



Tennessee Housing Development Agency (THDA) Issue Brief: AFFORDABLE HOUSING FOR TEACHERS

By Laura Swanson, February 2016 No. 1

INTRODUCTION

Teacher salaries in many areas of the United States barely reach the median income for the area, and teachers often experience only small annual raises —keeping their salary at or just below the median income throughout their career. Low salary levels combined with rising housing costs have resulted in teachers too often being unable to comfortably afford housing within the neighborhood where their school is located. When teachers live far from their school, it limits their ability to participate in extracurricular activities or truly become a part of the community where they teach. This problem is not limited to urban areas. In many rural areas, housing is more affordable but less abundant or is located much further from schools, which increases transportation costs (and may drive the combined cost of housing and transportation above that of metro areas).

In Tennessee, the statewide median income in 2014 was \$44,361¹, and the statewide median K-12 average teacher salary was a little above the median at \$47,225². A Tennessee teacher earning the median wage could afford to pay \$1,181 a month in housing costs (based on the industry standard of spending 30 percent of income). Statewide median housing costs for households with a mortgage, were \$1,167, and median gross rent was \$770³. While median housing costs may seem affordable for a teacher earning a median salary from a statewide viewpoint, housing costs have risen considerably in some Tennessee markets in the past two years, and rapidly in some areas.

Individual counties, cities (and neighborhoods within cities) have significantly different housing markets and costs. Take Nashville-Davidson County, situated in the largest metropolitan area in the state, as an example. Median monthly gross rent in 2014 was \$887 and housing costs for homeowners with a mortgage were \$1,334⁴. The median teacher salary⁵ in the Nashville MSA was \$50,187, which is slightly below the overall household median for the MSA of \$51,424⁶ (and is right at 80 percent of AMI for the county). Teachers earning the median income can afford \$1,254 in monthly housing costs. In the Memphis (Shelby County) MSA, the second largest metro area, teacher salary levels are similar to Nashville-Davidson County with the median in the \$51,000 range. Overall household median for the MSA is \$50,976. Median gross rent in Shelby County in 2014 was \$860 and median homeownership costs were \$1,322. Thus, at the county level, rental housing still appears relatively affordable to a teacher earning the average salary, but homeownership is out of reach in both counties.

When diving deeper and comparing 2014 median teacher salaries and median housing costs in Davidson and Shelby Counties at the census tract level⁷, rental housing was affordable on a median teacher salary in most census tracts, with unaffordable rent levels in approximately 10 percent of tracts in both counties. However, owning a home was out of reach for a teacher earning a median salary in more than half the census tracts in both counties. For greater detail, see the maps in the Appendices, which show rental

¹ "Median Income by State" (Tennessee), American Community Survey (ACS), 2014 (1 year estimate)

² From "Annual Occupational Employment & Wage Data, Except Special and Career/Technical Education" reports for Elementary, Middle and Secondary School Teachers, 2014, *Tenn. Dept. of Labor & Workforce Development*. K-12 teacher salary is the average of elementary, middle and secondary school teachers' median salary. The variation between the three categories is less than \$1,000 annually.

³ "Comparative Housing Characteristics," ACS, 2014 (1 year estimate)

⁴ "Median Gross Rent & Median Selected Monthly Owner Costs by Mortgage Status," ACS (1 year estimate, 2014)

⁵ Median teacher salary includes an hourly wage derivation that considers elementary, middle and secondary school teachers from the Tenn. Department of Labor & Workforce Development (cited earlier). Data are not available at the county level, thus, MSA (2003) data for 2014 was used to determine median teacher salary for individual counties within the MSA.

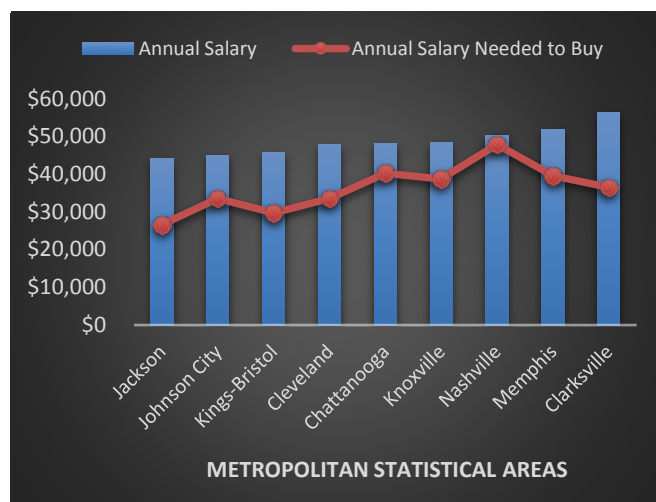
⁶ To align with the data used for teacher salaries, income data are from the Tenn. Dept. of Labor & Workforce Dev. analysis of annual household income from the Census Bureau for Metropolitan Statistical Areas (MSA) 2003 in Tennessee in 2014. Teacher salary is based upon the income of a single earner, and household income is based upon all earners within the household.

⁷ "Median Gross Rent & Selected Monthly Owner Costs by Mortgage Status," ACS (5 year estimate, 2010-2014)

and homeownership affordability for the median earning teacher by census tract for Davidson and Shelby Counties.

While the Census offers the most reliable data source for information on housing costs, using it to evaluate housing affordability in dynamic markets is imperfect due to the time lag in data availability and the differences that exist between long-term versus new or relocating renters. According to the Greater Nashville Apartment Association, preliminary data show the average cost of rent across Nashville in 2015 was \$1,034⁸. Comparing this figure with the median teacher's salary for the Nashville MSA shows teachers could barely afford rent in Nashville in 2015.

Purchasing a home is often more expensive than maintaining an ongoing mortgage. The chart below shows how a secondary school teacher's annual salary in 2014⁹ stacks up to what is needed to purchase a median priced home¹⁰ in the state's metropolitan statistical areas.



Today, regardless of the data source used, it is clear that homeownership is becoming out of reach on an average teacher's income in many areas of Tennessee, especially in the major metropolitan cities. Rental housing is also becoming unaffordable in some areas. The cost of rental housing has been increasing steadily, especially in rapidly expanding markets, like the Nashville MSA, and is predicted to continue to rise. If the cost to rent or own continues to increase and teacher salaries remain stagnant or increase only minimally each year, the gap between teacher salaries and housing costs is likely to grow each year and spread to other areas of the state. Thus, it is valuable to look at other states and how they are working to recruit/retain teaching professionals through housing incentives.

⁸ From "East Nashville Rent Hike Leaves Many Worried," by Joey Garrison, January 29, 2016, *The Tennessean*.

⁹ From "Annual Occupational Employment & Wage Data for Secondary School Teachers, Except Special and Career/Technical Education in All Metropolitan Statistical Areas (MSA) 2003 in

Teacher Subsidized/Discounted Rental Housing Developments in Other States

In the past 10 years, school districts across the country have faced a growing teacher shortage at the same time budgets are increasingly constrained, leading them to look for strategies to recruit and retain teachers without raising salary levels. An increasingly common strategy is supplementing teacher income through offering subsidized or discounted rental housing. Affordable rental complexes, sometimes called "teacher villages" have been developed in large cities such as San Francisco, Los Angeles, Philadelphia and Baltimore. However, smaller cities, like Milwaukee and Asheville, and several smaller towns in North and South Carolina have also developed affordable apartments targeted to teachers (see examples from some of these cities in Table 1 & 2 below).

In some localities, school districts have partnered directly with developers to build new housing targeted to teachers or other administrative staff; in others, developers have built the housing on their own with encouragement or partnerships with educational non-profits, such as Teach for America. The developments are financed using a variety of funding sources (low or zero interest loans, proceeds from school construction bonds, grants or donations from non-profits or private entities, New Market tax credits, Low Income Housing Tax Credits, etc.) sometimes combined with the use of city owned land (often with a long term ground lease) to bring down building/land acquisition costs and allow long-term affordable rents.

North Carolina: The State Employee Credit Union Foundation (SECUF)¹¹ has led the charge for funding/creating affordable rental housing for teachers in North Carolina—contributing no interest loans for five developments thus far in different areas (urban and rural) of the state (Ahoskie, Asheville, Hatteras Island and Raeford). The affordable financing terms and other savings (such as land donations) in the North Carolina teacher housing complexes have allowed rents to be set at a monthly rate which is affordable on an entry level teaching salary. For example, 2 bedroom/2 bathroom units in Dare County, NC, lease for a below market rate of \$750. When organizations repay the loans, the rental profits will be redirected into a school system fund that will benefit teachers or create additional housing incentives for teachers, such as free rent periods.

Tennessee," 2014, *Tenn. Dept. of Labor & Workforce Dev.*

¹⁰ Home purchase price methodology from: H. Arik, "Housing Market at a Glance 2015," *THDA*, Forthcoming

¹¹ For more information on SECUF teacher housing, see: <https://www.ncsecufoundation.org/teacherhouse.html>

Table 1: North Carolina Teacher Housing

Property	Size	Cost/Financing
Ahoskie, Hertford County (built near high school); 2007	24 units (2 bed/2 bath)	\$2.2 million, 15 yr. interest free loan (SECUF); school system donated land; private donations
Raeford, Hoke County (Echo Ridge); 2013	24 units (2 bed/2 bath)	\$2.4 million, interest free loan from SECUF with Hoke County Public Schools Education Foundation
Kill Devils Hills, Hatteras Island (Run Hill Ridge); 2008	24 units (2 bed/2 bath)	\$2.25 million interest free loan from SECUF with the Dare County Education Foundation
Buxton, Hatteras Island (Hatteras Teacher Housing); 2011	12 units (2 bed/2 bath)	\$1.4 million interest free loan from SECUF held by the Dare County Education Foundation
Asheville/Buncombe County (Williams-Baldwin Teacher Campus); estimated 2016	24 units (2 bed/2 bath)	\$2.5 million interest free loan from the SECUF with Eblen Charities Center for Social Enterprise and Buncombe County; ground lease with county (\$1/yr.)

Baltimore, MD, Philadelphia, PA, Milwaukee, WI:

Seawall Development Corporation¹² has spearheaded the development of teacher housing in several cities, starting with Baltimore (rental and homeownership) then expanding to Philadelphia. The company has a pending project in Milwaukee (in partnership with TeachTown MKE) and has explored opportunities in New Orleans and Detroit. Seawall is a privately held, community-oriented real estate firm that focuses on mixed-use, urban redevelopment projects. The company was started by businessman Donald A. Manekin (and his son), who served as the interim chief operating officer of the Baltimore School District from 2000 to 2002 and also served on the board of Teach for America. The Manekins started Seawall after discovering the difficulty new teachers, especially those from Teach for America, were having in locating safe, affordable housing near their schools in Baltimore. The Seawall developments often are affordable and green projects, and many are historic renovations with more amenities than typically found in affordably designed

properties. Most Seawall developments advertise a \$300-\$600 monthly discount for teachers (dependent upon unit size). For example, in the Oxford Mills complex in Philadelphia, market rent for a 1 bedroom/1 bath apartment is \$1,300, but a teacher pays \$1,000.

Table 2: Maryland, Pennsylvania, Wisconsin Teacher Housing

Property	Size	Cost/Financing
Baltimore, MD (Miller's Court); 2009, LEED Gold (redeveloped brownfield)	40 units (1, 2, 3 bed); 35,000 sq. ft of non-profit office space; 1,000 sq. ft. retail	\$21.9 million financed with New Market tax credits (\$19M), historic tax credits and loans from the State of Maryland and City of Baltimore
Baltimore, MD (Union Mill); 2011; LEED Gold	56 units (1 & 2 bed) units; small retail space (café)	\$22.3 million financed with historic tax credits, along with other federal tax credits and private financing
Philadelphia, PA (Oxford Mills); 2012 Enterprise Green cert.	114 units (70 units set aside for teachers with 38 set aside at 80% of AMI); 40,000 sq. feet of non-profit office space; 1,300 sq. ft. retail	\$40 million financed with New Market Tax Credits (\$34M), federal historic rehab tax credits, and private financing (through the tax credit equity investor, TD Bank).
Milwaukee, WI (former Dover school site); estimated fall 2015	Proposed 75 units (43 renovated in old school building; remainder in new building)	Proposed \$18 million; proposed \$350,000 to purchase the existing building from city; leasing shared parking and playground to nearby private school

A counter argument to subsidizing housing costs for teachers or other school administrative staff, particularly rental costs, is that it fails to target the real problem- salary rates that do not allow teachers to afford housing or build wealth over time. Some argue that subsidized housing targeted to teachers is more often rental, which may attract new, young teachers for a few years early in their careers, but will not make teaching a lifelong profession when teachers realize that they cannot afford rent without a

¹² For more information on Seawall developments, see: <http://theunionmill.com/apartments/>;

<http://www.enterprisecommunity.com/servlet/servlet.FileDownload?file=00P30000007YbAKEA0>

subsidy or discount or cannot afford to eventually purchase a home in the community where they teach.

To these points, some teachers residing in subsidized rental developments have applied the income from rent savings to a downpayment on a home. And, some cities also have developed homeownership programs targeted specifically to teachers that include downpayment assistance programs, low interest loans for homeownership (through state housing finance agency programs or other local lenders) or rehabilitation of city owned single family properties in distressed areas that are renovated then sold at a below market price to a teacher. A few of these homeownership programs are outlined below.

Examples of Affordable Teacher Homeownership Programs/Opportunities

Teacher Mortgage & Downpayment Assistance Programs (States & Cities): The state housing finance agencies in a number of states (e.g. California, Connecticut, Mississippi, South Carolina, Texas) have low interest or below market interest rate loan programs aimed at teachers (and sometimes other civic employees, such as firefighters and police). In some states (Connecticut & Mississippi), the program is limited to teachers who teach in shortage areas or transitional school districts. The programs (other than Mississippi) are similar in nature and typically offer a 30-year below market, fixed rate loan. Many states (and some cities) offer downpayment assistance (forgiven if the home purchased is used as the primary residence for three to five years).

Some states offer first time homeowners (including teachers), who have conventional or government loans, a mortgage credit certificate (MCC) that reduces federal income taxes dollar for dollar and, in effect, creates additional income for the borrower to apply toward monthly mortgage payments. The credit equals a maximum of 20 percent of annual interest paid. However, an MCC cannot be claimed when the first mortgage or any other associated subordinate loans are financed with tax-exempt bond financing (such as THDA's loan programs).

The Mississippi Home Corporation's Housing Assistance for Teachers Program (HAT) is somewhat unique in design compared with other states and is targeted to counties of the state where teacher shortages are critical (as designated by the Mississippi State Board of Education). The HAT program emerged as a result of the Mississippi Critical Teachers Shortage Act of 1998, which includes incentives to attract teachers to underserved areas. The HAT program offers (with no income limits) a promissory note that is converted to an interest free grant if the approved applicant is a licensed teacher who agrees to teach for a period of no less than three years in an identified critical school district. Additionally, state assistance will cover closing costs up to

\$6,000. The applicant must provide a downpayment of one percent of the sales price and one month's reserve from their own funds (the reserve may be a gift).

City Owned Vacant/Blighted Property Transfers for Rehab & Resale to Teachers: In 2012, Seawall Development worked with the city of Baltimore to rehabilitate nine city-owned, vacant row houses in the Remington neighborhood to be sold at below market rates to teachers. The rehab project was part of the larger city program, Vacants to Value, which aims to rehabilitate as many as 4,000 abandoned, unlivable houses that the city owns, and to revitalize communities. The city offered the houses for sale at \$11,000 each. In addition to the nine houses under the agreement with the city, Seawall also purchased other houses in the area in the \$45,000 range to rehabilitate and also sell at below market rates. The initiative has turned into a full blown community revitalization program in the neighborhoods of Remington, Charles Village and Hampden. The company's goal with the project is to renovate 30 traditional Baltimore row homes in the area into modern, green living spaces. City of Baltimore teachers and police receive a discounted purchase price. Seawall is also engaging in the redevelopment of commercial properties in the area to advance the community transformation, recently purchasing a vacant warehouse to convert to restaurant and other commercial uses.

Federal Programs: The Teacher Next Door initiative is a Department of Housing and Urban Development (HUD) program that allows teachers and some administrators to buy HUD-owned homes for as much as 50 percent off the list price if they agree to use the house as their sole residence for at least three years.

Conclusion

In 2014, teachers earning median salaries in most areas of Tennessee could afford the median rental housing costs; however, the cost of housing, particularly rental, is rising and expected to continue to rise rapidly in some areas of the state. At the same time, median teacher salaries barely afford median home purchase prices in many areas, and owning a home is already out of reach within more than half of the neighborhoods in the two largest metro areas, Nashville and Memphis. If teacher salaries do not rise at the same level as the cost of rent or homeownership, the housing affordability gap will grow and teaching may become less desirable as a professional career path.

In almost every Tennessee county, teachers may benefit from existing low interest rate mortgage products and downpayment assistance programs currently offered by the THDA; a low interest mortgage/downpayment assistance program more specifically designed to meet teacher needs (such as THDA's program for veterans), and/or mortgage

credit certificates, not currently offered in Tennessee. Teachers could also benefit from programs that substantially renovate blighted or tax delinquent properties and make them available for resale at discounted prices, especially when the housing is located near a school and/or in designated redevelopment areas that include one or more schools. Cities like Memphis and Nashville already have programs targeting blighted or tax delinquent properties that could include targets or special purchase price incentives for teachers.

More detailed analysis is needed to determine the areas of the state that would most benefit from discounted or subsidized rental housing targeted to teachers. The fastest growing MSA, Nashville-Davidson/Murfreesboro/Franklin, and other MSAs in the state, where the cost of housing in some census tracts (rental and homeownership) is already above the median teacher salary, are the most likely candidates for consideration. However, rural areas of the state where there is less housing available at any price point and where housing may be situated far from school communities should also be considered.

FURTHER READING

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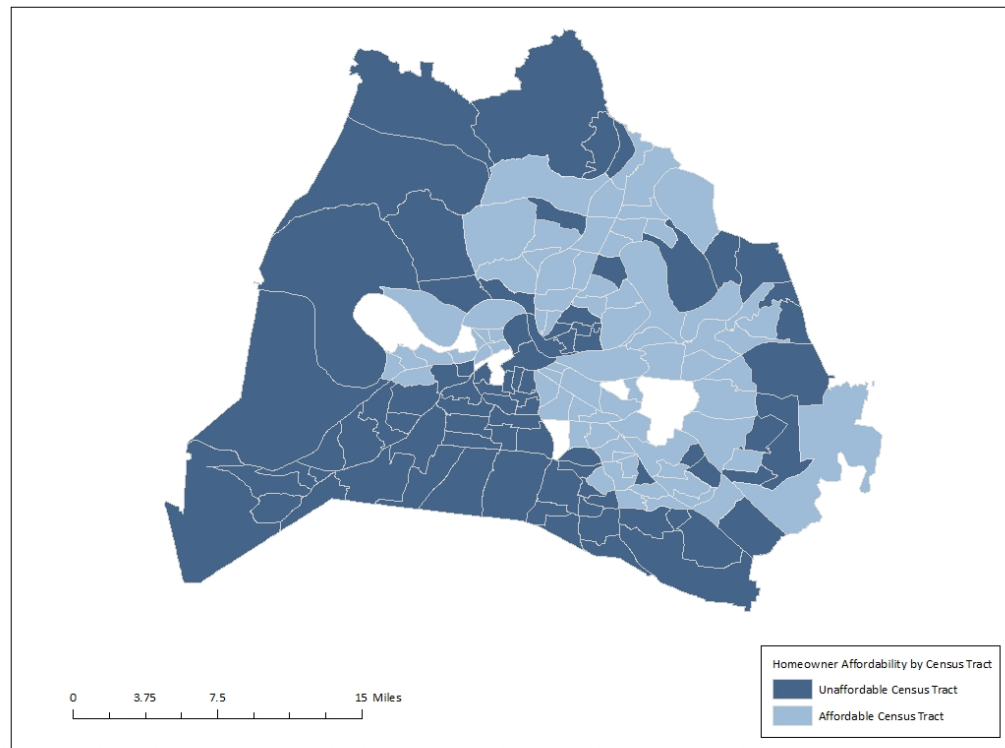
ABOUT THDA

As the State's housing finance agency, the Tennessee Housing Development Agency (THDA) is a self-sufficient, independently funded, publicly accountable entity of the State of Tennessee. THDA's mission is to ensure that every Tennessean has access to safe, sound, affordable housing opportunities. More information about THDA programs can be found online at www.thda.org.

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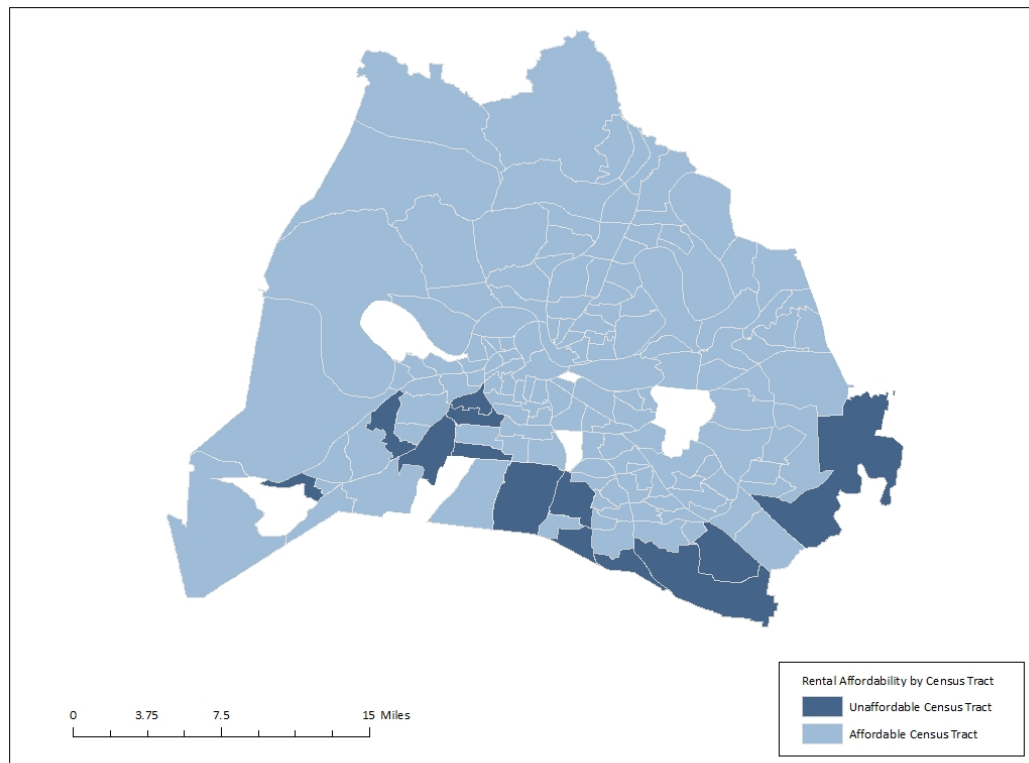
Appendix 1

Map 1: Affordability of a Census Tract's Median Homeowner Costs to the Median Earning Teacher, Davidson County 2014



Source: 2010-2014 American Community Survey 5-year estimates; White areas within Nashville/Davidson reflect census tracts that did not have data for rent/homeownership costs available.

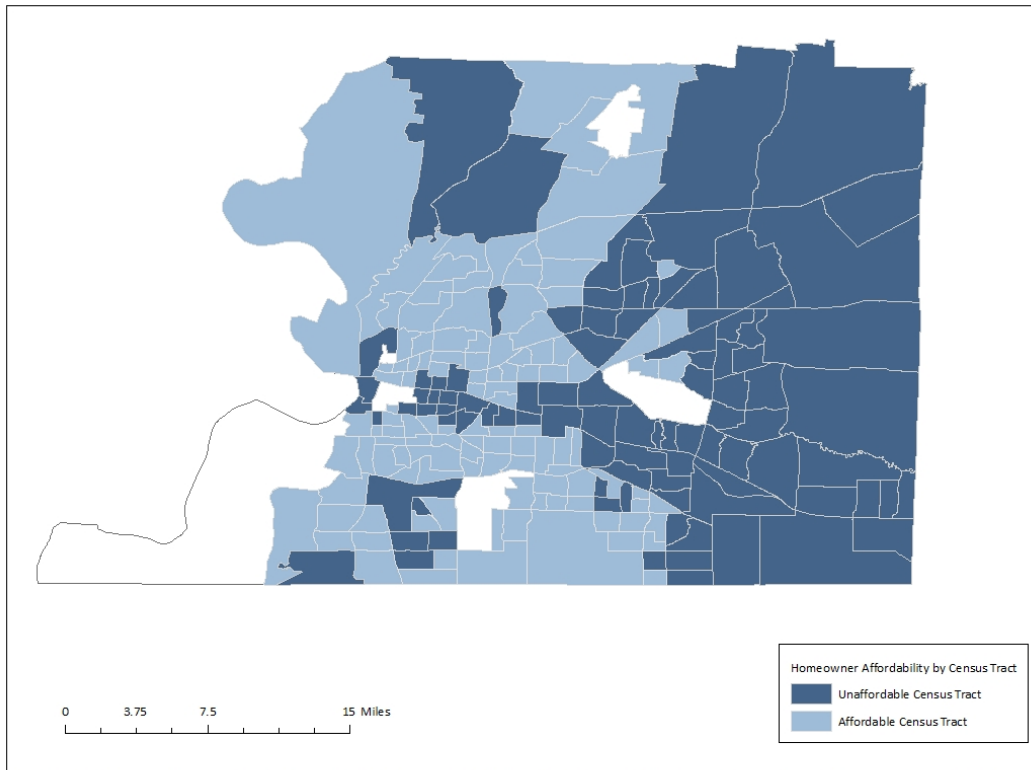
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Source: 2010-2014 American Community Survey 5-year estimates; White areas within Nashville/Davidson reflect census tracts that did not have data for rent/homeownership costs available.

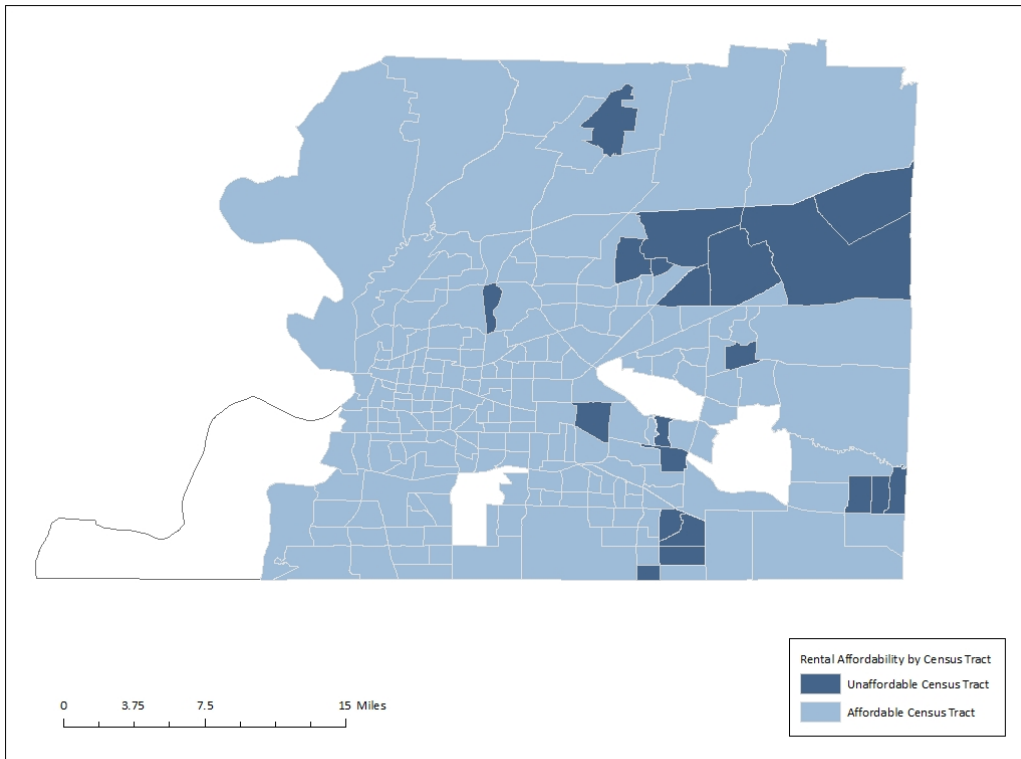
Appendix 2

Map 1: Affordability of a Census Tract's Median Homeowner Costs to the Median Earning Teacher, Shelby County, 2014



Source: 2010-2014 American Community Survey 5-year estimates; White areas within Memphis reflect census tracts that did not have data for rent/homeownership costs available.

Map 2: Affordability of a Census Tract's Median Rental Costs to the Median Earning Teacher, Shelby County 2014



Source: 2010-2014 American Community Survey 5-year estimates; White areas within Memphis reflect census tracts that did not have data for rent/homeownership costs available.