

**Economic Sustainability:  
Housing Affordability & Workforce Availability at a Glance**

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## **INTRODUCTION**

Housing affordability is a persistent and growing issue in the United States. The US housing shortage increased from 2.5 million in 2017 to 3.8 in 2022 (Collins, 2022). Despite multiple programs targeted towards housing, the issue has not been solved. This report will analyze current workforce housing dynamics and programs to provide Southeast Tennessee communities with the tools necessary to develop and implement sustainable Housing affordability solutions that ensure workforce stability, attract new talent, and drive economic growth by providing all workers with access to affordable high-quality living.

Housing affordability refers to residential units that are priced so individuals and families can live comfortably without spending a disproportionate amount of their income on housing costs. Housing affordability is a cornerstone of vibrant and sustainable economic development. By ensuring that individuals and families have access to stable, cost-effective living arrangements, Housing affordability not only enhances the quality of life for its residents but also drives broader economic benefits. It stabilizes the workforce, stimulates local economies, and attracts businesses and talent, creating a more resilient and dynamic economic environment. As communities invest in affordable housing, they lay the groundwork for a more equitable and prosperous economy, where both people and businesses can thrive.

## **SETDD OVERVIEW**

SETDD is one of nine development districts in Tennessee. “Development districts are regional planning and economic organizations owned and operated by the cities and counties” (Broemel, 2018) and established under the Tennessee Development District Act of 1965. SETDD applies for and administers grant funds on behalf of local communities to deliver programs and services.

SETDD’s mission statement is:

*...to elevate the region by caring for its people, building its workforce, and developing its economy*

The organization has multiple departments to support their mission. This includes Planning, Community and Economic Development, the Area Agency for Aging and Disabilities, and Workforce. The Southeast Tennessee Region is made up of ten counties, with a diverse blend of rural and urban areas. Rural Southeast Tennessee is characterized by its scenic landscapes, recreational activities, and a slower-paced lifestyle with tight-knit communities. In contrast, urban areas in Southeast Tennessee, such as Chattanooga, offer more developed infrastructure, a bustling economy, and a wider range of activities.

## **CONNECTION BETWEEN HOUSING AFFORDABILITY & WORKFORCE**

### **AVAILABILITY**

Housing affordability is essential for ensuring a steady and effective workforce, as it directly influences workers' ability to live and work in their communities. When housing costs are within reach, employees experience less financial strain and can focus on their jobs without the distraction of high rent or mortgage payments. This stability enhances job satisfaction and reduces turnover, making it easier for businesses to retain skilled workers. Additionally, Housing affordability attracts new talent by making communities more accessible and appealing to potential employees. By supporting a stable and accessible housing market, communities not only improve individual

well-being but also bolster economic growth and maintain a dynamic, skilled workforce essential for local development and business success.

## **REGIONAL HOUSING DYNAMICS**

Real estate markets vary significantly between urban and rural areas within the Southeast Tennessee region and are shaped by several key factors that influence housing trends, economic growth, and development patterns. In 2022 the state of Tennessee was ranked 10<sup>th</sup> for the lowest cost of living in the United States (Nalley, et al. 2024). Urban centers like Chattanooga experience higher demand and property values, driven by economic opportunities and amenities. In contrast, rural areas offer more affordable properties but may face challenges in terms of infrastructure and access to services.

According to Starner (2024a), the United States has entered a "lock-in effect," where homeowners with low-interest loans are reluctant to sell, and potential homebuyers are struggling to afford new purchases. This situation has been exacerbated by a significant increase in home prices, which are now 33% higher than they were before the COVID-19 pandemic (Workforce, 2024). Combined with a shortage of available homes, this has led to an undersupply of workforce housing, making it increasingly difficult for workers to find affordable living options. As a result, site selectors are placing greater emphasis on the availability of affordable housing when evaluating locations, using metrics like home price-to-income ratios to guide their decisions. This trend underscores the critical role that affordable workforce housing plays in promoting economic growth, as it directly influences a region's ability to attract and retain a stable and productive workforce.

## **HEALTH, WELL BEING, & EDUCATION**

In Southeast Tennessee, the availability of affordable housing plays a crucial role in influencing the region's health and well-being. Rural areas often face challenges in attracting healthcare professionals and educators due to Housing affordability options, which can limit the availability and quality of essential services (Kushel, et al, 2006). According to the Department of Health (2023) seven of ten counties in the SETDD Region are within the top 30 worst shortage areas for Primary Care Health Resources in the state of Tennessee. This shortage impacts the overall well-being of the community, as access to healthcare and education is essential for maintaining a healthy workforce and recruiting industries.

Moreover, stable housing situations significantly benefit children, as those living in secure homes are more likely to excel in school, this can be shown through the Rural Hierarchy of Needs Model (Collins, 2022). This five-tier model is a motivational theory of psychology including physiological needs, safety, love / belonging, esteem, and self-actualization. The lowest level tier, physiological need, including food, water, and shelter is the basis for human motivation. This model shows that stable housing is essential before progressing to focus on further needs such as safety, which also encompasses employment. Furthermore, stability fosters better academic performance, which is instrumental in developing a well-educated future workforce (Starner, 2024b) that can contribute positively to the community's economic development.

Affordable childcare and workforce housing are deeply interconnected, significantly impacting the economic stability and well-being of working families (Starner, 2024b). When families face high housing costs, they often struggle to afford quality childcare, which can limit their ability to work full-time or advance in their careers. Conversely, affordable workforce housing can reduce the financial burden on families, making it easier for them to budget for necessary childcare expenses.

By ensuring that both housing and childcare are affordable, communities can help working parents remain in the workforce, enhance their productivity, and achieve greater economic stability.

## RESEARCH

Typically, affordable housing is defined by the percentage of income that residents spend on housing expenses, not exceeding 30% of a household's gross income. This concept aims to ensure that housing costs are within reach for low- to moderate-income individuals and families, providing them with safe, stable, and quality living conditions without compromising their ability to afford other necessities. Affordable housing can come in various forms, including subsidized housing, rent-controlled apartments, and income-restricted developments, and is often supported by government programs, non-profit organizations, or private initiatives. Affordable housing should be more attainable for low-income households. According to the Tennessee Housing Development Agency's (2022) housing indicators, over 40% of renters in Tennessee are cost burdened, this means they pay over 30% of their annual income in housing expenses.

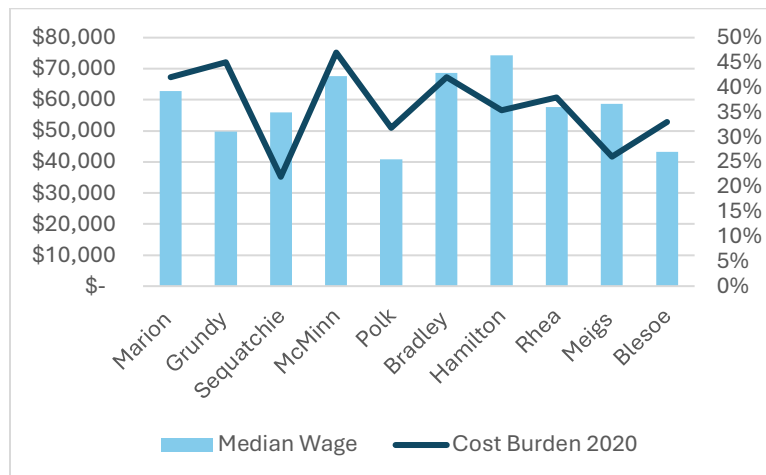


EXHIBIT 1 shows the manufacturing annual gross income (Chmura Economics and Analytics, 2024) and combined cost burden for homeowners and renters SETDD counties (THDA, 2020)

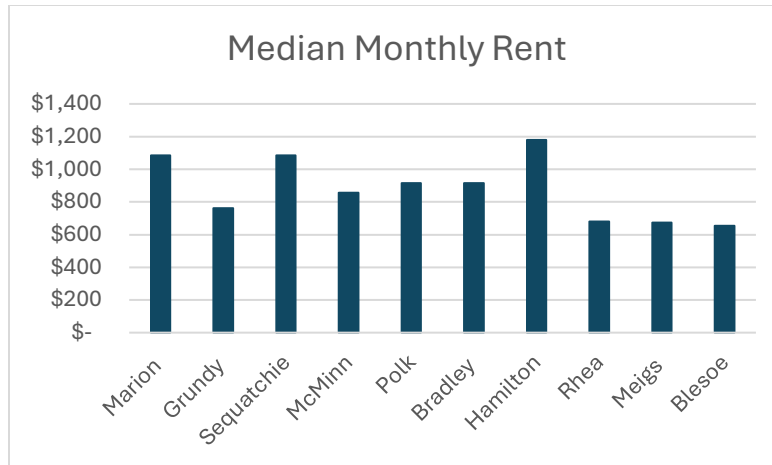


EXHIBIT 2 shows the average rent for a 1 bedroom in SETDD counties (USHousingData.com, 2024)

The employment turnover rate in the SETDD Region is 10.6% compared to 9.2% for the United States. More rural counties such as Grundy have a turnover rate of 14.3% for manufacturing, Bledsoe County at 14.2% and Sequatchie County at 12% compared to Hamilton County at 8.1%. In comparison, living expenses are significantly higher in areas with lower turnover rates. The cost per hire for companies is around \$4,129 and on average takes over 42 days to fill a position (Area Development 2023) and the average turnover rate for a 150-person company is \$921,865 (Area Development 2021). Rural Southeast TN counties could benefit from Google's model to invest in Housing affordability to ensure a steady supply of workers, impacting the real estate market dynamics positively.

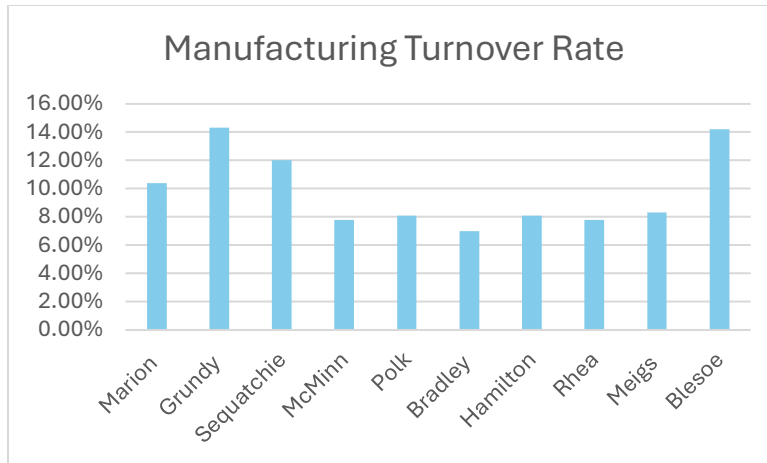


EXHIBIT 3 shows the manufacturing turnover rate in SETDD counties (Chmura Economics and Analytics, 2024).

## OBSERVATIONS

In Southeast Tennessee, the relationship between wages, housing costs, and workforce dynamics reveals several key patterns. Higher wages generally correlate with higher rents, as seen in Hamilton and Marion counties, where elevated wages accompany increased housing costs. However, these higher wages also tend to result in lower cost burdens, making housing more affordable relative to income. This affordability contributes to greater job stability, as shown by the lower turnover rates in McMinn and Bradley, where higher wages prevail. Conversely, lower-wage counties, such as Grundy, often experience higher cost burdens despite having lower rents, indicating that affordability is more closely tied to income levels than to rent prices alone. Additionally, there is not a strong direct correlation between median rent and turnover rates, suggesting that factors other than rent, such as wage levels and possibly the availability of housing units play a more significant role in workforce stability. County homeowner rates are 10-15% higher in rural counties. Further research into building permit statistics can show the number of available rental units or lack thereof, in rural communities. It must be noted, this data was gathered



from data sources pulling from the 2020, post-pandemic Census data and may not accurately show current indicators. Overall, counties with higher wages tend to enjoy both lower cost burdens and greater job stability, underscoring the importance of income in determining housing affordability and workforce retention.

## **SUMMARY**

In the Southeast Tennessee region, the availability of affordable housing significantly contributes to economic growth and stability by ensuring a reliable local workforce. Businesses and local governments in the region benefit from a stable and accessible pool of workers, which helps maintain operational continuity and supports economic development. Additionally, economic diversity within the community is facilitated by affordable housing, allowing workers across various income levels to reside in the same area. This inclusivity supports a broad spectrum of local businesses and industries, from small enterprises to larger employers, enhancing the overall economic resilience of the region. By fostering an environment where workers of different income brackets can coexist and contribute, Southeast Tennessee can strengthen its local economy and support a more vibrant and sustainable community.

## **BENEFITS OF HOUSING AFFORDABILITY FOR WORKFORCE AVAILABILITY**

As mentioned above, housing affordability offers significant benefits for both workforce stability and economic growth, creating a positive ripple effect throughout communities. When employees have access to affordable housing, they are less likely to leave their jobs due to high living costs or the need to relocate, resulting in lower turnover rates and a more stable workforce. This stability allows businesses to retain skilled employees and creates an engaged and productive workforce. Employees with stable, affordable housing also experience less stress related to housing insecurity, which translates to increased job satisfaction and performance (Starner, 2024b).

On a broader scale, housing affordability directly contributes to economic growth by ensuring that workers remain within the local economy. Stable housing allows employees to spend a larger portion of their income on local goods and services, boosting demand for businesses and fostering a robust economic environment. This increased local spending encourages further business development and community investment, creating a virtuous cycle of economic vitality. As housing affordability supports both workforce stability, economic expansion and development, it becomes a crucial component of thriving, sustainable communities.

### **MODELS OF AFFORDABLE WORKFORCE HOUSING IN U.S.**

*Georgia's Rural Workforce Housing Initiative* aims to address the critical shortage of affordable housing in rural areas by enhancing access to safe and reasonably priced homes for local workers. This initiative focuses on creating and preserving affordable housing options to ensure that workers in sectors such as agriculture, manufacturing, and healthcare can live near their places of employment. By providing financial incentives and support for housing development, the initiative helps mitigate the challenge of attracting and retaining employees in rural communities. This approach not only supports workforce stability but also fosters economic growth in Georgia's rural regions. (State of Georgia, 2024).

*Montgomery County, Maryland's Moderately Priced Dwelling Units (MPDU) Program* is designed to make homeownership and rental opportunities more accessible to low- and moderate-income families within the county. Under this program, developers are required to set aside a portion of new residential units for qualifying households at below-market rates. The program also provides funds for future housing affordability projects in Montgomery County by sharing the windfall appreciation. The MPDU program helps to create diverse and inclusive communities by ensuring that housing affordability options are integrated into new developments, thereby

supporting workforce stability and allowing a broad range of residents to contribute to and benefit from local economic growth. Montgomery County, Maryland, 2024).

*Tennessee's HB1229/SB1137* is a legislative measure aimed at improving access to affordable housing for the Tennessee's workforce. This bill provides a framework for creating and sustaining housing affordability projects, with a particular emphasis on addressing housing needs for essential workers and low-income families. By facilitating the development of affordable housing through various incentives and streamlined processes, the legislation seeks to alleviate housing affordability issues and enhance workforce stability across Tennessee. The bill reflects a commitment to supporting local economies by ensuring that workers have access to affordable and stable living conditions. (Karsner, 2024).

*North Dakota's Rural-Workforce Initiative to Support Housing* pilot program is designed to tackle housing shortages in rural communities by providing targeted support for workforce housing projects. The program focuses on increasing the availability of affordable housing options for essential workers in rural areas, such as healthcare professionals and educators. By offering grants, loans, and other resources, the pilot program aims to stimulate the construction and renovation of housing that meets the needs of local workers. This initiative not only helps to attract and retain employees in underserved areas but also strengthens the overall economic health of North Dakota's rural regions. (State of North Dakota, n.d.).

## **CHALLENGES & STRATEGIES**

Economic development in the Southeast region is significantly impacted by the high financial barriers associated with workforce housing. Land acquisition and construction costs have surged, creating substantial hurdles for the development of affordable housing, especially in rural Southeast Tennessee communities. These elevated costs limit the capacity of developers to invest

in projects that cater to the workforce population. In Tennessee, the situation is exacerbated by a lack of sufficient incentives for for-profit developers, which further discourages investment in housing affordability solutions. Without targeted financial incentives or subsidies, it becomes increasingly challenging to stimulate the development needed to address the growing demand for workforce housing. In addition, current programs for nonprofit developers and agencies have unattainable match rates. This economic strain on developers ultimately hampers the region's broader efforts to promote sustainable growth and equitable development.

Effective stakeholder coordination is crucial yet challenging for addressing workforce housing issues in the Southeast region. Collaboration among government agencies, developers, and industry representatives is essential to create comprehensive solutions and leverage resources effectively. Economic Development agencies can assist in alleviating the gaps between developers, local communities, and industries. This requires a strategic approach to align goals, streamline processes, and foster ongoing dialogue. Achieving successful coordination can unlock opportunities for innovative housing solutions, optimize resource allocation, and ensure that initiatives are well-targeted to meet the needs of the workforce and stimulate regional economic growth.

Public-private partnerships (PPPs) are a key factor contributing to the success of workforce housing initiatives, as they effectively harness the strengths of both sectors to address housing challenges. By combining the public sector's ability to provide regulatory support, funding, and long-term planning with the private sector's efficiency, expertise, and innovation, PPPs create a synergistic approach to housing development. These partnerships enable the pooling of resources and sharing of risks, which can lead to more creative and cost-effective solutions. For instance, public entities may offer land or subsidies, private developers bring technical knowledge and

capital investment, and industries bring a local workforce looking for housing. This collaborative model not only accelerates project timelines but also enhances the quality and affordability of housing, ultimately fostering more sustainable and inclusive community development.

### **COMPARATIVE ANALYSIS & LESSONS LEARNED**

Examining various models of housing affordability initiatives across the United States provides valuable insight into how different regions address workforce housing challenges. Some key initiatives found in the models are improving access to housing affordability in rural areas, specifically for essential workers, and providing homeownership opportunities. Approaches used to address these challenges include providing financial incentives, supporting housing initiatives in rural areas, placing stipulations on developers, and promoting legislative frameworks to facilitate the development of affordable housing.

The lessons learned from various housing affordability initiatives highlight the importance of strategic approaches to addressing housing challenges. Financial incentives are crucial for stimulating development, particularly in areas with high land and construction costs, as demonstrated by rural focused programs in Georgia and North Dakota. Integrating affordable housing within urban developments, as seen in Montgomery County's MPDU program, ensures socioeconomic diversity and helps maintain a balanced workforce in cities. Legislative support, exemplified by Tennessee's HB1229/SB1137, provides essential frameworks that guide and sustain housing initiatives by offering clear guidelines, streamlined processes, and incentives. Public-Private Partnerships (PPPs) are also vital, combining public sector resources with private sector innovation to deliver cost-effective and timely housing solutions. Tailored approaches are necessary for rural areas, which face unique challenges like limited infrastructure and lower population density; targeted programs can effectively attract and retain workers, thus supporting

regional economic stability. Lastly, housing affordability initiatives should aim to create inclusive communities, enhancing social cohesion and stability while promoting economic growth.

## **CONCLUSION**

Housing affordability is a critical driver of economic development and workforce stability in the Southeast Region. By providing affordable living options, communities can retain and attract a skilled workforce, essential for sustaining local businesses and industries. When housing costs are manageable, employees experience less financial strain, leading to greater job satisfaction, lower turnover rates, and increased productivity. This stability not only benefits individual workers but also strengthens the overall economy by ensuring a reliable labor pool that supports business operations and growth. Moreover, housing affordability contributes to an inclusive community, enabling people of different income levels to live and work in the same area, which fosters social cohesion and a diverse, resilient economy. Addressing housing affordability is key to unlocking economic potential and securing long-term prosperity in the Southeast Tennessee Region.

Investment in housing affordability is encouraged to promote workforce stability in the Southeast Tennessee Region. This can be done by facilitating public-private partnerships (PPP), offering financial incentives, streamlining regulatory processes, coordinating stakeholder engagement, providing market data and analysis, promoting workforce housing as a priority, leveraging state and federal programs, and educating and informing stakeholders. Economic development agencies can facilitate PPP's by fostering strong collaborations between governmental entities, private developers, and industries through workshops, forums, meetings, etc. to ensure that all stakeholders have a platform to voice their needs and concerns, leading to more integrated and effective housing initiatives. Offering financial incentives like grants, tax abatements, and bonds will make housing affordability projects more viable for developers. Additionally, PPP's can work to streamline

regulatory processes, reducing bureaucratic hurdles and expediting project timelines. Through continuous coordination and communication, PPP's can align the goals of developers, communities, and industries, ensuring that housing projects meet the needs of both the workforce and the local community.

The market data and analysis has been provided to equip Southeast Tennessee communities with the tools necessary to develop and implement sustainable housing affordability solutions that ensure workforce stability, attract new talent, and drive economic growth by providing all workers with access to affordable high-quality living. This data can be utilized as a steppingstone for further research to make informed decisions and tailor projects to meet the specific needs of the local population. Furthermore, by leveraging these insights, communities can take actionable steps toward creating housing solutions that not only support workforce stability but also drive regional growth. As economic development agencies, local governments, and private developers work together, they can build a future where affordable, high-quality housing is accessible to all, ensuring long-term prosperity for the entire region. Over time, the availability of housing affordability contributes to a more resilient and sustainable regional economy, creating a virtuous cycle of growth, stability, and prosperity for both communities and businesses in Southeast Tennessee.

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