The purpose of this study is to evaluate the impact of Marcellus Shale on housing, specifically, to evaluate the changes in the cost and stock of single family home, new construction, low income and rental rates

# Housing Policy Statement

## The Impact on Housing in Appalachian Pennsylvania as a Result of Marcellus Shale

A project funded by the Applachian Regional Commission

November 2011

## Introduction

The Institute for Public Policy & Economic Development has created a policy statement focusing on housing as it relates to Marcellus Shale development. This policy statement is produced based on primary and secondary research conducted for the recent study released by The Institute entitled, *Impact on Housing in Appalachian Pennsylvania as a Result of Marcellus Shale*. The study was funded by the Appalachian Regional Commission and is available in its entirety at www.institutepa.org. The goal of the study was to evaluate the impact on housing resulting from Marcellus Shale drilling in twelve counties involved in various stages of drilling throughout the Commonwealth. The research data served as a baseline for future longitudinal study; however, some emerging trends and issues were examined.

The study involved data collection from the 12 counties in Pennsylvania as well as counties in Texas and Arkansas. The 12 Pennsylvania counties are: Blair, Bradford, Cambria, Clearfield, Clinton, Fayette, Forest, Luzerne, Lycoming, Susquehanna, Tioga, and Wyoming. The Texas counties are Dimmit and LaSalle and the Arkansas counties are Faulkner and White.

Additionally, The Institute conducted 32 interviews. The interviewees responded to a semi-structured questionnaire and represented the following sectors; housing authorities, realtors, social service agencies, planning departments, nonprofits, economic development organizations, and elected officials. The purpose of the in-state interviews was to secure real time information on housing and social impacts in order to identify challenges and needs.

## Background

The presence of vast natural gas reserves in the region known as the Marcellus Shale – an area including much of Pennsylvania and stretching from New York to West Virginia – has been known for decades. This geography represents a large portion of Appalachia. Recent emphasis on domestic energy production, coupled with new technologies that make the recovery of these natural gas reserves cost effective, have led to increasing interest and activity in developing these resources.

Most of the counties within the Marcellus Shale area are rural, and the potential impact of widespread gas development is expected to be profound. Such development can be an economic boon. However, housing in the shale area can be impacted in a number of ways; some positive and some negative. This policy statement demonstrates some of those impacts.

## Issues

Housing is of utmost importance when a community is faced with rapid development. New development means new residents. Whether these residents are temporary or permanent, they are in need of a place to live. It is important that housing be affordable and in proximity to employment, public transportation, and community facilities, such as public schools.

In order for development to occur, a skilled workforce must be present. Although some natural gas drilling occurred in the Commonwealth before the recent Marcellus development, never before has it been on this scale. Exploration and development is occurring at a rapid pace and workers from other parts of the country have been brought into the area. These workers are vast in number and are in need of places to live. As nearly all hotels are sold out, even those newly constructed, many are renting apartments near their worksites.

In counties where shale drilling is in an advanced stage, there are many housing issues affecting residents. The issue of most concern is a dramatic increase in rents. Due to the influx of gas workers from other states (most in the region temporarily) there is a shortage of rental units. In addition, because these workers tend to earn more than local residents, they are willing to pay higher rents. Landlords have capitalized on this by increasing rents upwards of 100 percent to 150 percent. Since the existing local residents cannot afford this increase, this results in current local tenants being forced to move out, while gas workers move in. Secondly, this causes a problem with regard to administration of the Section Eight Housing Choice Voucher Program. Many landlords who once participated in the program are dropping out and renting to gas workers in order to increase their profits. Thirdly, several of the counties in the study area are rural and many real estate transactions involved the sale of large vacant lots by private owners. According to many realtors we spoke to, the sale of vacant lots has decreased quite dramatically. The asking price of this land has increased significantly since a buyer may potentially be able to lease this land to a gas company at some point. As a result, the market is in further declined.

There are also a number of social service issues occurring. For example, social service agencies have had to take children from their parents because the parents cannot provide adequate and ongoing shelter. Tents have been supplied to those who have become homeless. However, at least one agency we spoke to is running out of money to supply even those basic accommodations.

Several of the counties in this study have not dealt with population or industry growth for the past 60 years. Most have had declining populations and economies; therefore, retrenching has been the norm. Given the fiscal situation of almost all Pennsylvania local governments, these counties are too occupied by finances and human capacity to take on the extra work. All systems are being strained. Most counties do not have land use plans or zoning codes. Some of the counties studied are in the early phases and will benefit from planning, studying best practices and lessons learned from more mature Marcellus Shale counties, and perhaps from new housing programs resulting from this study.

## Policy Guidelines

Policies should focus on ensuring that there is adequate, affordable housing for all. Communities that are experiencing rapid development should focus on ways to ensure residents are not forced from their homes due to a rapidly growing market. Because that cannot be completely prevented, communities should also ensure that there are adequate programs in place to assist residents of varying incomes find adequate and affordable housing in their area.

In addition, whenever possible, it is beneficial for these issues to be addressed at the regional level. This will provide economies of scale in costs, consistencies in regional economies, and will promote collaboration instead of competition between the counties.

## Policy Statements

1. The Institute for Public Policy & Economic Development supports rent stabilization programs that protect tenants in privately-owned residential properties from excessive rent increases by mandating reasonable and gradual rent increases. This should be done while ensuring that landlords receive a fair return on their investment.

2. The Institute for Public Policy & Economic Development supports rental ordinances that assist with the implementation of a rent stabilization program, but also serves as a tool to ensure that property owners maintain not only the rental unit. A rental ordinance should also state that owners, managers, and occupants share responsibilities to obey the various codes adopted to protect and promote public health, safety, and welfare. As means to those ends, a rental ordinance should provide for a system of inspections, issue and renew occupancy licenses, and set penalties for violations.

3. The Institute for Public Policy & Economic Development supports land banking. A land bank is a public or private non-profit organization formed for the purpose of purchasing foreclosed, blighted, delinquent, or abandoned properties for future development or redevelopment. The bank collects and manages the property. The bank can sell the property to public, private, or non-profit developers to develop it for specific uses or rehabilitate and sell the property. Land banking is more commonly used for residential properties, but has also been a tool in commercial development. Land banks are usually publicly-funded, but they may also operate with private investments. Land banks may be formed on both statewide and local levels.

4. The Institute for Public Policy & Economic Development supports trust funds. These trust funds provide funding for single-family homes and multi-family rental units. They provide funds to governments, housing authorities, non-profit organizations, or quasi-public entities (not individuals). Housing trust funds also help to support acquisition, construction, or rehabilitation of affordable housing units for those earning below a certain percentage of the average median income or for those with special needs. Depending on the state's authorizing legislation, trust funds can provide rent subsidies, first-time home owner assistance, mortgage insurance, and mortgage subsidies. In December 2010, a statewide housing trust fund was established, however it remains

unfunded to this day. The administration should appropriate funds annually so that the trust fund can begin its work.

5. The Institute for Public Policy & Economic Development supports Community Development Corporations (CDCs). These are non-profit, community-based organizations that use local capital through the development of both residential and commercial property, ranging from affordable housing to shopping centers and even owning businesses. CDCs in shale drilling counties should be a regional or local response to specific issues. CDCs can adopt any number of strategies to solve local problems including the purchase, renovation, and resale of blighted, abandoned, or foreclosure property, redevelopment of existing commercial structures into residential units, new construction, or rehabilitation loans for low-income families.

6. The Institute for Public Policy & Economic Development supports a loss mitigation process. This is an opportunity for mortgagers and mortgagees to work with an independent consultant to evaluate programs, loan modifications, and other initiatives that would allow the homeowner the opportunity to stay in their home and satisfy their obligation. As of September 2011, Pennsylvania Housing Finance Agency (PHFA) has no resources to fund this type of program. Many banks have their own loss mitigation departments and specialists, but an independent, third party may be the best homeowner advocate. A state-run program should be implemented to provide these services.

7. The Institute for Public Policy & Economic Development supports mixed use development/redevelopment/infill. In order to rebuild downtowns and neighborhoods, communities are blending land "uses." Housing, combined with services, schools, recreation, and jobs built near public transit, creates mixed uses or multi use development. It promotes redevelopment of existing land and buildings, as opposed to new construction. This new type of zoning limits sprawl, reduces congestion, and rebuilds/revitalizes neighborhoods and downtowns by allowing residents to be closer to goods and services they need on a daily basis. Additionally, it helps landlocked communities to increase and improve existing housing stock.

8. The Institute for Public Policy & Economic Development supports high density development. This involves increasing the maximum allowed density for infill areas. New development in a community's zoning regulation can also be an incentive. Higher densities permit more intensive development of a parcel and allow the developer the opportunity to spread development costs over more units. Local governments can also provide to developers of infill sites "density bonuses," which designate a certain percentage of housing units as affordable. As such, localities can both encourage efficient land use and promote the inclusion of affordable housing units within a project.

9. The Institute for Public Policy & Economic Development supports inclusionary zoning. This is a tool used to ensure that low to moderate income housing is developed. A community with inclusionary zoning sets guidelines for housing affordability based on size of developments. It requires developers to make a percentage of housing units in new residential developments available to low and moderate-income households. The housing units, whether rentals or for sale, should be comparable is size and structure. Various incentives are then provided to developers.

10. The Institute for Public Policy & Economic Development supports The Department of Housing and Urban Development (HUD) reevaluating its process for calculating Fair Market Rents. Currently the Department uses outdated population figures that may present an inaccurate assessment of the marketplace. Perhaps a blended approach of data collection using Census data and real time data or perhaps exemptions for counties that are experiencing unusual impacts would help mitigate current problems. HUD should also consider that local housing agencies do not necessarily have the fiscal resources to support annual market studies, therefore financial support, a modified market study, or some other collaborative process could be arranged.

## Policy Position

Stakeholders must support regional or statewide housing assistance programs. Minimum standards can be established so the foundation, structure, and guidelines for each program are consistent, but local regions must have the flexibility to adapt them in order to solve specific problems at the local level including local zoning and land use planning, which may not be consistent statewide.

Policy makers should work to build reliable programs for individuals in need of affordable housing. Possible construction of housing complexes might be necessary to reduce an increase in a transient population. Efforts by the community or by the natural gas industry could help this issue. Charity such as volunteer work or donations would benefit the cause.

Many of the counties in the study area are undergoing a gentrification. This may prevent some of the working poor from gaining access to jobs, schools, shopping, and other services, reducing the quality of life for those excluded households and exacerbating existing problems. Communities should strive to provide a wide range of housing opportunities in as many locations as possible.

Community stakeholders should seek to create comprehensive plans that encourage new residential developments that are not isolated from community services and are created to encourage pedestrian mobility and access to public transportation. Where applicable, residential development must be built adjacent to community services or otherwise includes community services so as to reduce reliance on automobile transportation. Where applicable, stakeholders should seek to unbundle the cost of parking from basic housing costs.