

Affordable Housing Key to Economic Development

The importance of housing in the economy is well known. Analysts track building permits nationally and locally and report housing starts as an indicator of economic activity. New housing construction creates jobs and generates income, and a strong new housing market is seen as an indicator of public confidence and a robust economy.

However, the local housing market also is an important factor in economic development. For example, the quality of homes and neighborhoods in a community serves as a visual measure of the local quality of life. The range of housing types strengthens the ability of local businesses to attract and retain new workers so that they can compete and expand in the changing economy.

To illustrate the role of housing in a community's economic development, we present this case study that shows how business, government, and civic leaders in Montgomery County, Indiana,

revised economic development strategies to address the problem of affordable housing.

In the late 1990s, many businesses in Montgomery County found it difficult to fill new positions and retain workers. Some business leaders believed that the local workforce lacked the skills needed to enable local firms to compete and succeed in the changing economy. As a result, leaders in the county commissioned the Center for Urban Policy and the Environment (Center), in partnership with Montgomery County Economic Development, to study the preparedness of the local workforce.

This issue brief summarizes why researchers concluded that the barrier affecting the Montgomery County workforce was not the quality of the workforce, but an inadequate local housing market.





Montgomery County Is Often Ahead of Its Peers

Researchers at the Center first explored data to assess the economic health of the Crawfordsville/Montgomery County area. We then compared the area with other communities and learned that the county is doing well by many measures.

The education levels in Montgomery County are comparatively high. According to the 2000 Census, 86 percent of Montgomery County residents are high school graduates (12th among all 92 counties in the state) and 15 percent are college graduates (28th in the state).

We classify Montgomery County as a rural/exurban county, defined as a county not included within a Metropolitan Statistical Area (MSA)(see Map 1). Compared with its peer counties in Central Indiana, Montgomery County residents are slightly younger—36.6 years versus 37.3 years of median age for peer counties. More important, between 1990 and 2000, the county's growth rate of 9.3 percent was 43 percent higher than the 6.5 percent growth rate of other rural/exurban counties in Central Indiana.

In 1999, Montgomery County residents enjoyed the 8th highest per capita income of the 26 rural/exurban counties in Central Indiana, and there were more jobs located in Montgomery County than in all but three of its peer counties.

In spite of the positive position of the county, when we interviewed corporate personnel leaders, a more troubling picture began to emerge.

During interviews with the personnel directors of Montgomery County businesses, we learned that most of them believed there was a shortage of desirable workers in Montgomery County. This was particularly true for manufacturing firms, where 10 of the 11 personnel directors reported a perceived shortage of workers compared with retail or service firms, where only 5 of 12 personnel directors reported similarly. Furthermore, the personnel directors felt that many applicants for new positions lacked a strong work ethic, basic logic and math skills, and basic people skills.

At this point, the analysis indicated that the business leaders were correct in their assumption that, as a group, the local workforce lacked the skills necessary to enable Montgomery County firms to be economically competitive.

Demographic Analysis Changed the Perspective

Our next step was a demographic analysis of the community. This research provided the data that changed the leaders' perspectives about the workforce problems.

Figure 1 (see page 4) summarizes the changes in population, workforce, and unemployment between 1990 and 1997. All three measures are important to understand the challenges facing Montgomery County and its business community.

continued on page 4

Crawfordsville and Montgomery County, Indiana

Montgomery County offers some 35 major industrial employers including RR Donnelley & Sons Co.; Lithonia Hi-Tek Lighting; Raybestos Products; Nucor Steel; Crawford Industries; Pace Dairy; Alcoa Closures Systems International; Fleetwood Travel Trailers; Heritage Products; Houston Companies; Sommer Metalcraft; Fuji Photo Lab; Inland Container; Wal-Mart Optical Lab; Crown, Cork, & Seal; Random House; and Heidtman Steel.

Crawfordsville is also the home of Wabash College, a private, four-year liberal arts college for men, which offers cultural and sporting events to the community. Enrollment at the college is 860 students, with more than 25 percent coming from outside Indiana.

Amenities available to Montgomery County residents include outdoor recreation such as canoeing scenic Sugar Creek and visiting several nearby parks—Shades State Park, Milligan Park, and Lake Waveland. Local golfers enjoy the Rocky Ridge Golf Course, Turkey Run Golf Course, and the Crawfordsville Municipal Golf Course. Community events include canoe racing, the Strawberry Festival, the Christmas Parade, Candlelight Tour of Homes, Vanity Theater, Fun Fest, and craft shows.

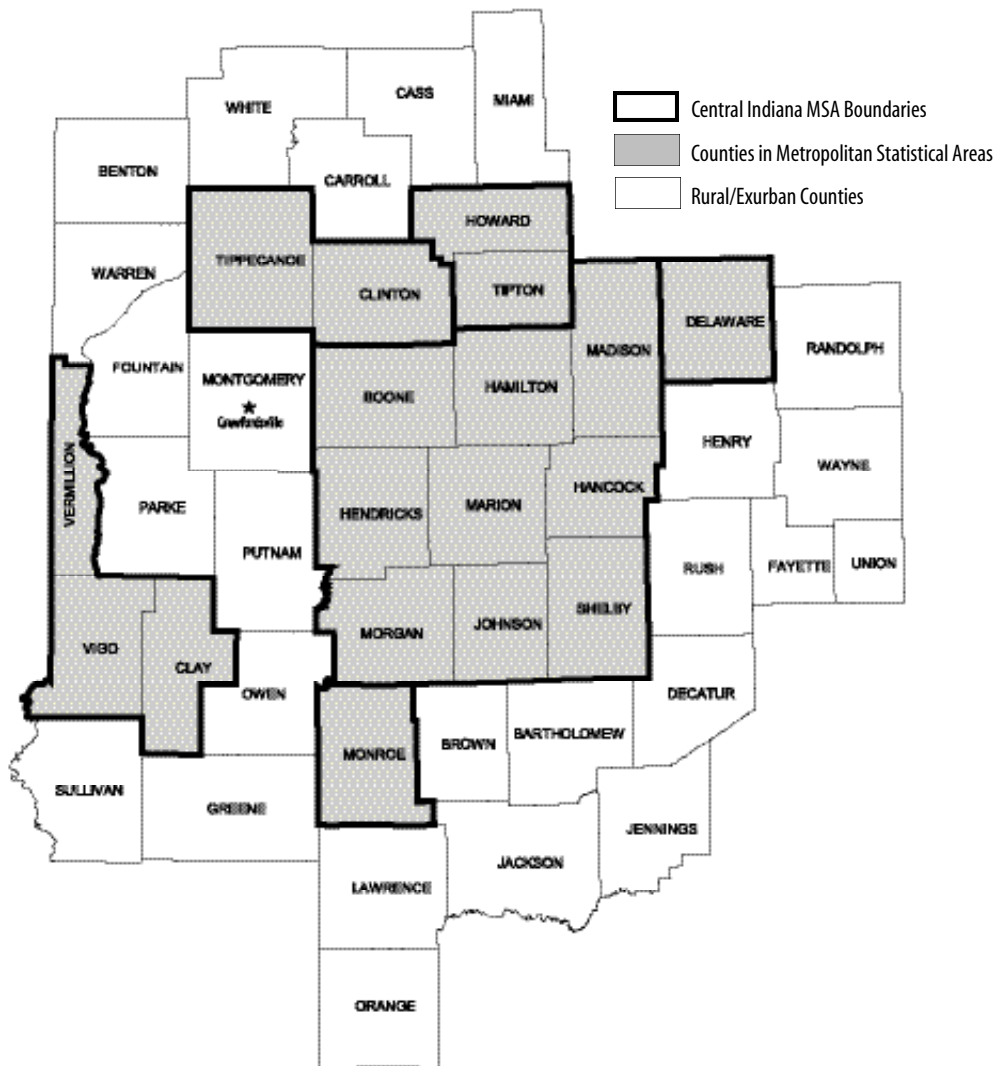
U.S. Census 2000 Population

Montgomery County 37,269

Crawfordsville 15,243



Map 1: Central Indiana Counties, MSAs, and Rural/Exurban Counties



Montgomery County Peers: Rural/Exurban Counties in Central Indiana

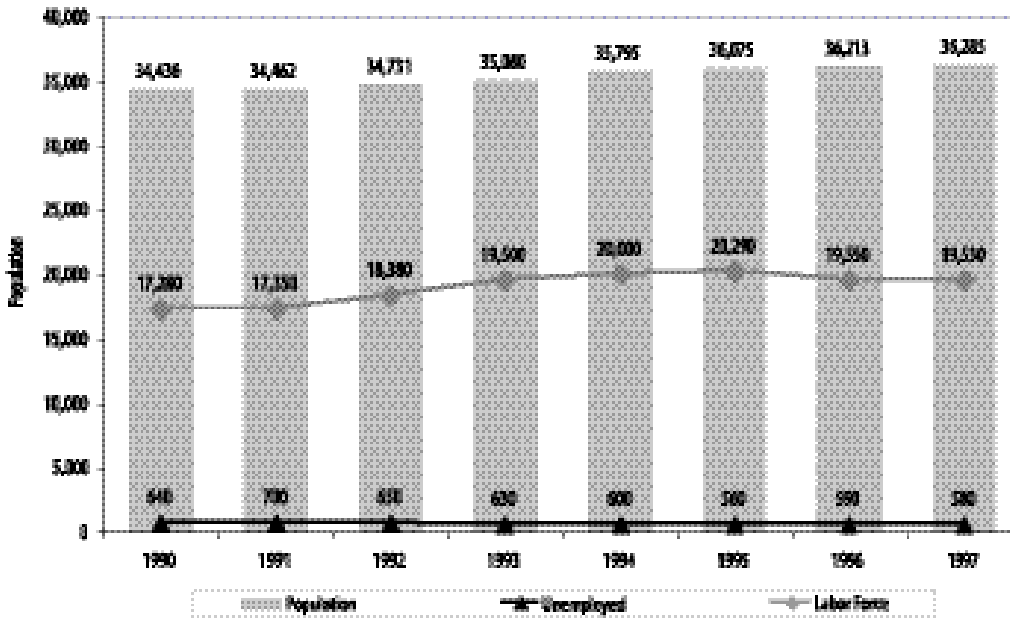
Central Indiana is a 44-county economically integrated region defined by the U.S. Bureau of Economic Analysis that includes six Metropolitan Statistical Areas (MSAs).

Montgomery County's peer counties within Central Indiana are the rural/exurban counties—those not considered by the U.S. Census Bureau as part of a MSA. These peer counties are:

- Bartholomew
- Benton
- Brown
- Greene
- Carroll
- Cass
- Decatur
- Fayette
- Fountain
- Henry
- Jackson
- Jennings
- Lawrence
- Miami
- Orange
- Owen
- Parke
- Putnam
- Randolph
- Rush
- Sullivan
- Union
- Warren
- Wayne
- White



Figure 1: Changes in Population, Workforce, and Unemployment in Montgomery County, from 1990 to 1997



Source: Klacik, D. (1999). *The Labor Force of Montgomery County*. Indiana University–Purdue University Indianapolis, School of Public and Environmental Affairs, Center for Urban Policy and the Environment.

continued from page 2

First, while Montgomery County's population increased between 1990 and 1997, the number of people in the workforce (both employed and actively seeking work) decreased after peaking in 1995. Furthermore, by 1997, only 580 unemployed residents were actively seeking work, and the unemployment rate in the county was 2.9 percent. This meant that only 3 of every 100 Montgomery County residents who were actively seeking work were unemployed. From an alternative viewpoint, 97 of every 100 Montgomery County residents had the skills necessary to find employment. The problem must not be the *quality* of Montgomery County's workforce—rather the problem must be the *quantity* of Montgomery County's workforce.

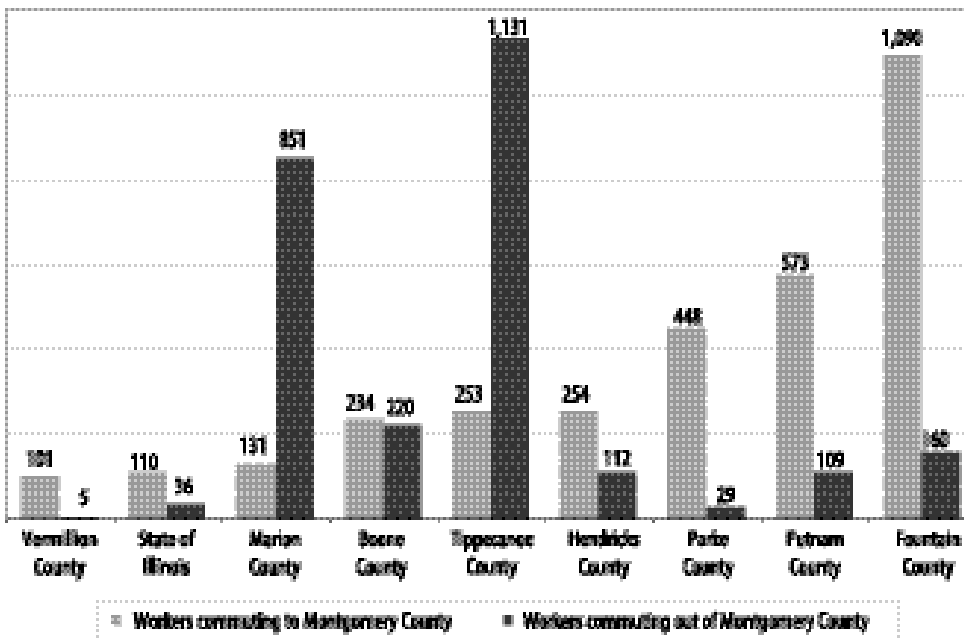
Commuting patterns added support to our belief that workforce quantity rather than quality was the problem. Montgomery County was a net *importer* of workers. In 1997, a total of 2,618 workers commuted from other counties into Montgomery County to work, while 2,474 left Montgomery County to work elsewhere. As shown in Figure 2, only Tippecanoe and Marion counties (both large employment centers) attracted more workers from Montgomery County than they provided. More than 1,000 people who worked in Montgomery County were residents of Fountain County.

Next we examined the local housing market and found an important barrier to attracting more residents of working age to Montgomery County. There was a discrepancy between the cost of homes on the market and the salary levels of jobs being created. Most of these jobs were promising annual earnings between \$28,000 and \$30,000. Homebuyers typically can afford a home worth about three times their annual income. These employees, then, could afford housing in the \$84,000 to \$90,000 range.

In fall 1997, only 85 houses priced between \$60,000 and \$90,000 were on the market—yet this was the price range affordable to workers who were needed for the new jobs being created. Furthermore, in a typical year in Montgomery County, fewer than 100 new single-family units are added to the housing stock, and rental units are scarce and in high demand. In effect, Montgomery County did not have enough existing housing stock to enable it to attract new workers to the community. If Montgomery County leaders and businesses wished to attract more workers to the community, they needed to support the building of housing that would be affordable for people at the income levels of the new workers being sought by local firms.



Figure 2: Number of Residents Commuting to Work to or from Montgomery County, 1997



Source: Indiana Business Research Center, Indiana University Kelley School of Business. Data tabulated from the Indiana Department of Revenue based on IT-40 tax returns.

Lessons in Economic Development

When Montgomery County leaders understood the discrepancy between workforce demographics and the housing stock, they realized that local economic development issues were more complex than originally thought. The community needed to think carefully about its future direction. Focus shifted to the kinds of jobs that would be created in Montgomery County in the future and the types of housing and community amenities needed to enable local firms to attract and retain workers for these jobs.

These realizations changed the focus of discussion, but did not provide a simple solution. The new focus revealed many issues for Montgomery County to consider, including:

- What types of jobs will local businesses create in the future?
- Will the incomes provided by those jobs support the type of housing the community desires? If not, and if the community is confronted with a choice between the loss of companies or the building of less desirable housing stock, what courses of action are available?
- Where might new workers come from?
- Besides housing, what other amenities might enable local businesses to attract workers to a non-metropolitan area like Montgomery County?

- Is it important that workers live in the county where they work?
- Can local civic and corporate leaders work together to ensure that both the businesses and the quality of life in the area remain strong and continue to improve?
- Can Montgomery County and its businesses continue to compete and thrive without changing the characteristics of the community valued by long-time residents?

The insights gained from our work in Montgomery County can be applied to many other Indiana communities. As state and local leaders strive to develop ways to retain more of the state's college graduates in Indiana, help current workers develop the skills needed to compete in a changing economy, and attract the skilled workers required for business expansion, the link between wages and the cost of available housing units must be considered.

An increase in the number of new housing units has a variety of benefits. It represents jobs and income for the construction industry, but it also can help attract skilled workers—resulting in more competitive local businesses and leading to economic growth in the community. The housing market is an important and often overlooked economic development tool for increasing workforce availability. The key is to match housing stock with household income and to provide housing units that people can afford.



Central Indiana's Future: Understanding the Region and Identifying Choices

Central Indiana's Future: Understanding the Region and Identifying Choices, funded by an award of general support from Lilly Endowment, Inc., is a research project that seeks to increase understanding of the region and to inform decision-makers about the array of options for improving quality of life for Central Indiana residents. Center for Urban Policy and the Environment faculty and staff, with other researchers from several universities, are working to understand how the broad range of investments made by households, governments, businesses, and nonprofit organizations within the Central Indiana region contribute to quality of life. The geographic scope of the project includes 44 counties in an integrated economic region identified by the U.S. Bureau of Economic Analysis.

Center workforce analysis on behalf of Montgomery County Economic Development in the late 1990s provided an opportunity to explore factors that influence workforce quantity and quality. This case study illustrates that seemingly unrelated issues, such as the number of new housing starts and a mismatch of housing stock type and salary levels, can create barriers to growth for local industries. Lessons learned from this research can be applied to analysis of other communities.

The Center for Urban Policy and the Environment is part of the School of Public and Environmental Affairs at Indiana University—Purdue University Indianapolis. For more information about the Central Indiana Project or the research reported here, contact the center at 317-261-3000 or visit the Center's Web site at www.urbancenter.iupui.edu

Author: Drew Klacik, senior policy analyst, Center for Urban Policy and the Environment.



Central Indiana Region



CENTER FOR URBAN POLICY
AND THE ENVIRONMENT

342 North Senate Avenue
Indianapolis, IN 46204-1708
www.urbancenter.iupui.edu

INDIANA UNIVERSITY SCHOOL OF PUBLIC AND ENVIRONMENTAL AFFAIRS
INDIANA UNIVERSITY—PURDUE UNIVERSITY INDIANAPOLIS