

A Review of the Housing and Rental Market in McMinn County
and Its Impact on Economic Development

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Abstract

Economic development professionals are tasked with recruiting new businesses and industries into their communities. The realm of recruitment does not just stop at job producing industries but housing and neighborhood developments as well. This study will research the correlation between all aspects of economic development and the housing crisis in McMinn County, Tennessee. The McMinn County area has a housing shortage that is plaguing the city and has become an issue for future developments because there are not enough housing options for potential employees that would move into the area.

Introduction

Economic development should be at the heart of all communities. Economic development helps build stronger, healthier economies which in turn will help develop healthier communities. Economic development is not just about recruiting new industries into a community; it's about job development, business retention, increased tax base and recognition of local products and services to help make the community self-sufficient and improve the quality of life. Having a successful economic development division is not always easy. Local economic development is extremely competitive as local governments pursue their own best interests in recruiting new industries as well as maintaining established companies to increase their local tax base (Lee, Feioch, & Lee 2012). There are many different factors that can eliminate a specific community from consideration for a new or expansion project. There is one thing that continues to be an issue for McMinn County, Tennessee and that is insufficient housing options for potential new employees moving into the area. The housing market plays a huge role on the ability to pursue industrial expansion and economic development of new industries.

There are many complex issues that arise when planning neighborhood economic development. Many neighborhoods often include residential as well as small businesses. Because the neighborhoods include both there are several challenges that they face such as crime, school system performance, environmental concerns, and even affordable housing developments. There are four strategic approaches to use in neighborhood development. Community building; which uses existing networks to encourage community empowerment. Place-based will focus on the physical resources that are already established within the community. Business oriented strategies are used when the focus needs to be on new business recruitment. And last but not least, workforce development. Workforce development provides

the residents with basic employment skills. Each one of those approaches is an effective way to promote revitalization or economic growth at the neighborhood level.

The methodology of this paper will be a review of several case studies on legislature, urban and rural communities, the housing market, income-based housing, zoning issues, and the correlation between all of those aspects and economic development. An extensive review of research will be completed in order to identify the concepts needed to answer the identifiable problems and questions. Individual research will be conducted to help identify the details on the matters as they relate directly to the McMinn County area. From this research, implications for managers will be discussed and recommendations will be provided for helping develop a strategic plan for the development of more housing for the McMinn County area. The “managers” for this paper are considered to be the city and county officials as well as the Executive Director of the McMinn County Economic Development Authority and her staff.

Research Questions or Hypotheses

There is a huge problem facing McMinn County, Tennessee today. This rural area of Southeast Tennessee has a shortage of housing for current residents as well as a shortage for future residents as well. With today’s economic development organizations doing everything they can to recruit new industries into their areas, this is a problem for the Economic Development Authority of McMinn County. Research has shown that often there is a disconnect between economic development organizations, governmental organizations, educational institutions, and even employers (Aiello, 2016). Each one of these organizations are looking out to improve their own positions and often fail to look to each other for help on collaborative activities to accomplish an ideal objective. This research establishes the first question; how does

McMinn County get all community entities working together to help combat the housing problem?

Throughout the last several years Kathy Price, Executive Director of the McMinn County Economic Development Authority, has spoken with many developers who feel that they can build the same one-hundred to two-hundred unit apartment complex in the Chattanooga/Hamilton County area for the same cost as they would in the Athens/McMinn County area. Because Chattanooga is a much larger urban area, those developers can get a possible \$200 to \$300 more dollars per month in rental income according to Price. What can be done to attract those developers to the McMinn County area even though they may be able to make more money elsewhere. What can be done about the price difference in rental income and/or building costs?

The last question this paper will attempt to answer is if revitalization will help solve a portion of the housing problem. Many smaller rural areas have rundown homes and even older buildings that are vacant. These homes and buildings can be repurposed into multi-family or single-family units. There are plenty of these opportunities all over the McMinn County area. The goal is to find a way to market these buildings in such a way that will attract some new developers. Will revitalization of the downtown Athens and/or Etowah areas and older homes through-out the county help solve a portion of the housing problem?

Review of Literature

There is inadequate research about the availability of housing in the rural areas of our country. Therefore, it is important for local communities to conduct the research whether its on their own or through a consulting firm. From what was found there has never been a study such

as this completed for McMinn County, Tennessee. In addition to the general researched items there were two different surveys conducted through Survey Monkey. One survey was distributed to all of the area real estate agents. The real estate agent survey was sent out to 25 agents with 15 responding. Another survey was conducted in 2012 by the McMinn County Economic Development Authority called the Resident Industry Survey. The Resident Industry survey was sent out to the human resources contacts at the industries. This survey was sent out to 42 existing industries with 26 responding.

Zoning Issues

In the car industry, there are vehicles that are built to market to the wealthy and there are vehicles built to market to the middle-class and poor. However, that does not necessarily hold true to the housing market (Buntin 2017). It was common through the 1960's for large developers to tear down older structures and building taller high-rise housing (Buntin 2017). In the early 1970's those things started to change. Zoning laws became more stringent and the reviews on environmental impact started demanding more answers (Buntin 2017). Along with those new efforts by the government, historical preservationist began legislature to protect many existing structures which began a whole new wave of benefits for homeowners.

Strict zoning laws that protect single-family areas are a huge problem facing the developers and communities that desperately need the additional affordable places to live for the middle-class. The advocates of increased housing productions are pursuing moving the responsibility for development decisions away from the locals and toward state authorities. According to Buntin (2017), many are trying to model this new movement after the Chapter 40B bill that was enacted by the state of Massachusetts in 1969. The Chapter 40B gives developers a

faster track to approval if their proposals include affordable housing units. Twenty five percent of the units must be for home ownership, twenty percent for rentals and at least ten percent of the housing must be considered affordable (Buntin 2017). In many towns in Massachusetts, developers who include the affordable units in their plans can appeal local zoning issues and rejections to the state (Buntin 2017).

However, no matter how great these affordable housing options are, the main issue for McMinn County is that all the affordable housing options are based on income. Buntin (2017), used an example from Seattle, Washington in his article where the mayor formed a task force to examine the city's housing shortage. The task force discovered that nearly two-thirds of the city was zoned for single family homes only. The task force asked for "extensive up-zoning" of the residential areas so that multi-family housing could be developed. This shows that by doing a little research the economic development authority will be able to pinpoint what zoning areas need to be changed before developers even look at the sites. A little due diligence will go a long way.

In 2015, Irwin, Tennessee Mayor, Doris Hensley decided to use Millennials to help revive her small town (Delgadillo, 2017). Delgadillo reports that mayor Hensley set up a task force of young, professional adults to help with a new outdoor festival to help revive some of their downtown area. The town has since launched several annual outdoors festivals and even installed a weekly farmers market and attained permission to sell liquor by the drink in local restaurants (Delgadillo, 2017). Zoning ordinances were quickly updated allowing developers to build new housing units above their downtown retail shops and, as a result of those new units, condos have started springing up where dilapidated buildings used to be (Delgadillo, 2017). Due

to the new additions of the housing and condos in the downtown area, several new businesses have moved into the area as well.

There is a new grassroots movement called YIMBY's – "yes in my backyard" supporters (Beyer 2017). The first YIMBY group surfaced in New York City, when a group of younger professional wanted to see more construction and density in the Gotham area (Beyer 2017). The movement is still very young and includes a collection of blogs, nonprofits, individual activists and civic events including their first conference that was held in June 2016 (Beyer 2017). There are a number of different groups that have come together under the YIMBY banner such as construction industry professionals seeking deregulation. According to Beyer (2017), this movement is a progressive movement because younger people are the ones most impacted by the lack of enough housing.

Income based housing

Many residences make above the income requirements for the income based developments. According to the wage survey conducted by the McMinn County Economic Development Authority (2012), the median family income in McMinn County in 2014 was \$50,058. Most developers that have built multi-family units (apartment complexes) have done so while taking advantage of the Low-Income Housing Tax Credit (LIHTC). According to the Tennessee Housing Development Agency's 2015 Program Report, the Low-Income Housing Tax Credit is a credit against federal income tax liability for owners of and investors in affordable rental housing. The tax credit was designed to create and preserve safe and affordable rental housing for households of low income. However, many developers have used this to maximize the benefits to their wallets while developing the multi-family units.

According to the penetration of active low-income housing map located on the Tennessee Housing and Development website, McMinn County, more specifically Athens, has a large amount of income based housing options. Income-based housing are apartments that are only available to citizens that make less than certain amount per year. Income-based housing can also be housing that has a reduced rental amount based on salary. McMinn County is boarded by six other counties. Only one of those counties has more units designated to low income. Because these units are based on the tenants average monthly income, many employees of the over 65 industries in McMinn County may have to live outside of the county simply because there are not enough options not based on income. The average manufacturing wage in McMinn County is higher than the state average.

McMinn County is home to Tennessee Wesleyan University. According to Tennessee Wesleyan's 2016 Common Data Set report, the total number of graduates for that fiscal year was 241. The report also states that thirty-five percent of all undergraduate students that year lived in on campus housing. Those students will graduate and need somewhere to live. Most students will end up moving outside of the McMinn County area because most of the housing available is income based. I spoke to the property manager for the only non-income based 100+ apartment complex facility in McMinn County about the current apartment availability and there is none. The property manager stated that there is always a waiting list of more than twenty individuals every month.

Quality of Life

Not only do municipalities and local governments needs to focus on bringing in new jobs for the workforce in their communities, but they also need to evaluate their economic

development success by the quality of life for its citizens and their general human happiness (Banerjee 2016). Debjani Banerjee performed an empirical research study to try and establish a relationship between macro-economic indicators with the quality of life parameters. The study was conducted by taking a sample of 850 respondents through a questionnaire during 2012-2013 (Banerjee 2016). Quality of life can be studied through five parameters like; quality of housing, education, health care options, transportation and recreational facilities (Banerjee 2016). Before community leaders can sit down and try to work out a plan for revitalization, they will need to evaluate the quality of life and the general human capital that exists within their community (Banerjee 2016). Doing so would force policy makers in the community to understand the need to attain both quantitative and qualitative growth (Banerjee 2016). The conclusion of the study conducted by Banerjee (2016) explains that economic development enormously helps in the advancement of living standards and helps battle poverty. This aspect of the increase in the quality of life will also help offset the need for as many income-based housing complexes as mentioned earlier in the paper. When individuals are looking for areas to live, they will consider distance to parks, shopping, restaurants, and school systems. Having those quality of life aspects present make the areas more appealing.

New Industries First to Drive up Wage Amounts

There are situations when competition may be a bad thing. However, in the mix of industries in McMinn County; a little competition within the community is a good idea. According to the Resident Industry Survey conducted by the McMinn County Economic Development Authority (2013), human resource managers are constantly evaluating the salaries and hourly rates paid by the other industries in McMinn County. It is important to the managers

of each facility to hire and retain the best workforce available. The key to keeping the type of workforce that is demand is by paying higher wages and having good benefits packages. Kathy Price, Executive Director of the McMinn County Economic Development Authority said that McMinn County has its highest hourly wage rates that the county has ever had at an average of \$16.97 per hour. Because of the higher wages, citizens are making over the threshold amount to get an apartment in the city. The lack of market rate apartments are forcing those individuals to live outside the county.

Building Costs / Rental Income per Month

The cost to build in McMinn County is not that much different than it is in Hamilton County. Both cities sit just on Interstate 75, a major transportation roadway that stretches from Miami, Florida all the way north through Michigan until it reaches the Canadian border. According to the survey conducted by the McMinn County Economic Development Authority of local real estate agents and builders, the average cost to build a new home in the area is \$100-\$150 per square foot. Of course, the price depends on the types of fixtures and whether the builder uses high end products or not. Another issue that was pointed out in the survey of real estate agents and builders was the problem with selling price.

According to the Factsheets provided by the Tennessee Housing Development Agency the average gross rent for McMinn county is \$588 while in Hamilton county the average gross rent is \$757. There are other options to offset the difference in potential rental income for developers. According to Malkowska and Gluszak (2016), there is proof that many governments will frequently use investing in local road networks to help promote economic development. However, on the other hand differentiation of property taxes and possible temporary provisions

to the investors are rarely used (Malkowska & Gluszak 2016). The possibility of using tax breaks is something that the local commissioners could bring to the table during their discussions with potential investors. It is hard for apartment developers to justify building in an area that will produce lower rents per month. However, with the right type of tax breaks and incentives that shortage of rental income will not be an issue. As stated before in the section on income-based housing, the Low-Income Housing Tax Credit is used to provide tax incentives to developers who built “affordable housing” for lower income families. Likewise, the city and/or the county can provide the same monetary incentives through a different avenue.

Research Findings

This research will be able to be used in conjunction with the future endeavors of the McMinn County Economic Development Authority. The team with the Economic Development Authority will use the findings to help in the pursuit of new developments and neighborhoods. The research will hopefully trigger future research within the community on ways to help build the population and make the McMinn County area an attractive place for new families to move to and encourage current residents to stay. In order to cover the findings of the research that was conducted this section will relate the findings back to the questions asked in the beginning of the paper.

The research conducted showed that often there may be a disconnect between all of the many working facets of the city and county governments including local school systems and existing industries. This disconnect shows that it will only be advantageous for all of those organizations to work together to help alleviate the housing shortage. There is an old saying that says; you do not know what you do not know. Which further proves that working together will

help educate those individuals who do not know about issues or the ways programs are developed. Within the research it shows that more so now than ever the rural communities need to work together to help stop the decline in population in those areas. Each individual organization within the county is looking out to improve their own positions. This is why a collaborative effort between them all is important. The local government needs to be open to the possibility of working closely with state legislature to further the recruitment efforts of developers.

Research has also shown that there is an over-abundance of income-based housing in the area. The sensible response to rapid population growth in cities is to build more housing fast (Beyer 2017). This response is what happened in McMinn County in the 70's and 80's. There is only one 100+ unit apartment complex in the area that does not require an income requirement to qualify for an apartment. According to the Tennessee Housing Development's website, McMinn county has more subsidized income-based housing than any of the neighboring counties. There is a need for the income-based housing because of the poverty level in the area. McMinn County is a level 3 county per State of Tennessee standards because of the number of families below the poverty line. However, there are plenty of families that do live about the poverty line who cannot find adequate housing.

The research into the aspect of the pricing for rent and building is tricky. There is not anything that the management can do to make the price to build any different than what it is. There are non-recoverable costs associated with the decision to invest in a new development which causes an uncertainty that may lead to a delay in developers wanting to go through with the build (Krol 2017). The cost of materials between McMinn County and Hamilton County will always be extremely close to the same. However, the appraisal values on new home construction

is different. Homes are just worth more even if they are older in the Hamilton County area because of the metropolitan area. The research shows that the rent received between the two counties is what makes a huge difference. The same can be said for rental rates for multi-family unit apartment complexes. There is about \$200-\$300 difference per rental unit. Home prices and monthly rental amounts are just less in the McMinn County area. This pricing difference is the reason why the area just is not as attractive to developers.

Revitalization. When the old becomes new again. There are several research articles that have proven that revitalization of downtown areas is a key component in economic development. The downtown Athens area has several buildings that were built in the late 1800's. Turning the second stories of these buildings into new apartments or condos will be the first step in the revitalization. This will also provide the first step to adding housing. There are plenty of older homes that are renting for lower rent because they are exactly the same as they were when they were built over twenty and even sometimes thirty years ago. Just updating these homes will help increase the rental amounts per month.

Implications for Managers (City and County Officials)

The research shows that the housing market availability and economic development are directly correlated in today's economy. As economic development goes so does housing market. It is imperative that economic development managers communicate with city and county officials that the challenge they face does not end with just successful recruitment of new industries into the community but also neighborhood development as well. The competition between existing industries and potential new industries in the context of workforce is extremely

high. Having the more attractive housing options compared to neighboring counties will help bring better workforce availability to the industries.

According to Greenblatt (2014), the census estimates for 2015 showed that rural America was not just failing to keep up with urban areas but, was actually losing some of its population for the first time in history. McMinn County has not seen a decline in population just yet, however, it has seen a stagnant population. There has not been any significant growth in the population for McMinn County in over ten years. Because of this, rural areas will possibly become marginalized with the realm of politics (Greenblatt 2014). Losing some political leverage will result in those communities having a harder time getting the votes they may need for their needs and wants (Greenblatt 2014).

City and county officials are going to have to possibly step outside of their comfort zones. Enlisting the help of their younger professionals may result in some information and research findings that will benefit the common goal.

Recommendations for Managers (City and County Officials)

As companies look to locate into the McMinn County area and create more jobs, having adequate housing options will serve as a competitive advantage over neighboring counties. I have compiled several recommendations for the city and county officials to take into account in order to try and tackle the need for more housing. Companies develop strategies all the time to assist in accomplishing goals. Likewise, the city and county officials should use these recommendations to develop a strategic plan for the future of their economic development efforts.

One of the first things that Economic Development Authority needs to do is to develop a Task Force. This task force should be made up of community members from the banking, real estate, development and insurance sectors. The task force should do additional research into the matters covered in this paper. More extensive surveys and interviews will need to be conducted to fully grasp what all can be done. It may be advantageous for a few of the members of the task force to come from the Economic Development Board and possibly one or two from the Industrial Development Bond Board as well. Developing task forces are common in some situation such as this one. It is good to get the opinion about certain topics from professionals from all different areas of the community.

Bringing in new industries will drive up wages because it will give the existing industries workforce competition. Industries can achieve higher wages when they consider their workforce as an asset and not a cost. This competition, as stated earlier, will help drive up the cost of monthly rent as well. When wages go up and employment does not, those residents will bid up the price of housing and will be willing to accept the costs of higher rents (Ozimek 2015). When the workforce on average is making more money the housing market will reflect those higher wages. Not only will the rental rates go up but the appraisal amount on existing houses should go up as well. If a landlord knows that all workers living in their complex are making a minimum \$15, it's easy to charge more without seeing demand for housing decline (Ozimek 2015).

Just like the mayor of Irwin, Tennessee I think it will serve a great deal to incorporate the younger generation in the efforts to develop more housing. The development of a Young Professionals group or just a task force made up of residents that are forty and younger to help with ideas and suggestions. Use the young professionals to develop a strategic plan to revitalize

the existing downtown Athens and/or Etowah areas. Having the young professional in staff positions in city hall or on neighborhood councils will help forward the YIMBY movement from the research (Beyer 2017). According to Beyer (2017), young people are the most impacted by the failure to create enough housing. Using the movement of the young people is suggested one solution to the housing crisis (Beyer 2017).

In 2018, the McMinn County Economic Development Authority assembled a Housing Task Force. This task force was made up of community members from the planning commission, one from each municipality appointed, as well as a several individuals that work in the housing industry in one capacity or another. The members met once a month to determine a list of items they wanted to see accomplished. Kathy Price, EDA Executive Director and Jordan Curtis, Chairman of the Housing Task Force were able to get the City of Athens Council members and the McMinn County Commissioners to agree to each pay for half of a full housing study to be conducted by Hodges and Pratt out of Knoxville, Tennessee. The study took place over several months which included a survey given to several of the largest employers, a boots on the ground approach with individuals conducting interviews with local citizens as well as information gathered from local governments and real estate professionals. Once the study was complete everything that the housing task force assumed was an issue was. There is a shortage of multi-family and single-family homes. There were apartment complexes that have not raised their rates in twenty years which was keeping the average rental rates low. This is something that developers look at and assume they cannot get the same amount of rents as they can in larger cities.

Since the completion of the study there have been several developers contact Hodges and Pratt as well as the locals. Two new housing subdivision developments have also been

approved. New construction is one of the biggest needs to help retain and recruit young professionals to the area.

It is so incredibly important that economic development professionals begin to look at economic development from a more holistic approach to include housing shortages. The holistic approach already includes workforce coordination and development so it only makes sense that it would include housing as well.

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