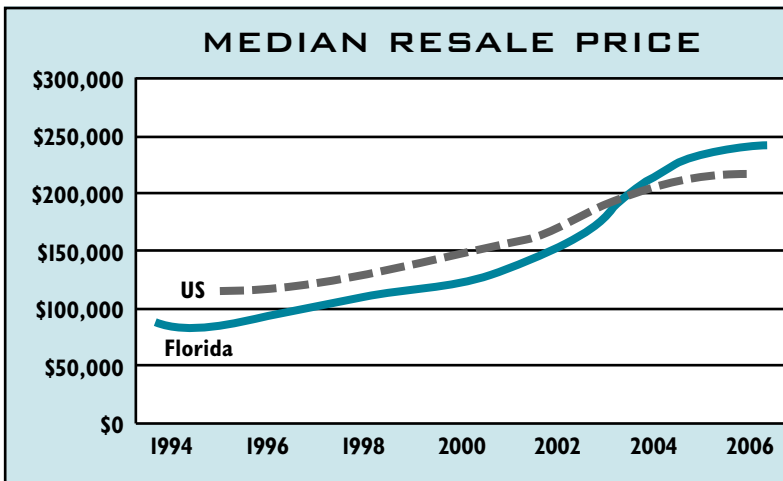
**S**omething happened! Housing prices in Florida went from annual increases of 5 to 6% per year to 10 to 20% per year, and it can't be blamed on inflation. The same thing happened nationally, but the rates of increase were not as great. After 2000 prices simply took off. During 2006 and after prices have backed-off somewhat, but they are still substantially above historical levels. The objective here is not to try to explain what happened but to discuss some of the consequences of what happened.



A great deal of attention has been focused on the prices of homes and how those prices have gone up and then down. Little attention has been focused on the income of Florida households and the resulting affordability consequences of the precipitous increase in housing prices. The prices of houses, like any good, are set in the marketplace and respond to supply and demand. Clearly the sharp increases

	<b>FLORIDA</b>	<b>US</b>
<b>1993</b>	<b>\$87,100</b>	
<b>1994</b>	<b>\$86,200</b>	
<b>1995</b>	<b>\$87,900</b>	<b>\$110,500</b>
<b>1996</b>	<b>\$92,300</b>	<b>\$115,800</b>
<b>1997</b>	<b>\$95,800</b>	<b>\$121,800</b>
<b>1998</b>	<b>\$101,500</b>	<b>\$128,400</b>
<b>1999</b>	<b>\$106,900</b>	<b>\$133,300</b>
<b>2000</b>	<b>\$115,900</b>	<b>\$139,000</b>
<b>2001</b>	<b>\$126,600</b>	<b>\$147,800</b>
<b>2002</b>	<b>\$137,800</b>	<b>\$156,200</b>
<b>2003</b>	<b>\$158,400</b>	<b>\$178,800</b>
<b>2004</b>	<b>\$182,400</b>	<b>\$195,400</b>
<b>2005</b>	<b>\$235,200</b>	<b>\$219,600</b>
<b>2006</b>	<b>\$248,300</b>	<b>\$225,000</b>

*SOURCES: Florida Board of Realtors and National Association of Realtors, Websites.*



in prices are not the result of higher incomes of Floridians. While the average rate of growth for housing prices has been 8.6%, the average rate of increase in household income has been 3.4%, less than half. While external factors have been increasing the prices of houses, Floridians and their local governments<sup>1</sup> have been left to deal with the consequences.

Incomes have not kept up with housing prices with the result being increasing numbers of households unable to find adequate housing. This situation will eventually result in labor shortages in addition to the social consequences commonly associated with inadequate housing. There are sound economic reasons to be concerned about this situation that are in addition to the social concerns. But, why not let the market solve the housing problem? The market is now solving the problem. Many households have left Florida. Many businesses find that they cannot hire needed labor and, without a supply a labor, Florida's economy will wither away regardless of how many inducements are given for business to relocate to or expand in Florida. Additionally, higher wages will also make Florida less attractive as a business location. Unaddressed, the market will solve the problem; whether we will like that solution is another matter.

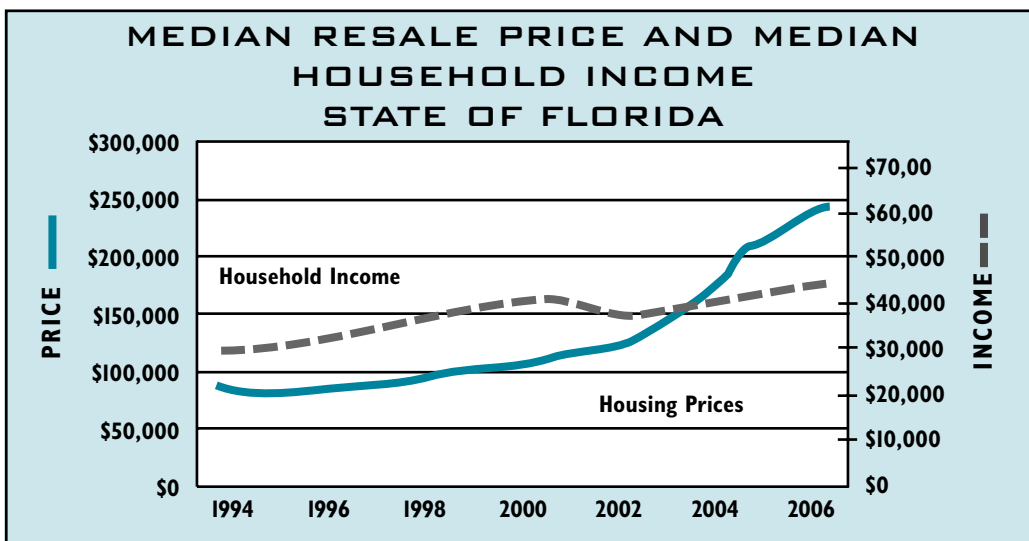
**Truly a picture is worth a thousand words.** There was balance between housing prices and household incomes, but that exists no more. The leveling seen in 2006 and into 2007 has stopped, at least temporarily, any further increase in the affordability gap, but it had grown so big that to appears to be insurmountable.

**What to do?** Option number one is, Don't Worry, Be Happy, or let the market solve it. Another option being considered is housing linkage. Linkage programs look to the sources or causes of a problem, in this case a housing affordability problem, to mitigate that problem. Housing linkage is

**TABLE 2  
MEDIAN RESALE PRICES AND  
MEDIAN HOUSE  
HOLD INCOME, STATE OF  
FLORIDA**

	<b>FLORIDA</b>	<b>US</b>
<b>1993</b>	<b>\$87,100</b>	<b>\$28,550</b>
<b>1994</b>	<b>\$86,200</b>	<b>\$29,294</b>
<b>1995</b>	<b>\$87,900</b>	<b>\$29,745</b>
<b>1996</b>	<b>\$92,300</b>	<b>\$30,641</b>
<b>1997</b>	<b>\$95,800</b>	<b>\$32,455</b>
<b>1998</b>	<b>\$101,500</b>	<b>\$34,909</b>
<b>1999</b>	<b>\$106,900</b>	<b>\$35,831</b>
<b>2000</b>	<b>\$115,900</b>	<b>\$38,856</b>
<b>2001</b>	<b>\$126,600</b>	<b>\$36,421</b>
<b>2002</b>	<b>\$137,800</b>	<b>\$38,024</b>
<b>2003</b>	<b>\$158,400</b>	<b>\$38,972</b>
<b>2004</b>	<b>\$182,400</b>	<b>\$40,535</b>
<b>2005</b>	<b>\$235,200</b>	<b>\$42,990</b>
<b>2006*</b>	<b>\$248,300</b>	<b>\$43,665</b>

*\*<http://www.census.gov/hhes/www/income/histinc/>\* Projected*



commonly associated with California but it has been seen much earlier than the recent California enactments and also in many other places. Employers assisting their employees with housing have existed throughout the history of this country. Today it is becoming increasingly common for employers to provide a variety of housing assistances to their employees as fringe benefits. Linkage programs require those new businesses that aggravate housing affordability problems to provide some mitigation of those problems. This mitigation can be in the form of employer assisted housing, such as down-

payment grants, low interest loans or assumption of part or all of the closing costs. To the extent that employers cannot or will not provide employee housing assistance, linkage programs will require them to do something about the problem.

Linkage programs begin with a nexus study. This is a study that establishes the nexus, or the linkage, between new developments and the need for housing for the additional employees of those establishments. This linkage is established by studying employment and wage statistics together with development data. The employment data are taken

from the Florida Agency for Workforce Innovation, which are available on-line. These data report how many people are employed, what industry they are employed in and what those employees earn. These data allow the determination of employee ability to afford housing by industry of employment. Development or land use data come from building and property appraiser records. Putting these data together will make a statistical link between new development, by type of development, the number of additional jobs that the new developments will create and the expected earnings of those employees. For Florida the numbers look like this:

**TABLE 3  
EMPLOYMENT AND HOUSEHOLD EARNINGS BY INDUSTRY  
FLORIDA 2007**

INDUSTRY TITLE	INDIVIDUAL EARNINGS	HOUSEHOLD INCOME	AFFORDABILITY LIMIT	AFFORDABILITY GAP
Total, All Industries	\$38,526	\$57,074	\$190,247	(\$58,053)
Goods-Producing	\$40,183	\$58,731	\$195,772	(\$52,528)
Agriculture, Forestry, Fishing & Hunting	\$22,425	\$40,973	\$136,575	(\$111,725)
Construction	\$39,985	\$58,533	\$195,111	(\$53,189)
Manufacturing	\$44,377	\$62,925	\$209,750	(\$38,550)
Service-Providing	\$38,233	\$56,781	\$189,271	(\$59,029)
Trade, Transportation, & Utilities	\$35,802	\$54,350	\$181,166	(\$67,134)
Wholesale Trade	\$55,221	\$73,769	\$245,896	(\$2,404)
Retail Trade	\$26,853	\$45,401	\$151,337	(\$96,963)
Transportation & Warehousing	\$41,182	\$59,730	\$199,100	(\$49,200)
Information	\$54,724	\$73,272	\$244,239	(\$4,061)
Financial Activities	\$55,890	\$74,438	\$248,125	(\$175)
Finance and Insurance	\$62,608	\$81,156	\$270,520	\$22,220
Real Estate & Rental & Leasing	\$42,497	\$61,046	\$203,485	(\$44,815)
Professional & Business Services	\$42,335	\$60,883	\$202,943	(\$45,357)
Education and Health Services	\$39,560	\$58,108	\$193,695	(\$54,605)
Educational Services	\$37,322	\$55,870	\$186,234	(\$62,066)
Health Care & Social Assistance	\$40,934	\$59,482	\$198,275	(\$50,025)
Leisure and Hospitality	\$20,411	\$38,959	\$129,863	(\$118,437)
Accommodation & Food Services	\$17,960	\$36,508	\$121,692	(\$126,608)
Other Services	\$27,007	\$45,556	\$151,852	(\$96,448)
Public Administration	\$46,077	\$64,626	\$215,418	(\$32,882)
<i>SOURCE: Florida Labor Market Statistics, March 2007.</i>				

Here are projected 2007 earnings by individual employee and by the households of those employees by industry. The affordability limit is calculated using the 30% rule. Only households employed in financial activities above the affordability limit, using the 2006 median resale price of \$248,300. Note may be taken of the size of the gap for those associated with tourism.

Let's take someone employed in retail trade. The average 2007 individual earnings is \$26,853 (\$12.91 per hour), converting to a household income of \$45,401. This household can afford to pay \$151,337 for housing, substantially below the median of \$249,300. These are the input data for a linkage study. The next step in the process is to determine how many retail sales employees will there be for each new retail establishment. If we use 1.5 employees per 1,000 feet of floor area, there is a shortage of \$145,445 per 1,000 square feet of retail floor area. But perhaps \$248,300 is not the appropriate housing target. Let's try \$200,000 as the target. The household shortage is now \$48,663 and the shortage per 1,000 feet is \$72,995.

These calculations are only illustrative and use statewide data. All calculations would have to be done for individual communities and the results may be higher or lower than those shown here.

A completed linkage or nexus study will show the number of workforce housing units needed per unit of new development, thus validating an inclusionary housing percentage and the amount of assistance that would be required to make some defined level of housing affordable. A linkage ordinance could then require workforce housing to be provided at those ratios or that a fee in lieu be paid if actual housing is not provided. The preferred alternative would be for affordable housing actually to be provided, perhaps through employer assisted housing<sup>2</sup>.

But do linkage programs actually deliver affordable housing? An actual example may answer this question. The City of Sacramento in 1990 adopted a schedule of linkage "fees" that are to be paid if the developer does not otherwise satisfy the City's requirement for adequate



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housing. Those electing not to provide employer assisted housing pay a fee in lieu when construction is permitted. The proceeds are transferred to the Sacramento Housing and Redevelopment Agency and used to fund affordable housing. As of 2005, the City of Sacramento had produced 2,000 affordable housing units by this program<sup>3</sup>. This program has been in place since 1990, thus averaging 133 units per year. The linkage program is combined with other city efforts to have created over 14,000 affordable housing units in Sacramento. Let there be no doubt that there are still unmet housing needs in Sacramento, but those needs are 2,000 less because of their linkage program.

Florida has several inclusionary housing programs – Tallahassee, Key West and Palm Beach County – but no linkage programs, other than the city of Winter Park, which has had a linkage fee ordinance for more than fifteen years. Several linkage studies are underway – Collier, Lee and Palm Beach counties and the cities of Boca Raton, Destin, Islamorada and Marathon. Whether these efforts will ever become enacted is not known. But, given the lack of success of other efforts, linkage is a possibility and it is one that is now evolving in Florida.



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1. The State of Florida was purposefully excluded here because the state, the Legislature, has reallocated funds away from affordable housing for general revenue.
2. This discussion focuses on ownership, but the affordability of rental housing can also be addressed.
3. City of Sacramento, "State of the City, 2005," page 7.