

# CRE's New Year Resolution: Prioritizing Missing Middle-Income Housing

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The multifamily sector is successfully weathering the pandemic and **construction continues to boom**, leading the commercial real estate industry's overall recovery.

But development does not appear even across multifamily market segments. Market-rate developments are **driving rents to record highs** while immediate movement on **tax-incentivized affordable housing is stalled**, pending negotiations around a federal spending plan. In between these two ends of the market is a growing "missing middle."

The missing middle includes housing for skilled labor, hourly workers, and others living on near-minimum wage, as well as entry-level corporate employees, creative and gig workers, and young couples and families cobbling together one or two incomes with limited growth potential. While income is rising among this group, thanks in part to local and state minimum wage increases and general inflation, **wage increases are not keeping pace with the cost of rent growth**.

As we head into this new year when economic outcomes are still somewhat uncertain, demand to serve this cohort is increasing, even though it is increasingly difficult to do so.

## Defining the Missing Middle

In Chicago, the income threshold to be eligible for subsidized housing is less

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eligible for subsidies.

While 50 percent of the city's single-income population makes more than the AMI, by definition, half of Chicagoans make less. Critically, most renters in this bottom half are cost-burdened, meaning more than 30 percent of their income goes toward rent.

According to the [Institute for Housing Studies at DePaul University](#) in Chicago, 76 percent of those making 30-50 percent AMI, and 40 percent of those making 50-80 percent AMI are cost-burdened. To put that in context, a person in Chicago making \$52,000 and spending more than \$1,300 per month on their apartment is rent burdened. Even with this respectable entry-level salary, this individual would be hard-pressed to find a decent, affordable apartment in the city.

The median rent in Chicago is \$1,250 per month for a studio and \$1,550 for a one-bedroom, thus squeezing out renters in the 50-80 percent AMI bracket. While the city has taken steps to increase supply both in [the form of ADU reform](#) and [other approaches](#), the supply for affordable housing—both inside and outside of subsidized options—is far behind demand, [lagging by roughly 160,000 units](#).

This case study in Chicago carries into many other major markets where rents have increased as wages have stagnated for decades. And when rents rise, seemingly the most feasible new developments serve the top of the market—luxury developments for higher-income renters—meaning new developments stay consistently out of reach for the “missing middle” renters.

## Current Challenges in Opposition to Affordable Housing

Developing apartments more cost-effectively is critical but increasingly difficult. Construction material inflation, skilled labor shortage and supply chain disruptions have made construction more expensive across the board.

While the materials pricing and supply chain issues dominate national headlines, the often unmentioned barrier of government regulation is actively hindering development. Local policies intended to stimulate affordable housing delivery can often backfire, creating well-intentioned but complicated bureaucratic processes that slow development. Lengthy and onerous entitlement processes, permitting processes, and development proffers and exactions are barriers to entitlements and the delivery of new supply.

With developers undersupplying demand, rent growth will continue to outpace wage growth for the missing middle. Since increasing supply is the most effective method to lower the cost of housing, government policy should “incentivize” housing development by decreasing barriers.

## Potential Solutions

So how can affordable housing become easier to develop for those all along the spectrum of the AMI? Policy changes might be the best solution, but easing the ability to develop housing isn't particularly popular among urban lawmakers and residents.

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smaller, more affordable multifamily units throughout the state, many local leaders have expressed concern about the legislation for undermining their ability to determine how to address housing needs on a local basis. But for a state with such extreme housing prices and an ongoing homelessness crisis, drastic legislation may be the push in the right direction.

Overall, reduced barriers to entry for multifamily development will equalize the projects developers are building, freeing the market to meet the broader demand from the missing middle.

As we reflect on how the commercial real estate industry can begin to meet the needs of the missing middle, it's clear a desire to build more affordable housing is not enough. It will take a coordinated effort among the industry, government leaders at every level, and local communities to make the vision of more affordable housing for the missing middle a reality. While the best time to address the gap between wages and rents might have happened in the past, the next best time is undoubtedly now.

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