Is Housing Next in Company Benefits?

By Kristin Kanders

The idea of employers' helping their workers with housing has recently been revived in Massachusetts and other parts of the country, especially in places with expensive housing. The effort may have staying power if businesses don't get derailed by economic uncertainty.

Metro Boston's latest push for employers to help with housing began about a year ago. In February 2002, the Greater Boston Chamber of Commerce and Fannie Mae, the nation's largest source

of financing for home mortgages, started encouraging the chamber's 1,800 business members to provide their employees with housing benefits. In general, this means employers help employees buy homes by loaning or granting them money for closing costs, down payments, and interest-rate buy downs, among other things. Some programs provide for rental assistance, but most target home buyers. By September, the two organizations were promoting the program to 300 other chambers of commerce across the country. (For some historical perspective on the ties between employers and housing, see page 17.)

Why Employers Offer Housing Benefits

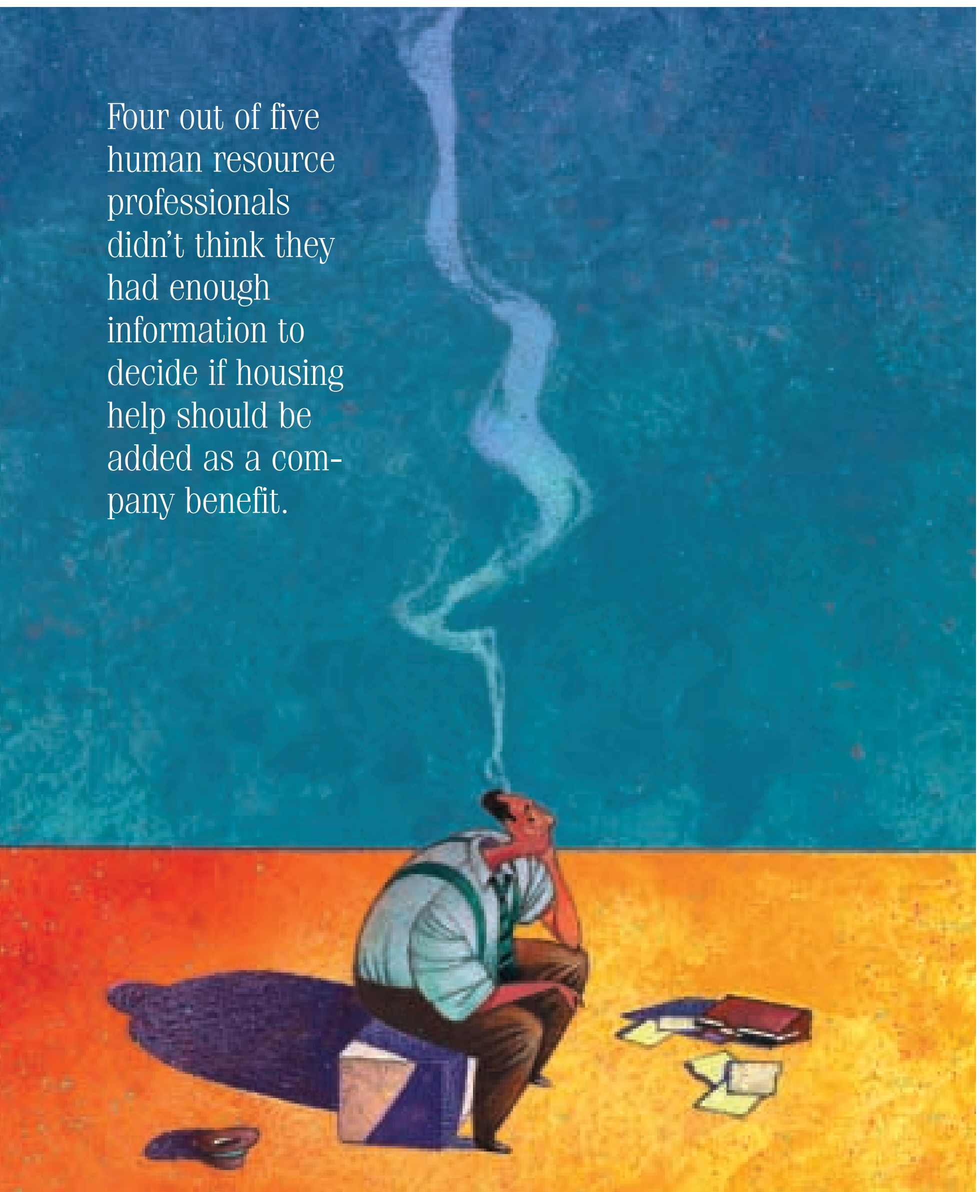
"The word is getting out about the value of employer-assisted housing," says H. Beth Marcus, Fannie Mae's national director of employer-assisted housing. In large part, the message is spreading because Fannie Mae has undertaken an extensive marketing campaign to meet its goal of having 1,000 employers initiate such benefits by the year 2010. As of 2002, according to the Society for Human Resource Management, about 15 percent of businesses nationwide provided some sort of housing benefit, through mortgage, down payment, or rental assistance.

Employer-assisted housing (EAH) benefits are primarily used to recruit and retain workers. Businesses trying to attract workers to housing-crunched areas in particular use the benefit to offset their area's high cost of living. Many loan programs are structured to be forgiven in increments over time, say over five years, which helps to retain workers. Housing benefits are also thought to increase employee loyalty and morale, likely inducing employees to stick with their employers.

Community revitalization can also motivate employers to offer the benefit. By providing incentives to buy homes in select, usually deteriorated neighborhoods, employers can help stabilize the communities in which they operate. Beside the good-neighbor mission, which can have publicity rewards, the value of the employer's real-estate holdings may improve. Employers grounded in their communities, such as hospitals and universities, are especially inclined to take this approach. (See the sidebar on page 20, "In It for a Turnaround," for the story of how Yale University's homeownership program has helped revitalize New Haven, Connecticut.)

Employers design EAH programs as they see fit. Some emphasize education by paying for employees to attend home-buyer classes; others advance smart growth principles by encouraging employees to live near their work, or at least near transportation infrastructure. Reduced commuting, after all, is thought to improve worker productivity by lowering employee absenteeism and stress.

Despite the various advantages of EAH benefits, Fannie Mae certainly has its work cut out for it. As it discovered in 1998, four out of five human resource professionals didn't think they had enough information to decide if housing help should be added as a company benefit. But Fannie Mae's promotional work has made some headlines since then; EAH was a 2001 cover story in *HR Magazine*, and many newspapers now report on the subject. A larger obstacle is convincing employers to think of housing affordability issues as critical to business success. Furthermore, interest in employer-assisted housing seems to track the economy, and so enthusiasm is currently depressed.



Home Economics

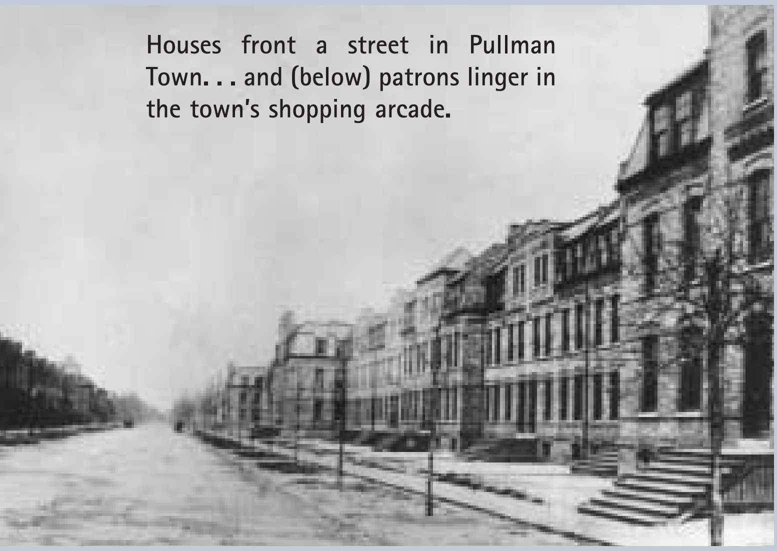
The economic boom of the 1990s may have passed, but Greater Boston's housing affordability problems — in both rental and homeownership markets — remain. Massachusetts' unemployment rate has doubled since 2000, but housing prices have not faltered. In one sense, the housing affordability problems of today are a mark of success; the region has been an attractive place in which to live and work. But high housing costs can ultimately undermine the prosperity that created them.

Like a tourist destination with few hotels, business success and the economic competitiveness it leads to are

A Long and Contentious History Connects Employers and Housing

The early days of employers getting involved with worker housing provide some cautionary lessons. As times changed, though, so did the way employers helped their employees with housing. For the most part, employers put aside supply-side solutions in favor of demand-side ones that were easier to implement and more representative of what employees wanted.

One of the earliest examples of employers' assisting with employee housing began in Lowell, Massachusetts, in the 1820s. Young women textile workers were sought from farming communities to work at the mills, and they lived in boardinghouses developed by the mill company. The living conditions were crowded, and older women served as boardinghouse supervisors, monitoring the workers' few free-time activities. For the "mill girls," however, this was their opportunity to be independent and among America's first wage-earning women. The boardinghouse concept spread to other New England mills, but eventually fell out of favor as mills began relying more on immigrant workers, who refused the dormitory-like living conditions.



Houses front a street in Pullman Town. . . and (below) patrons linger in the town's shopping arcade.

Other instances of employer-provided housing took off around the country in the 1880s. Most notable of these was that of Pullman, Illinois, named for its founder and railroad sleeping car company president, George Pullman. This 4,000 acre company town was conceived as a utopian community with housing, schooling, churches, and private retail at the worker's fingertips. The idea was that well-taken-care-of workers would have fewer worries and distractions, making for more productive and focused employees. The invention ran seamlessly for well over a decade, until the railroad car business became snared in the nationwide economic slump of 1893. Then it all fell apart.

As orders for railroad cars plummeted, Pullman laid workers off. Still needing to cut costs, he lowered wages while maintaining the dollar amount each worker's paycheck was docked for rent. Squeezed by the situation, the workers unionized and then led a strike that sparked nationwide protests and riots. A year later, after President Grover Cleveland declared the strike illegal, and after two protesters were killed by army troops, Pullman employees returned to work under a contract that forbid their unionization.

Seeing Pullman's utopian dream turn into a nightmare, businesses stopped positioning themselves as both employers and landlords. It wasn't until the late 1980s that the practice of employers' helping regular employees with housing was reawakened, although in different form.

This time, the stimulus came from Local 26, Boston's Hotel Employees and Restaurant Employees Union. In 1988, the union successfully negotiated an agreement with Boston hotel owners for the first-ever creation of a housing trust fund that union workers could draw from when trying to meet their housing needs. Before the housing trust fund could go into effect, however, Local 26 had to win a change to labor law.

After nearly two year's worth of lobbying, President George H. Bush signed an amendment to the Taft-Hartley Act in 1990. Since then, union employees have been able to bargain for housing benefits in compensation negotiations. Also in 1990, employer-assisted housing was deemed to be an appropriate use of federal funds under the U.S. Department of Housing and Urban Development's HOME program. This change encouraged businesses to partner with nonprofits on behalf of employees, because nonprofits could apply for public funds.

As employer-assisted housing has evolved over the years, Massachusetts employers and employees have played a pivotal role in making those changes happen. It remains to be seen whether the same will be said a century from now.

Photos courtesy of Illinois Labor History Society.

Despite the problems they face in ares with high housing costs, employers are not easily convinced that EAH benefits are the way to go.

constrained by a region's capacity to house people. For regions to prosper, businesses must be able to hire and retain workers. If housing costs are too great, some people, especially young workers, will be inclined to move out of the area. Established businesses pay the price by spending more to recruit and retain workers. (This is particularly true for employers such as universities and high-tech companies that seek workers with specialized skills.) Fledgling businesses may decide to locate elsewhere.

Indeed, for those moving to Massachusetts or trying to become homeowners, high housing costs provide little comfort. Housing costs continue to far outstrip increases in wages and salaries and inflation. From 1997 to 2002, Massachusetts home prices (repeat sales) surged 72 percent. Over the same period, wages and salaries grew at a much slower 34 percent, and consumer prices rose just 19 percent. In September 2002, the median sales price of a home in the Boston metro hovered at $415,800.

Although low interest rates, and, therefore, mortgage rates, have had the effect of increasing affordability, high housing prices still block many from becoming homeowners. As MassINC and Northeastern University's Center for Labor Market Studies reported, homeownership rates across the country in 2000 were at historic highs, but Massachusetts trailed the nation. Even after adjusting for the state's higher per capita income, Massachusetts had the third most severe affordability problem in the nation. 2001 U.S. Census data show the national homeownership rate was 67.8 percent; in Massachusetts, the rate was 60.6 percent.

As to be expected, the number of working families struggling to make ends meet has risen in tandem with housing costs. (Working families are those who earn anywhere from the equivalent of a full-time minimum wage up to 120 percent of median area income.) Last year, the National Housing Conference reported that from 1997 to 2001, the number of U.S. working families paying more than half of their income on housing or living in substandard housing increased by 60 percent, to 4.8 million.

Interested. . . but Hesitant

Despite the problems they face in areas with high housing costs, employers are not easily convinced that EAH benefits are the way to go. Financial institutions have been some of the employers more eager to initiate programs. Citizens Bank, for instance, remains New England's most high-profile employer offering an EAH program. Their forgivable loan program, which was launched in June 2002, is open to 13,000 employees, and has been put to use by roughly 200 to date.

So far only about half a dozen employers have been persuaded by the Greater Boston Chamber of Commerce and Fannie Mae's initiative. In time, mainstream corporate employers may follow Citizens' lead. But for now their interest is definitely lagging. Jim Klocke, executive vice president of the Greater Boston Chamber of Commerce, believes the primary reason has been the slow economy. "Companies get creative with benefits when labor markets are tight," he says. And although Klocke believes an EAH plan is "a good idea all of the time," he acknowledges that the case is harder to make when businesses aren't under severe pressure to hire.

Robin Drill, director of Fannie Mae's Massachusetts Partnership Office, suggests employers fail to recognize that an EAH benefit can be as good for them, such as by earning the loyalty of their staff, as for their employees. "They don't seem to realize that not addressing the housing issue really will affect them through recruitment and retention." Drill points out that many employers view housing as a foreign concept, and have historically relied on the "housing community," rather than the business community, to deal with it. "Employers don't see it as a part of their world; they see it as a personal issue." The upside to this: as employers become more educated on housing issues, they may become more amenable to the idea of providing housing help.

It probably doesn't help that benefits as a whole, and health care benefits in particular, are getting more expensive. According to the Bureau of Labor Statistics' employment cost index, the cost of private industry benefits rose 10 points faster from 1990 to 2002 than the cost of wages and salary. Stanley Lukowski, president and chief executive officer of Eastern Bank and chair of Greater Boston Chamber of Commerce's housing task force, says, "A lot of employers are focused on health care costs." He believes it is important to get human resource directors to understand EAH, and to realize that the benefit is not necessarily costly or hard to administer. Ongoing marketing efforts, believes Lukowski, will prove effective, because "there is obviously a real affordability issue here — and the housing market continues to increase in cost and value."

Daniel Hoffman, who coined the term "employer assisted housing" in the 1980s and has written widely on the subject, believes the focus of assistance on up-front costs is partly responsible for the slow acceptance of EAH plans. "While Fannie Mae's support has been invaluable in legitimizing the concept," says Hoffman, "not everyone's homeownership problem is [acquiring] a relatively small portion of a down payment. But Fannie's program has driven the EAH discussion in this direction." Moreover, Hoffman says changes in the mortgage market, such as low interest rates and underwriting efficiency gains, have increased affordability and allowed more people to qualify for loans. This results in "less ability for employers and others to negotiate over the 'fat' in the underwriting process."

These changes in the mortgage market have also spurred a proliferation of mortgage products, many of them unfamiliar to potential home buyers. Fannie Mae suggests employers can offer help to their employees by educating them (typically through a third party) about these products. "There's probably at least 20 products out there, excluding the subprime ones" says Drill. "If an employer can help an employee get the best loan, then that's a gift."

Lack of familiarity, bad economic timing, and low mortgage rates are some reasons why employers may be skeptical of EAH benefits. But there are other reasons why employers may not want to get involved with housing for their employees.

On the practical side, the administration of an EAH benefit that is any more complicated than home-buyer assistance may give employers reason to pause. An EAH benefit generally takes a long time to set up (roughly a year from some sources),

Some would say employers offering housing benefits are paving the way.
Others liken it more to pulling too heavy a load.

In It for a Turnaround

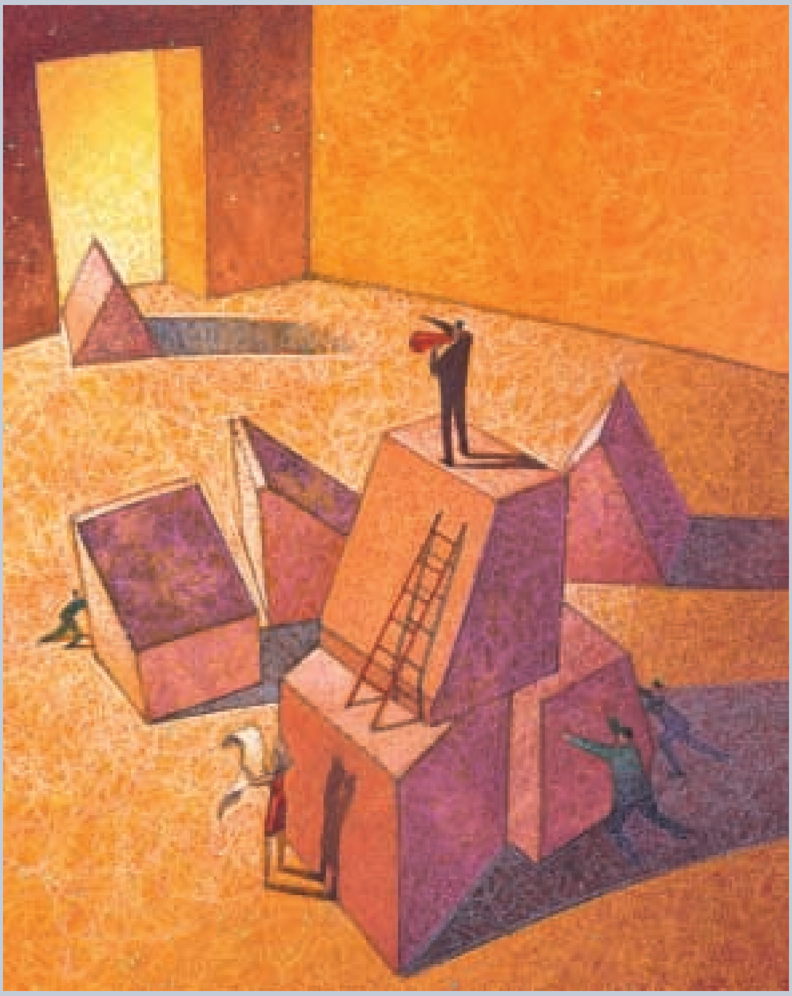
Remember the 1990s television show *Northern Exposure*? It followed the story of a New York doctor, who, in return for financial assistance with medical school, agrees to practice medicine in an underserved area of Alaska. Well, the same concept can be applied to housing. In this case, employers provide financial incentives to encourage people to move into underserved areas, thereby improving the quality of life in those places.

In New Haven, Connecticut, financial incentives provided by Yale University to its home-buying employees are helping to turn distressed neighborhoods around. Yale grants employees $25,000 over 10 years if they buy homes in one of six particular neighboring communities. These communities have suffered from disinvestment, neglect, and high vacancy rates. Since the program's launch in 1994, over 540 employees have purchased homes, and the neighborhoods are doing better. Michael Morand, assistant vice president of New Haven and state affairs at Yale, says the university followed a common sense approach that "homeownership contributes to vital and stable communities."

Morand credits the program's success and widespread use partly to its simple design — and partly to its generosity. Few employers could match the bounty of Yale's employer-assisted housing program. The university has committed over $12 million to its employees' home purchases so far, and the annual cost of operating the program runs over $1 million. But Yale's leadership has made community revitalization a top priority, and it has reason to do so. Improving its surroundings attracts staff and students, and helps fulfill its mission of being an active contributor to its urban society. Yale's program, says Morand, is like a "good housekeeping seal of approval for the community — showing we're putting our money in here."

James Paley, executive director of Neighborhood Housing Services in New Haven, says Yale's employer-assisted housing program is "probably one of the best in the country." He lauds Yale for deciding to further target New Haven's poorest neighborhoods, many of which border the university, when the program was evaluated at the end of its first two years. New Haven's neighborhoods are recovering, says Paley, because "everybody is doing their share."

By investing in distressed communities, Yale lends money, and confidence, to its neighbors.



and the administration of the benefit is primarily done in-house rather than by an outside organization. Unlike with health care benefits, no network of EAH administrators is on hand to work with, and the benefit may not neatly end when the employee leaves the company. For instance, if an employee quits before his or her housing loan has been forgiven in full, the employer may need to recoup some capital.

Philosophical reasons may also cause employers to hesitate with housing benefits. Some businesses may feel they are unfairly being asked to finance the high costs of housing, and that they should not be targeted to fix a problem that will only be solved by increasing the housing supply. How would their demand-side assistance really make a difference, and is it in their best interest to offer it?

Furthermore, providing a specific housing benefit primarily only helps those employees who do not already own a home, and even in Massachusetts, with is comparatively low rate of homeownership, three of every five households are already homeowners. Considering the potential inequity of a housing benefit, and the practical concerns of administration, some businesses probably figure their money is better spent going to increase wages. After all, increasing wages has the same effect of increasing the price cap of what an employee can afford to pay for housing.

The Incentive Spark?

One big, but underestimated, argument in favor of EAH benefits is that people honestly care about housing affordability. In the spring of 2002, a nationwide survey commissioned by the Fannie Mae Foundation found 37 percent consider the lack of affordable housing for low- and moderate-income families to be a very big or fairly big problem – second only to concerns about health care. Affordable housing took precedence over other serious problems such as job loss and unemployment, crime, and a polluted environment. Among working families, the shortage of affordable housing was seen as the number one problem. Anecdotal evidence of the rise in "boomerang children" – those who go off to college and then move back in with their parents, in part because of high housing costs –may be contributing to parents' concerns.

Housing's high priority as a quality of life issue, however, is not borne out in employee workplace benefits. The Society for Human Resource Management's 2002 Benefits Survey found 99 percent of employers provide some sort of health care benefit, but fewer than one in seven provide a housing benefit. Housing benefits are not even tracked by the Bureau of Labor Statistic's national compensation survey, although this is now under consideration. Enterprising businesses that take advantage of the disconnect between people's values and the benefit offerings of most businesses, might win regard both from their workforce and the community at large.

In Massachusetts, a growing contingent of people are supporting the EAH movement. Steve Grossman – president of MassEnvelope Plus, a printing and graphics company in Somerville and the first employer to formally sign onto the Chamber and Fannie Mae's initiative – advocated for EAH tax credits in his 2002 bid for the Massachusetts governorship. (In general, providing housing loans or grants to employees already reduces an employer's tax burden.) Boston's Mayor Menino continues to use the pulpit provided by his presidency of the U.S. Conference of Mayors to call for workforce housing and employer assisted housing. And former Governor Jane Swift said in her October 2001 introduction of the employer-assisted housing program for Massachusetts' municipal employees, "Unsung heroes such as firefighters, police officers, school teachers and other municipal employees provide critical services every day in every city and town, yet too often they can't afford to live where they work."

Massachusetts Senator Jarrett T. Barrios and Representative Robert Spellane have sponsored legislation calling for financial incentives for employers who provide housing benefits. Under their plan, the state would match $1 for every $2 the employer spends toward housing benefits, up to $100,000 per business and $5 million in total. While the consensus is that Massachusetts, like its fellow states under fiscal strain, is unlikely to adopt any new program costing money, there is also a possibility that the Romney Administration may eventually seek housing legislation, and that employer-assisted housing legislation, which draws on the private sector to leverage scarce public funds, could be part of his program.

Eleanor White, president of Housing Partners Inc. and of the housing advocacy organization CHAPA, which endorses the legislation, says while the legislation is not a silver bullet, "There needs to be financial incentive to help companies get over the hurdle of being frightened of the topic. To the extent that state matching funds can get employers over the *perceived* costs, then we believe this will be very helpful."

Similar legislation already exists in other New England states; Connecticut provides financial incentives (in the form of tax credits rather than appropriations) to businesses that create housing assistance funds. The program, which caps tax credits at $1 million annually, had early success following its enactment in 1993. As a result of stricter eligibility requirements going into effect recently, however, the number of companies participating has declined, and not all of the $1 million allocated each year has been used. A newer program, the Urban Rehabilitation Homeownership program, which also requires businesses to commit funds to their employees in order to leverage state financing, is having greater success.

Massachusetts' housing situation will not be fixed easily, and no one sector or program can solve all its problems. There is no question that an increase in supply is needed. But thinking that production is the only answer excludes other potential sources of help, such as employers. Although employers may worry that getting involved in housing means they are entering employees' "personal issues," they might take comfort in the knowledge that few issues are as dear to employees as being able to afford a home.