

Opening



Doors

Strategies to Build Housing Stability in Bethlehem

Prepared with the City of Bethlehem

By Reinvestment Fund

Atria Planning

Collabo

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Numerous organizations and individuals in the city generously shared their time and ideas with the study team to identify the most pressing housing needs facing city residents and promising strategies to address them. Over 3,200 residents completed the housing survey and more than 300 residents participated in pop-up engagements at community events. The study team appreciates all of the residents who contributed their time and attention to this report.

The city's housing stakeholders and business leaders graciously shared their insights and expertise during interviews and focus groups, which helped to identify the most promising approaches to addressing the city's top housing needs.

And finally, the housing study and the strategies identified in the plan were directly informed by a Housing Strategy Committee. This group met over the course of the study period to review findings from the housing needs assessment, community feedback and interviews and focus groups. The committee helped the City prioritize the housing strategies that can help the most residents given the City's available resources and capacity.

These Housing Committee members include:

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EXECUTIVE SUMMARY

Like many cities around the country, Bethlehem is in an affordable housing crisis.

Since 2000, Bethlehem and the Lehigh Valley have grown in population after more than five decades of stagnant growth. This growth has been driven by strong job growth in the warehousing and logistics industries combined with an influx of new residents attracted to the region's natural amenities, cultural heritage, and competitively priced housing market compared to New York or Philadelphia, both less than two hours away. In turn, housing prices moderately increased in the early part of the 21st century and vacancy rates diminished.

The COVID-19 pandemic accelerated the Lehigh Valley's growth trajectory. In recent years, housing demand has surged while construction costs skyrocketed, making it cost-prohibitive to add more moderately priced units to meet demand. The challenge to build new, moderately priced housing persists, with interest rates at a 10-year high, persistent labor and material shortages, and limited access to land for new development.ⁱ

An influx of new, higher income residents combined with limited new housing construction is driving a severe housing shortage across the region. From May 2019 to May 2023, home sale prices in the city of Bethlehem increased more than 50% while rents rose 40%.

These prices are creating substantial pressure on many city residents, who may now find it extremely difficult to remain in the city.

What Does Affordability Mean in Bethlehem?

Rising housing costs mean there are very few opportunities in the city where households with moderate incomes can afford housing. In May of

2023, the average home price was \$300,000 and the typical rent for a one-bedroom apartment was \$1,400.ⁱⁱ A household would need an annual income of roughly \$100,000 to buy a home and \$50,000 to affordably rent an apartment.ⁱⁱⁱ

The city's low-wage workers - those who earn less than \$30,000 per year - are most affected by this price escalation, facing the risk of displacement or homelessness. Roughly 22% of the city's population earn less than \$30,000 per year^{iv} and these residents include many necessary workers in food service, retail, health care, and janitorial services, who typically cannot afford to pay more than \$800 per month for an apartment^v. The supply of rental units priced below \$800 per month has nearly vanished in Bethlehem.^{vi}

Given these escalating housing costs many Bethlehem residents are "cost burdened" by their housing expenses (i.e., they pay more than 30% of their income on housing). These residents have fewer resources to meet their other day-to-day expenses or manage unexpected costs. And those who are "extremely cost burdened" by housing expenses (i.e., paying more than 50% of their income on housing) face even greater risk of being evicted or losing their home should unexpected costs arise.

Recently released data from HUD suggests that housing cost burdens are disproportionately experienced by low-income renters.^{vii} Overall, approximately 8,300 low-income households in the city are cost burdened, and 69% of these households are renters. Alarming, 12% of Bethlehem households are considered extremely cost burdened; 78% of whom are renters.

The City's Housing Plan

Due to high development costs, any new development targeted to low- and moderate-income households will require a subsidy. Unfortunately, there are not enough housing subsidies available to address the need. This problem is not unique to Bethlehem. Nationally, there is a shortage of 6.8 million affordable rental units,^{viii} and the number of cost-burdened renters reached a two-decade high in 2021. Additionally, a greater share of homeowners was cost-burdened in 2021 than at any point since 2012^{ix}. With limited resources, the City must be strategic in its policy and investment decisions.

Therefore, the Housing Plan emphasizes the following principles:

- Leverage available funding to maximize impact;
- Prioritize resources toward projects that address the greatest housing needs for the greatest number of residents;
- Create an environment that encourages a variety of new housing developments; and
- Work with local and regional housing partners to combine resources and collectively plan future projects.

The City's housing plan was developed with input from housing stakeholders and the development community in the spring of 2023. The proposed programs will be a complement to the City's ongoing programs for first-time homebuyers, home and facade repair, and affordable housing tax incentives. The proposed programs in the housing plan focus on creating additional rental housing. Access to affordable rental housing represents the most acute need facing Bethlehem residents. And investments to expand access to affordable rental housing carry the most promise to meet the needs of the greatest number of at-risk Bethlehem residents.

The City intends to implement these programs over the next five years, with annual monitoring to determine if any changes are necessary to the plan.

Proposed Projects

1. Update City Zoning to Encourage Neighborhood-Compatible Infill Affordable Housing Development

Review the current zoning ordinance and identify areas, parcel types, and project types that warrant by-right affordable housing development without requiring a special exception or variance. Increase development opportunities in higher value neighborhoods.

2. Pilot an Accessory Dwelling Unit (ADU) Program

Create the necessary zoning regulations and policies that will allow homeowners to add apartments to their property. Provide technical assistance to homeowners and support nonprofit builders to ensure new units are affordable to low- and moderate-income households.

3. Create an Affordable Rental Housing Construction Program

Offer gap funding to developers to increase project competitiveness in other grant programs like the Low-Income Housing Tax Credit Program. Ensure the program is flexible enough to fund a variety of potential projects and works in tandem with zoning changes.

4. Create a Landlord Incentive Program

Working closely with the Bethlehem Housing Authority, provide gap funding to pay the difference between what a Section 8 voucher holder can pay, and market rent to ensure vouchers are utilized.

5. Create and Implement a Choice Neighborhoods Transformation Plan

Apply for a HUD Choice Neighborhoods Planning Grant to develop a transformation plan for the Pembroke neighborhood. Implement the plan, with investment in 400 to 600 new housing units, neighborhood improvement projects, and programs that improve the health, safety, and economic opportunity of its residents.

6. Gain Site Control of Vacant Land and Buildings to Develop Affordable Housing

Work with the Bethlehem Housing Authority and partner institutions to gain site control of parcels and buildings that can support the construction of 400 to 600 new units as part of the future Choice Neighborhood Transformation Plan.

7. Implement Eviction Prevention and Rental Assistance Program

Assist nonprofit service providers so they can provide education, eviction mediation services, and emergency rental assistance to households currently housed and at-risk of homelessness.

8. Establish Priority for Increasing the Supply of Deeply Affordable Units Within Existing Funding Programs.

Create priority scoring and set-asides in all housing programs to ensure construction of more housing units affordable to households earning less than 50% of Area Median Income.

9. Engage in State-Level Advocacy and Lobbying to Enhance Resources for Affordable Housing Development

Combine forces with other Lehigh Valley housing departments and providers to advocate for more affordable housing tools than what's currently allowed in the State Municipal Code and for more opportunities to acquire Low-Income Housing Tax Credits.

10. Support and Promote Regional Housing Planning

Approach housing needs with a regional perspective that incorporates "fair share" allocations and invests in workforce housing-infrastructure needs. Cooperate with the Lehigh Valley Planning Commission and participating jurisdictions to start regional planning.

Many of the strategies and key activities of the plan evolved during the planning process. In the spring and summer of 2023, the City partnered with the Bethlehem Housing Authority to plan for a large-scale housing revitalization project that will add an estimated 204-404 new units and bring new services and revitalization projects to the City. The City was awarded a \$500,000 grant from HUD, under the Choice Neighborhoods Program, to develop this Transformation Plan.

INTRODUCTION

Creating the Bethlehem Housing Plan involved a year-long process that included a range of data collection and analyses. These analyses were conducted to identify the city's most pressing housing needs and to understand prevailing housing conditions; and then to identify the most promising strategies the City can pursue to meet these needs. The overarching goal for the Housing Plan was to identify a set of strategies to meet the needs of as many of the most vulnerable residents as possible given the City's available resources and capacity.

Over the 12-month period beginning in the summer of 2022 the following data collection activities supported these goals:

Identifying Housing Needs

Demographic and housing related data from the American Community Survey, Home Mortgage Disclosure Act, Zillow, Esri Business Analyst; housing challenges experienced by different populations in the city from the US Housing and Urban Development's Comprehensive Housing Affordability Strategy database; a resident survey administered through the We Build Bethlehem website and at local community events; and interviews and focus groups with local housing stakeholders and business leaders provide a rich set of perspectives on the most pressing housing challenges facing Bethlehem residents.

Understanding Existing Housing Conditions

An update of the City's Market Value Analysis (MVA) provides a nuanced understanding of the relative strength of housing markets across the city, relying on locally collected data reflecting the strength (sales prices; permitting), distress (vacancy; code violations), and composition (tenure; housing type; subsidy) of housing stock across the City. The update to the initial Market Value Analysis conducted in 2017 also includes analyses of displacement risk experienced by residents in different parts of the city. These results inform geographically targeted approaches for key strategies to address identified housing needs.

Identifying Promising Strategies

The resident survey, interviews and focus groups with housing stakeholder and business leaders, as well as multiple rounds of collaboration between the study team and City staff informed the selection of strategies to begin addressing the most pressing housing needs. The identified strategies reflect the City's existing financial resources and its ability to effect programmatic and policy responses to the identified needs.

The Housing Plan is organized into the following main parts:

- 1 Identification of Housing Needs** presents findings from the Housing Needs Assessment related to the socio-demographic profile of Bethlehem residents, key characteristics of Bethlehem housing stock, and a summary of existing housing supply.
- 2 Understanding Existing Housing Conditions** presents findings from the MVA and Displacement Risk Ratio analysis as further support of the identification of key housing needs, as well as guidance for geographic targeting of select strategies to address the identified needs.
- 3 Housing Challenges** presents findings from the Housing Needs Assessment related to housing affordability, and equity considerations for residents of different racial and ethnic backgrounds as well as seniors, those experiencing homelessness, the local workforce, and ties these challenges into an analysis of local housing demand projections
- 4 Community Engagement** presents findings from a series of community engagement activities conducted directly with Bethlehem residents, key housing stakeholders and business leaders, and the Housing Committee that guided the development of the Housing Plan. Community engagement activities were conducted to provide resident and local experts' insights into the identification of key housing needs and appropriate strategies to address these needs.
- 5 Current Housing Programs** presents a review of existing federal, state and local programs designed to create and preserve affordable housing, a summary of the degree to which these programs have been recently active in Bethlehem, as well as a summary of existing barriers to affordable housing development in the city.
- 6 Housing Strategies** presents the strategies identified by the study team that will help address the City's most acute housing needs within the scope of fiscal and administrative capacity.
- 7 Data Appendices** provide additional findings from all data collection and analyses conducted for the Identification of Housing Needs and Understanding Prevailing Housing Conditions.

BETHLEHEM IN CONTEXT

Bethlehem has little control over the host of economic and demographic changes driving up housing costs in the city. These market forces are compounded by state law that constrains the steps the City can take to address the identified housing needs.

The Lehigh Valley is one of the Mid-Atlantic's fastest growing regions, thanks to a rapidly expanding shipping, receiving and manufacturing sector that employs more than 50,000. Many of these jobs are outside the Bethlehem city limits along the Route 22 and Interstate 78 corridors.

While these jobs pay a decent wage, it is not enough money to buy into suburban housing markets dominated by high-priced single-family detached homes. There is little existing affordable rental housing close to these job centers. The majority of such housing is clustered in the Valley's three cities.

Bethlehem lacks the ability to compel suburban townships to develop more affordable housing opportunities outside the city. And as a third-class city it faces limits on its ability to unilaterally make decisions that could readily facilitate affordable housing development.

Bethlehem has a high concentration of rental housing and subsidized rental housing. But neighboring Allentown has the greatest concentration of households living in poverty, which attracts much of the regional and state level attention and resources to support low-income residents and affordable housing development.^x

No municipality can solve this housing shortage alone. A housing crisis of this proportion requires a regional approach. Yet in 2023, the Lehigh Valley has no regional housing plan, strategy or incentive to unify the efforts of the individual cities, townships and boroughs throughout the Valley. The Lehigh Valley Planning Commission is in the midst of developing a regional housing supply and attainability strategy. Within the city boundaries, a familiar challenge persists. On Bethlehem's Southside, which is home to the greatest concentrations of rental housing in the city, there is tremendous demand and competition for rental housing from the Lehigh University student population. Landlords can charge students rents for off-campus housing that are financially out of reach for working individuals and families. Many landlords hesitate to accept housing vouchers because of the large gap between HUD's fair market rents and market-rate rents.

These contextual factors – economic expansion outside the city borders creating increased demand for affordable rental housing; students competing with residents for rental housing; the City's limited scope of control as a third-class city and the absence of a regional housing strategy or incentives – all directly informed the selection of strategies to meet the City's most acute housing needs.

I. Identifying Housing Needs

Socio-Demographic Profile

Bethlehem is a racially diverse, moderate-income community with a large population of young adults due to the strong university presence.

Its population has remained relatively stable over the past hundred years, with a slight dip in the latter half of the 20th century. The Lehigh Valley's strong employment and population gains since 2000 have led to modest growth in the city.

There is a large Hispanic population, and residents tend to work in health care, retail and food services, manufacturing, and logistics.

A lack of available land for new development means that Bethlehem's population is expected to only grow by about 230 households over the next five years despite strong projected growth in the Lehigh Valley.

However, Bethlehem will remain a desirable place to live, with increasing home prices and rents, which will lead to a shift in who lives in Bethlehem. Future households are anticipated to have higher incomes than current city residents.

Population and Households

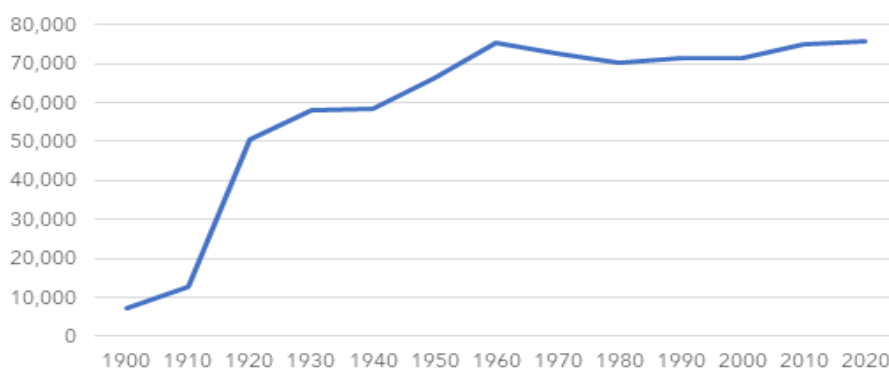
Over the past 70 years, Bethlehem's population has remained relatively stable.

The modern City of Bethlehem was formed in 1917 with the merger of the boroughs of Bethlehem and South Bethlehem. Through the first half of the 20th century Bethlehem Steel drove unprecedented growth, as the city's population exploded from 7,000 people in 1900 to 75,000 in 1960.

The decline of U.S. manufacturing and the closure of Bethlehem Steel caused a slight population downturn to 71,000 people over the latter half of the 20th century. Over the last two decades, Bethlehem's population grew to 76,000, growth similar to much of the Lehigh Valley.

Approximately 64% of the city's households are non-family households (persons living alone or living with roommates), higher than the region (60%), reflecting the large college-age population. Households are smaller in the city (2.3 persons per household on average, compared to 2.5 in the region), and roughly half of all households are renters, significantly higher than the region (32%).

Chart 1: Population of Bethlehem, 1900-2020



Source: U.S. Census

Age

Bethlehem has a high concentration of young adults due to the large number of college students in the city, with approximately 7,400 students at Lehigh University and 2,600 students at Moravian College. According to ESRI estimates, 9% of the population is between 20 and 24 years old in 2023, significantly higher than the region (6%). And the number of children living in the city is slightly lower than the region (15.1% compared to 16.6%).

Now America's largest demographic group, the Baby Boomers are entering their senior years causing a significant impact on housing needs. In the last decade, Bethlehem experienced an increase of 3,000 people entering the 65-to-74 age brackets.

In the next five years, Bethlehem's Baby Boomer population will age into their late 70s. ESRI forecasts indicate a decline in the younger population and an increase in older adults.

Table 1: Bethlehem Population by Age

	2023 Estimates	Change 2010-2023	Forecasted Change 2023 - 2028
14 and under	11,504	-705	-196
15 - 19	5,974	-495	-134
20-24	7,159	-815	-378
25 - 34	10,280	28	-179
35 - 44	9,413	1,090	-152
45 - 54	7,804	-1,529	520
55-64	8,911	637	-975
65 - 74	8,050	2,949	359
75+	7,174	127	1,248

Source: ESRI Business Analyst

Income

On average, households in Bethlehem earn more than those in Allentown or Easton, but less than the Valley's suburban areas. Bethlehem's 2023 median income is about \$62,000 per year, which is 22% lower than the Lehigh Valley, but 22% and 5% higher than Allentown and Easton, respectively.

Table 2: Household Income, 2023

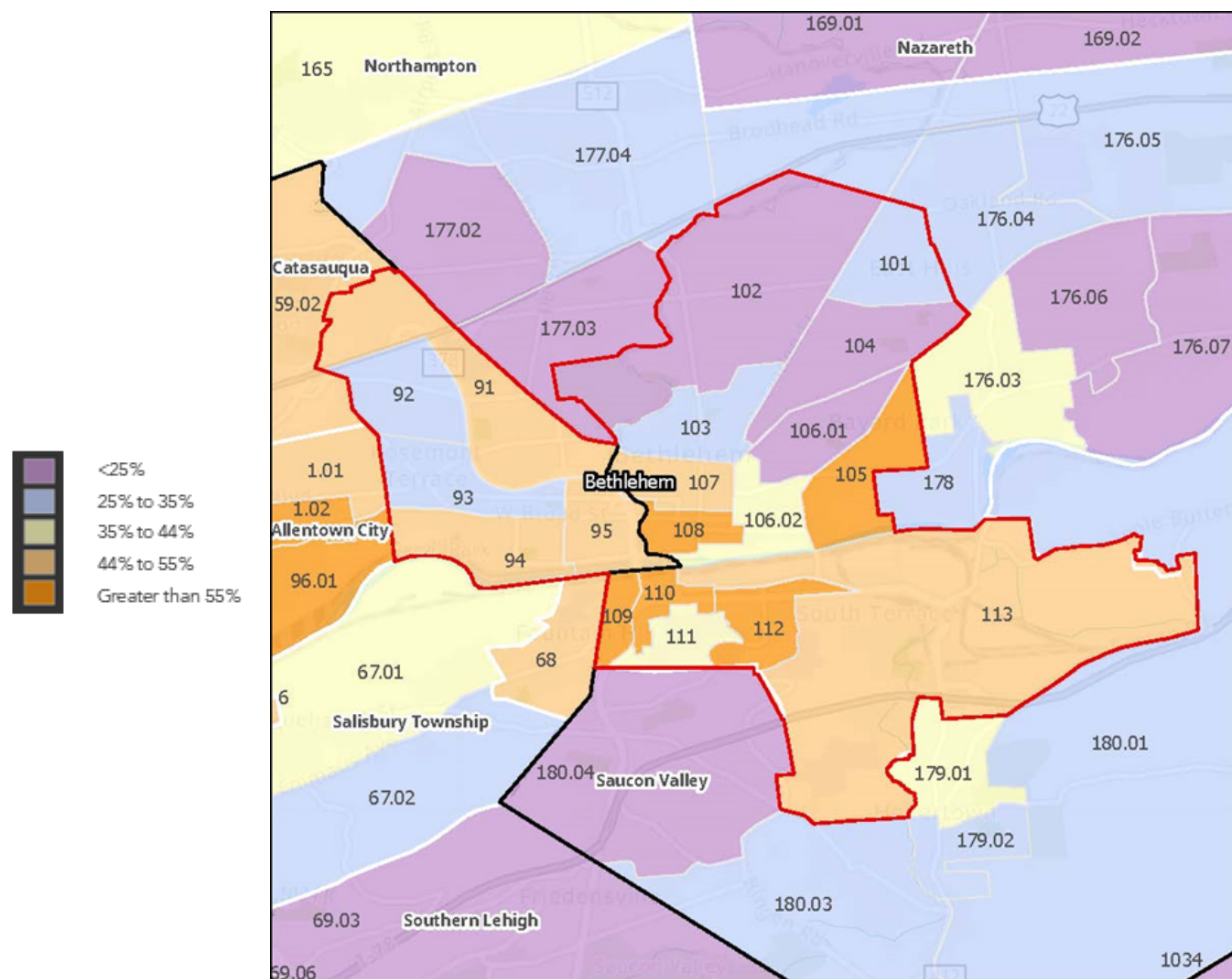
	Bethlehem	Allentown	Easton	Metro Area	PA
Median Household Income	\$62,146	\$48,694	\$58,740	\$76,031	\$72,033
Households earning less than \$35k	26.2%	31.8%	25.7%	21.4%	24.1%
Households earning more than \$150k	12.4%	9.9%	9.3%	18.7%	18.1%

Source: ESRI Business Analyst

Bethlehem's highest earning households live in the northern tier of the city.

Map 1 illustrates the percentage of households earning less than \$50,000 per year by census tract, broken down into quintiles based on all tracts within the metro area. Red outlines represent the city boundaries, and black boundaries represent county boundaries. Purple tracts represent the lowest quintile and orange the highest. A majority of households in the northern portion of the city earn more than \$50,000 per year.

Map 1: Households earning less than \$50,000 per year

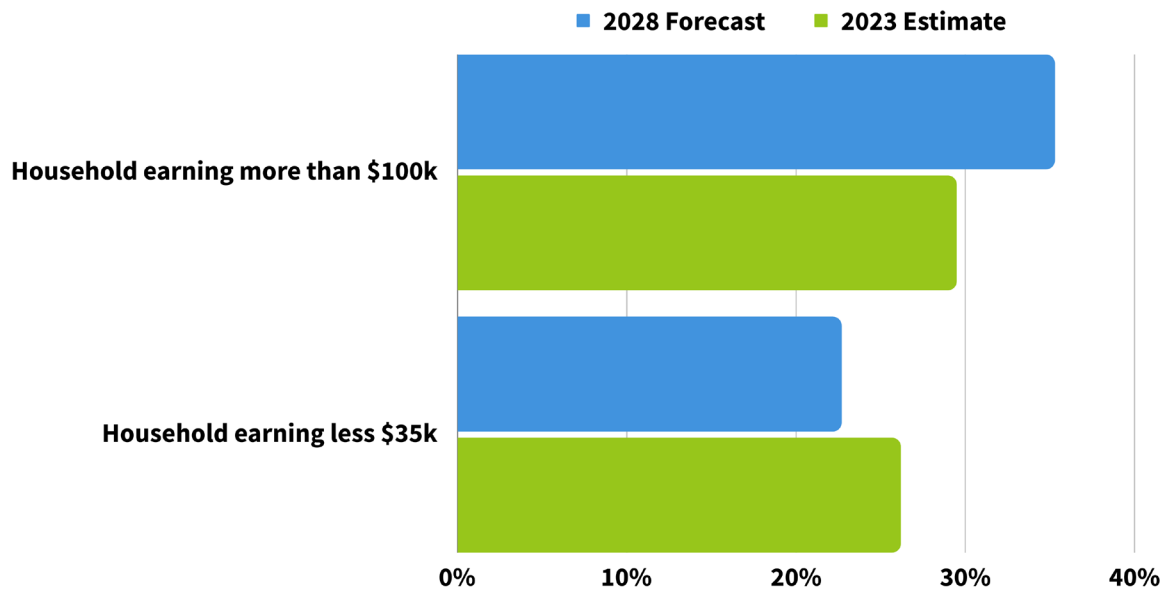


Source: American Community Survey 2017-2021

Forecasts show Bethlehem's population demographics skewing significantly wealthier by 2028. By then, Bethlehem's median income is projected to rise by 17% to \$73,000 per year. About 1,880 more households will be earning over \$100,000 a year, a 20% increase to 36% of households.

At the same time, Bethlehem is forecast to lose around 980 households earning less than \$35,000 per year, a decline of 11.5% to 23% of households.

Chart 2: Household Income Comparison in Bethlehem, 2023 and 2028



Source: ERSI Business Analyst

Race and Ethnicity

Bethlehem's population is becoming more diverse, with roughly 40% identifying as non-White (compared to 24% in 2010) and 31% identifying as Hispanic or Latino (compared to 24% in 2010). This follows trends in the Lehigh Valley, which has experienced substantial growth in the Latino – particularly Puerto Rican – population, adding 66,000 Latino residents since 2010. This can largely be attributed to new job opportunities in the area within the warehousing and manufacturing industries.

Table 3: Race and Ethnicity, 2023

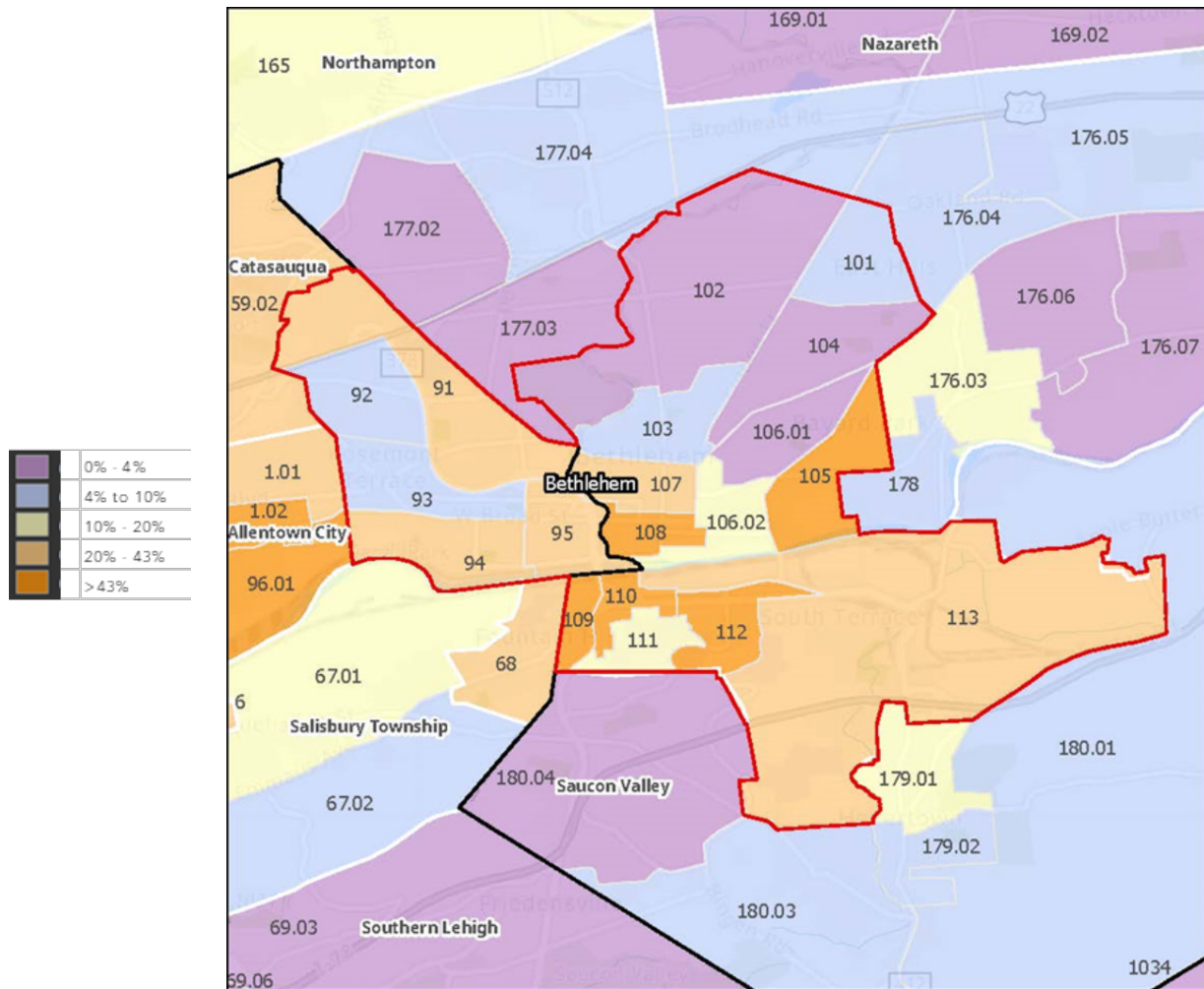
	Bethlehem	Allentown	Easton	Metro Area	PA
White Alone	60.3%	36.0%	53.8%	71.4%	73.9%
Black Alone	8.8%	13.1%	17.5%	6.4%	11.0%
American Indian Alone	0.5%	0.8%	0.7%	0.3%	0.3%
Asian Alone	3.6%	2.1%	2.6%	3.4%	4.2%
Pacific Islander Alone	0.1%	0.0%	0.1%	0.0%	0.0%
Some Other Race Alone	14.0%	31.9%	12.9%	9.2%	4.2%
Two or More Races	12.7%	16.0%	12.4%	9.3%	6.3%
Hispanic Origin (Any Race)	31.4%	57.2%	27.9%	19.8%	8.8%

Source: ERSI Business Analyst

While Bethlehem is diverse, there is segregation within the city, with North Bethlehem remaining predominantly White.

Map 2 illustrates the percentage of residents who do not identify as White, non-Hispanic by census tract. Red outlines represent the city boundaries, and black boundaries represent county boundaries. The census tracts are categorized into quintiles based on census tracts within the metro area, where purple is the lowest quintile, and orange is the highest.

Map 2: Non-White and Latino Population



Source: American Community Survey 2017-2021

Housing Profile

Bethlehem's housing stock reflects its history as a manufacturing powerhouse of the early 20th century. Manufacturing jobs drew an influx of workers that fueled a housing boom from 1900 to 1950, creating everything from workforce housing to stately homes for wealthier industrialists.

Bethlehem mirrored America's post-World War II suburbanization, with the development of the city's outer lying areas into single-family neighborhoods.

Bethlehem's health care and higher education sectors strengthened as manufacturing waned in the latter half of the 20th century, helping stave off the large population decreases seen in other industrial cities. By 2000, much of the city was built out and development moved out to townships with readily available land. Today, Bethlehem is a mix of housing types from older rowhouses to stately, historic homes to pre-2000 suburban-type single-family development, and newer, revitalization projects within the historic center of the city.

Housing Age

As an historic city, Bethlehem's housing stock is older, with a median age of 1955, lower than the state age of 1964 and the metro's 1969.

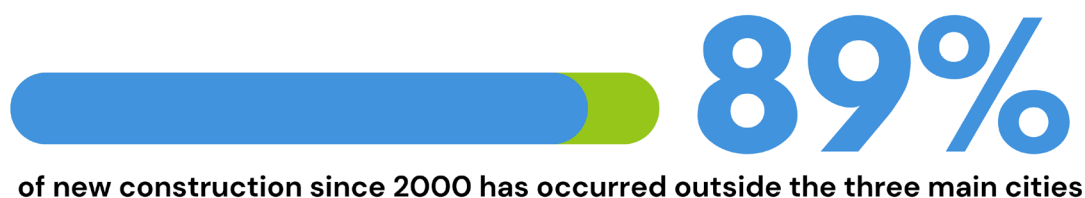
1955 = median age housing stock in Bethlehem

1964 = median age housing stock in all of Pennsylvania

Neighboring Allentown is similar, with nearly half of all homes built before 1950, another 40% built between 1950 and 1980, and 7% of units built after 2000.

The vast majority of the Lehigh Valley's new construction is concentrated in outlying suburbs with more developable open space.

In comparison, development in the Lehigh Valley has concentrated in areas with more available land for new construction. Since 2000, 89% of new construction has occurred outside the three main cities, totaling 48,800 units.

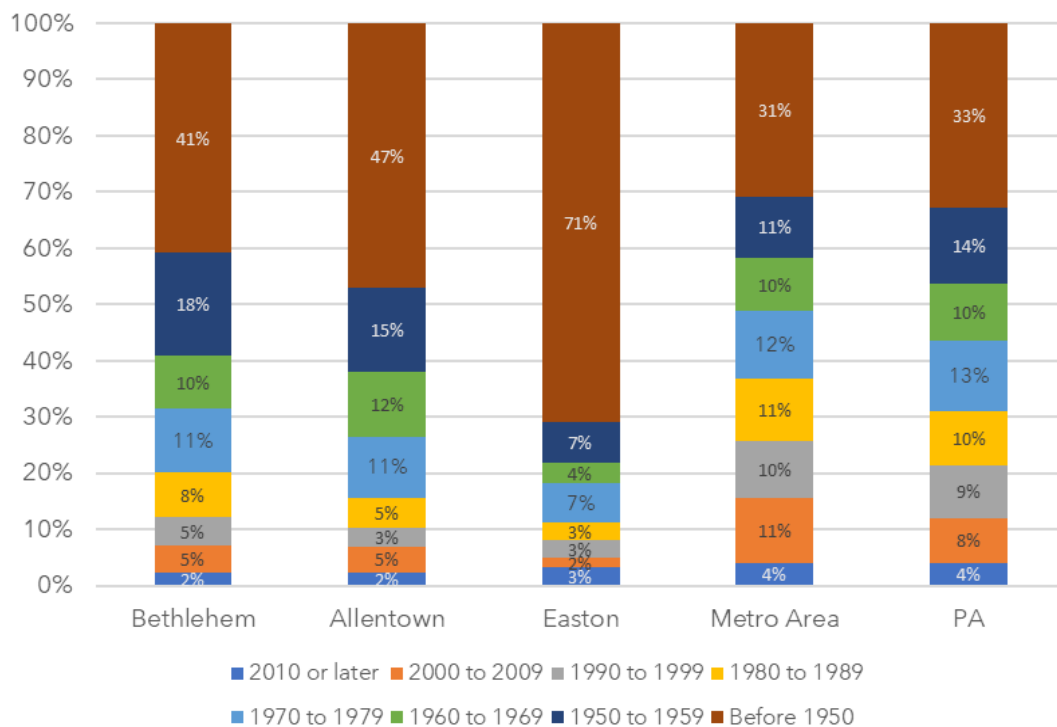


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In comparison, development in the Lehigh Valley has concentrated in areas with more available land for new construction. Since 2000, 89% of new construction has occurred outside the three main cities, totaling 48,800 units.

Chart 3: Age of Housing Units



Source: ACS 2017-2021

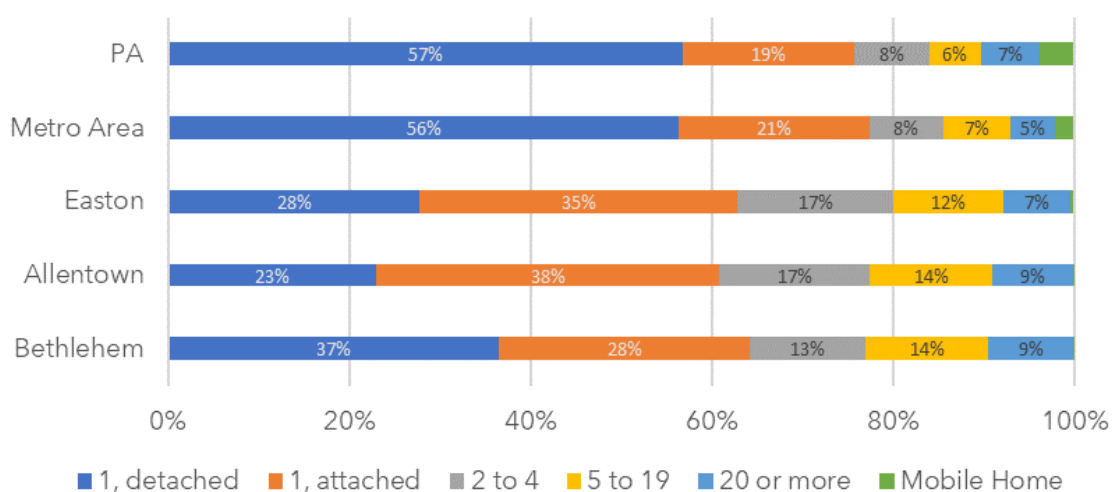
Housing Types

Bethlehem's housing stock is predominantly single-family attached and detached homes, comprising 65% of all units.

The city lacks many large multi-family buildings, representing fewer than 10% of all units. Bethlehem does have a significant number of smaller, multi-family structures (less than 20 units) that were common prior to the 1980s.

Bethlehem saw more construction in the latter half of the 20th century than Allentown and Easton. This is why more than one-third of its housing stock is single-family, detached housing; compared to 23% in Allentown and 28% in Easton.

Chart 4: Units per Structure



Source: ACS 2017-2021

Vacant Properties

A very low percentage of Bethlehem's residential properties are vacant, according to Census data. The city's lack of blight indicates the city is in high demand, offering limited opportunities for housing rehabilitation and neighborhood stabilization programs.

The American Community Survey tracks vacant residential units that are not for sale or rent. These fallow homes may need substantial rehabilitation and are common indicators of neighborhood decline and blight. However, such neighborhoods do offer opportunities for reinvestment.

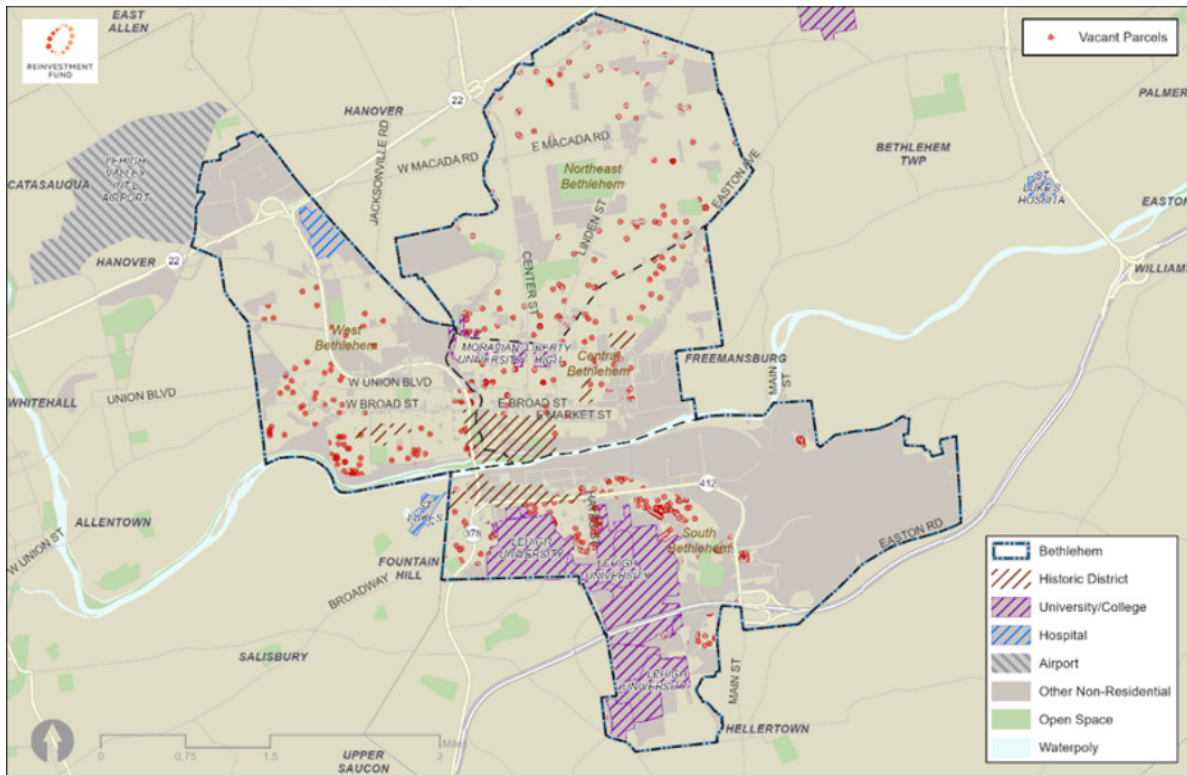
Table 4: Vacant Residential Properties for Rehabilitation

	Bethlehem	Allentown	Easton	Metro Area	PA
Vacant - not for sale or in rental market	1.4%	3.3%	6.4%	2.8%	4.3%
Count	450	1,603	717	9,872	244,633

Source: ACS 2017-2021

Map 3 presents the location of vacant parcels in the city of Bethlehem identified by the 2020 Census and field validated as part of the Housing Study.

Map 3: Vacant Parcels



Source: City of Bethlehem Parcel File

Housing Tenure and Mortgage Status

Bethlehem has a higher homeownership rate than its peer cities and a higher percentage of homeowners who own their homes outright, i.e., without a mortgage. Similar to other areas, the city has a higher concentration of renters than smaller jurisdictions and suburban areas outside of the city. Although, areas outside of the cities across the Lehigh Valley do still have a substantial renter population of roughly 56,000 households.

Table 5: Tenure and Mortgage Status

	Bethlehem	Allentown	Easton	Metro Area	PA
Homeowner	15,049	18,777	4,716	228,230	3,560,917
% Homeowners	50.4%	41.5%	46.9%	68.9%	69.2%
With Mortgage	59.2%	66.8%	64.3%	63.7%	59.7%
Without Mortgage	40.8%	33.2%	35.7%	36.3%	40.3%
Renter	14,825	26,418	5,333	102,854	1,586,866
% Renters	49.6%	58.5%	53.1%	31.1%	30.8%

Source: ESRI Business Analyst

Housing Supply

Mirroring national and regional trends, Bethlehem's housing market saw significant price hikes during the COVID-19 housing boom. Since 2019, home sale prices increased more than 50% while rents rose 40%.

The region became an ideal destination for remote workers and retirees given its location, one to two hours from New York and Philadelphia within the foothills of the Pocono Mountains. This exacerbated an already tight housing market, leading to a severe shortage of rental housing and homes for sale.

Bethlehem's housing market has historically been affordable, meaning a household earning median income could afford to buy a home and a moderate-income person could rent an apartment without being cost burdened.

Post-pandemic, this is no longer the case. Bethlehem's median home sale price rose by \$120,000 to \$302,000 from May of 2019 to May of 2023.



Similarly, the typical rent in May 2023 was \$1,910, an increase of \$556 from May 2019.

Rental Housing

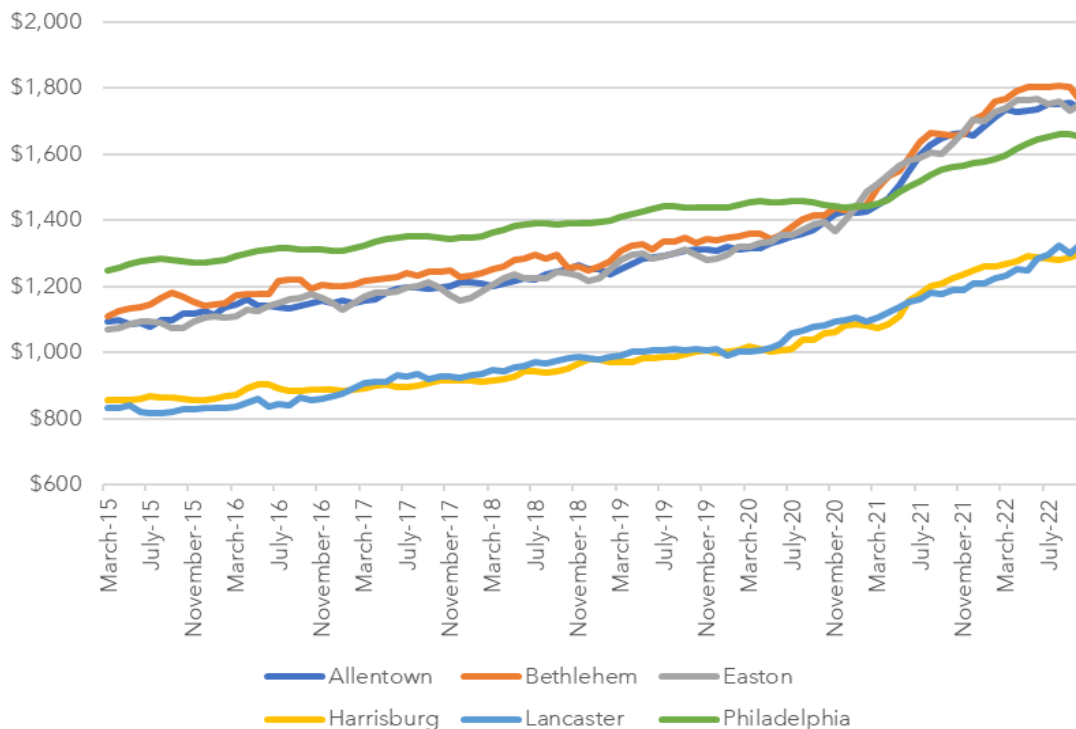
Bethlehem's rental housing shortage has led to drastic rent increases and allowed landlords to require larger up-front costs.

The city's estimated 2% apartment vacancy rate is far below the 6% to 8% rate associated with a healthy rental market. Housing advocates report that many landlords are requiring two months of rent, plus one month of security at the beginning of the lease. This is impossible for most low- and moderate-income households. It also deters existing renters from moving out of their apartments resulting in little unit turnover.

Bethlehem's rapid jump in housing costs reverberates across all markets, but the impact in the rental market is especially concerning. The Lehigh Valley's rental market is now more expensive than Philadelphia, Harrisburg and Lancaster.

Bethlehem's typical rent has risen to \$1,910 by May of 2023 (up from \$1,354 in May 2019). This is out of reach for renters working in low-wage industries, like food service and retail. The supply of available apartments priced below \$1,000 has virtually vanished. According to a survey conducted by Point2Homes, less than 1% of apartments listed in 2023 were priced below \$1,000 per month, while 70% were priced above \$1,500 per month.

Chart 5: Median Rents



Source: Zillow Observed Rent Index

Pipeline

The Lehigh Valley is experiencing a boom in new construction, with 2,472 new building permits issued in 2021 and 2022, including 1,019 multi-family units.^{xi} Additionally, 6,400 units were proposed in 2022.^{xii}

Several rental projects are in the planning and construction stage in Bethlehem, most notably, the former Bethlehem Steel headquarters Martin Tower, where plans call for over 1,000 units. In the Historic Downtown, 205 units are being built on the site of the former Boyd Theatre. However, these developments do not include affordable units.

Subsidized Housing

The Bethlehem Housing Authority operates 1,451 public housing units, with 1,075 units for family housing and 376 units in four high-rise buildings serving the elderly and disabled. The housing authority also has approximately 470 Housing Choice Vouchers with an 80% utilization rate. Approximately 100 vouchers are not being used, predominantly due to a shortage of rental housing priced within the Fair Market Rent (FMR) limits. The housing authority is authorized to allow subsidy up to 110% of FMR limits, but that still falls short of current market rents.

Additionally, there are 23 properties with 837 affordable rental units funded with the Low-Income Housing Tax Credit (LIHTC) Program. The most recent project was placed in service in 2014. The larger properties – including Moravian House and the Fred B. Rooney Building – cater to seniors totaling 365 units. One of the LIHTC-funded properties is operated by the YMCA, providing 33 Single Room Occupancy (SRO) units that typically provide housing for previously homeless individuals. By 2030, 196 of Bethlehem's LIHTC-

funded units will be at least 30 years old. These units may convert to market-rate pricing if they do not have additional affordability requirements. There have been no LIHTC applications approved in the past ten years.

Student Housing

Bethlehem is home to nearly 10,000 college students, many of whom live off-campus, especially in South Bethlehem near Lehigh University. This has created a concentration of rental housing demand south of the river, leading to a significant presence of college students renting rowhomes throughout the neighborhood. This has caused concern among city residents for a variety of reasons, including parking shortages, maintenance issues and limited homeownership opportunities. The concentration of students in the Southside has limited affordability of homes in the area, both for homeownership and for renters. Because landlords are competing with the (high) cost of on-campus housing, they may charge more per bedroom than they would on the general rental market, with students paying between \$400 to \$1,000 per bedroom. This cash flow has enticed investors to purchase rowhomes for student housing, raising sales prices along with rents in the neighborhood.

In 2021, the city approved a student overlay zone, which limits new student households of three to five residents to a designated area immediately adjacent to Lehigh University. Existing student housing is grandfathered in but limited to a maximum of five students. The new zoning ordinance is intended to preserve neighborhoods and affordable rental housing in the Southside.



Photo: Southside Commons, Lehigh University student housing constructed in 2019



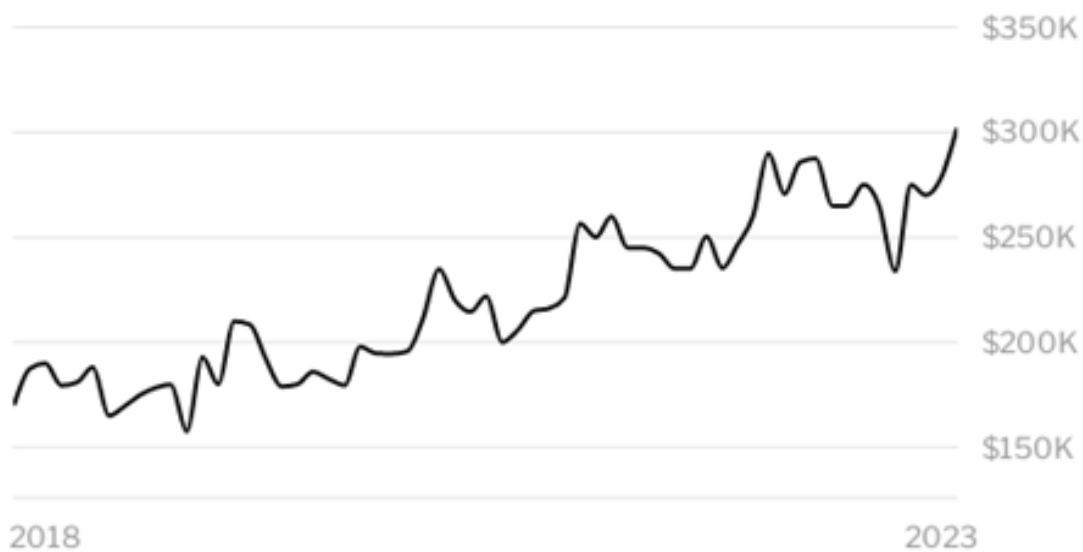
Photo: Student housing managed by Amicus Properties; a four-bedroom house is renting for \$3,360 a month or \$840 per student.

Homes for Sale

Like rents, home prices increased significantly in the past five years, pricing out many moderate-income residents in Bethlehem. Prior to the COVID-19 pandemic, a household earning median income in Bethlehem could afford a median priced home. That is no longer the case. Currently, a household would need to earn roughly \$100,000 per year to afford a median-priced home in the city.

Median home sale prices increased by approximately \$120,000 from 2019 to 2023, according to MLS data. In May 2023, the median sale price was \$302,000 compared to \$180,000 in May of 2019.

Chart 6: Median Sales Price for Homes in Bethlehem



Source: Redfin Market Analytics

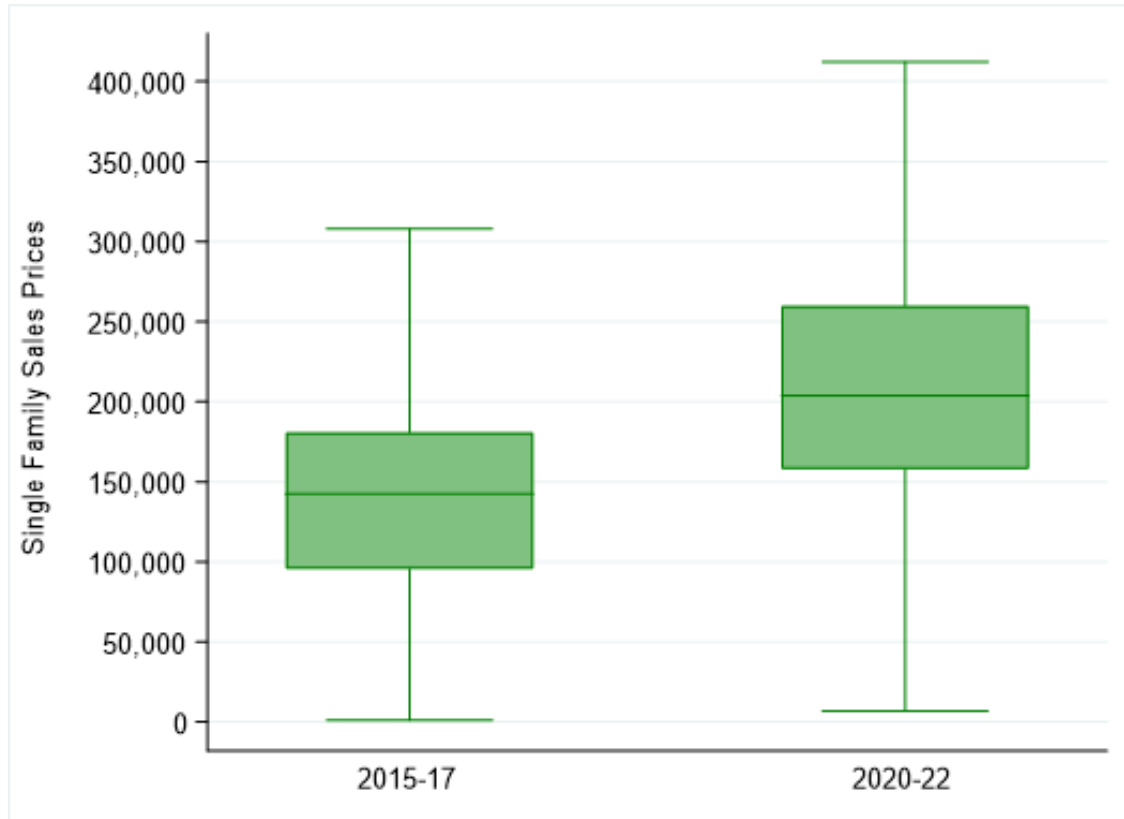
Delving into recorded home sales transactions and mortgage lending from the Home Mortgage Disclosure Act, it's easy to see the substantial increases in volume and price of Bethlehem home sales from 2015 to 2022.

From 2015 to mid-2017, there were 2,067 arms-length home sale transactions, which is when the buyer and seller act independently of each other. They increased by 39% from 2020 to mid-2022 for a total of 2,870 transactions.

Home purchase origination rates also ticked up during this period from 77% to roughly 80% from 2015-17 to 2020-22. And in both of these periods, about 61% of all sales transactions in Bethlehem were financed with mortgages, suggesting that a substantial, though consistently stable, share of the home sales market in the city is made by cash buyers.

Chart 7 presents the change in overall home sale prices from 2015-17 to 2020-22. The boxes in Chart 7 represent the middle 50% of all home sales, and the line in the middle of each box represents the median sale price for each time period.

Chart 7: Change in Median Home Sale Prices: 2015 to 2022



In 2015-17, the median sales price was \$142,500, and three quarters of homes in Bethlehem sold for less than \$181,000 during this period. By 2020-22, the median sales price rose 43% to \$203,866 and three quarters of homes sold for more than \$158,000 in this period.

These price increases mirror national trends and put tremendous pressure on potential buyers, particularly entry-level buyers with more modest incomes. However, compared to national median sales prices of roughly \$390,000 in 2022, the Bethlehem market remains comparatively affordable for potential buyers from outside the city or region.

In 2023, demand remains high for homes to purchase in Bethlehem, prices have continued to rise, and homes are still selling for more than list price. On average, homes are selling less than ten days after being listed and are selling for 5% above the asking price.

II. Understanding Existing Housing Conditions

Market Value Analysis

The first phase of the housing planning process updated the Market Value Analysis (MVA) for the City of Bethlehem. The MVA is an analytic tool built on local administrative data to establish a baseline of housing market information and inform the development of the plan for the City.

The MVA is an internally referenced index of a community's residential real estate market. It identifies areas that are the highest-demand markets as well as the areas of greatest distress, and the various market types in between. MVA results offer insight into the variation in market strength and weakness within and between traditional neighborhood boundaries.

The MVA process relied heavily on close collaboration with City staff to obtain and field validate the data that represent the components of the MVA, as well as to validate the final MVA model results. These findings were used to inform community engagement activities and interviews with key housing stakeholders later in the process. This allowed City staff, local residents and key stakeholders to be involved throughout the process and provide input on the types of activities and approaches to support affordable housing in different types of residential real estate markets across the city.

Table 6 presents the data elements that were used to estimate the 2022 MVA, which include indicators of property value and investment, market distress, and the composition of the housing stock in Bethlehem.

Table 6: Bethlehem Market Value Analysis Data Inputs

	Variable	Definition	Source
Property Values and Investment	Median Home Sales, 2020 - 2022	Median price of arms-length residential property transactions between 2020 and 2022 (August)	Lehigh and Northampton County Parcel Files
	Variance of Sales Prices, 2020 - 2022	Dispersion of prices within census block groups over the target time period	Lehigh and Northampton County Parcel Files
	Housing Permits, 2020 - 2022	Share of residential parcels with multiple permits (2 or more) between 2020 and 2022 (August)	City of Bethlehem
	Investor Purchases, 2020 - 2022	Share of residential sales where purchaser was an investor or institutional owner between 2020 and 2022 (August)	Lehigh and Northampton County Parcel Files
Market Distress	Housing Vacancy, 2020	Share of all housing units that are vacant	2020 Decennial Census
	Code Violations, 2020 - 2022	Share of residential properties that received code enforcement or housing inspection violations between 2020 and 2022 (August)	City of Bethlehem
Housing Composition	Single-Family Rentals	Share of renter households that live in single-family (i.e., 1 unit structure and not condos) homes	City of Bethlehem, Lehigh County and Northampton County Parcel Files
	Housing Tenure	Share of owner-occupied households	ACS, 2016-2020
	Housing Subsidy	Share of rent-subsidized housing units, excluding units in senior developments	HUD Picture of Subsidized Housing 2021; Bethlehem Housing Agency
	Housing Density	Number of residential units per residential acre	City of Bethlehem, Lehigh County and Northampton County Parcel Files

Bethlehem MVA Market Types

Table 7 presents summary results of the MVA for six market types that reflect distinct characteristics across Bethlehem's neighborhoods.

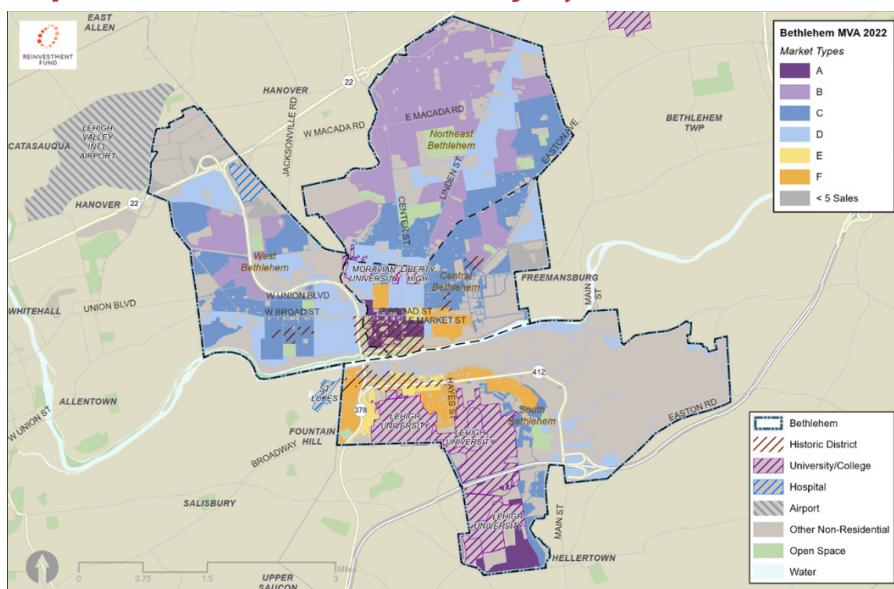
Table 7: Average Block Group Characteristics in Bethlehem by Market Type, 2022

Market	Block Group (#)	Property Values and Investment				Market Distress		Area Characteristics			
		Median Sales Price	Variance of Price	Housing Permits	Invest. Purch.	Housing Vacancy	Code Viol.	Owner Occ.	Single Family Rentals	Housing Subsidy	Housing Density
A	4	\$413,850	0.65	13%	27%	7.9%	4.7%	26%	8%	25%	14.4
B	12	\$293,838	0.30	7%	4%	3.4%	3.2%	91%	78%	1%	4.1
C	24	\$214,577	0.35	6%	14%	3.9%	6.3%	69%	41%	13%	7.9
D	21	\$200,660	0.34	5%	17%	5.2%	8.6%	39%	18%	3%	12.4
E	6	\$176,880	0.48	12%	60%	16.7%	18.2%	13%	29%	15%	27.1
F	9	\$145,758	0.67	6%	39%	8.9%	21.7%	30%	35%	16%	18.4
City Avg	79	\$222,609	0.40	7%	20%	5.9%	9.3%	51%	36%	12%	11.7

* The values presented in each column represent the average value of each indicator for all block groups in each market type, i.e. in 'D Markets' a median sales prices of \$200,660 represents the unweighted average median sales prices for all 21 D block groups.

Map 4 on the following page presents the spatial distribution of these different market types across the city.

Map 4: Bethlehem Market Value Analysis, 2022



The defining characteristics of the six market types within the Bethlehem residential real estate market include:

- The prevalence of established neighborhoods with well-maintained single-family homes, particularly on the northern and western portions of the city.
- The lack of neighborhoods with pervasive distress and/or blight reflects the overall stable condition of a housing stock predominantly built in the early part of the 20th century.
- The ‘bottom’ of the Bethlehem housing market is quite strong. The ‘weakest’ markets in Bethlehem have rather high home values (~\$145,000 median sale price), and rather low levels of the most serious signs of blight. While there are observable signs of stress in “E” and “F” markets - compared to other cities using the MVA - Bethlehem does not suffer from pervasive vacancy, abandonment, and severely dilapidated residential and commercial properties that can create overwhelming challenges for residents and City officials. In addition, median sale prices in Bethlehem’s “E” and “F” markets reflect existing value in Bethlehem’s most stressed markets.
- Purchasing activity in the most stressed markets is increasingly dominated by investors – and many of these transactions are cash transactions (see Appendix). There is also a notably high share of investor purchases in “A” markets, where one in four purchases involved an investor.
- From a policy and housing strategy perspective, it is often useful to consolidate market types into three broad categories: Strong, Middle, and Stressed.

Strong Markets

Bethlehem’s four “A” market areas account for only 5% of the city’s block groups and are located mainly downtown. “A” markets are the strongest markets in Bethlehem and generally have high home sale prices, low levels of distress, and low owner-occupancy rates. The median sale price in a typical block group in “A” markets (\$413,850) was 1.8 times greater than the citywide average, but one in five homes for sale were bought by investors. The average owner occupancy and single-family rental rates in “A” markets were well below citywide averages, indicating high levels of multi-family rental housing. Additionally, “A” markets were home to a greater level of permitting and subsidized rental housing than other market types in the city.

The 12 “B” market areas comprise 15% of all block groups in the city and are heavily concentrated in the north of Bethlehem. “B” markets are strong markets with comparatively high sales prices, low levels of distress and the highest homeownership levels in the city. The median sale price in a typical “B” market (\$293,838) is 32% greater than the citywide average, and almost all households (91%) own their home. In a typical “B” market, 78% of renters live in single-family homes, reflecting the reality that “B” markets largely consist of single-family homes in neighborhoods that have low density.

Middle Markets

The city’s 24 “C” market areas make up almost a third of all block groups in Bethlehem and are heavily concentrated in the northeast and northwest. “C” markets generally represent “middle” markets, with a typical median sale price (\$214,577) slightly below the citywide average. Over two-thirds of households in “C” markets own their homes. “C” markets also have less than average levels of distress and relatively low housing density, similar to “B” markets.

The 21 “D” market areas account for about 27% of the city’s block groups. “D” markets also represent a portion of the “middle” market, although these block groups have slightly lower median sale prices and

greater signs of both distress and investor purchases than “C” markets. The median sale price (\$200,660) in a typical “D” market is about 10% below the citywide average. “D” markets also showed average signs of distress as the levels of housing vacancy and code violations are close to citywide averages.

Stressed Markets

Bethlehem’s 6 “E” market areas comprise almost 8% of all block groups, mostly in the Southside. “E” markets generally represent “stressed” markets, with a typical median home sale price (\$176,880), 20 percentage points below the city average.

On average, only 13% of homes in “E” markets are owner occupied, marking the lowest homeownership rates in Bethlehem. “E” markets have the highest share of investor purchases, with roughly three in five homes for sale being bought by investors. “E” markets are also the densest parts of the city and show signs of distress including the highest levels of housing vacancy in Bethlehem and increased code violations.

The 9 “F” markets make up 11% of all block groups in Bethlehem. Most “F” block groups are in the Southside, but some border downtown. “F” markets are characterized by their low home sale prices and high levels of distress. With a typical median home sale price of \$145,758, “F” markets have the lowest sale prices in the city. Roughly one in five homes in “F” markets have a code violation and, on average, 9% are vacant. Homes are densely located and almost a third of renter households live in a single-family home.

Changing Market Conditions – 2017 to 2022

The overall stability of the Bethlehem housing market is also reflected in a comparison between the 2017 and 2022 MVAs. While there has been some movement across the distribution of the MVA, the overall patterns observed in 2017 persisted in 2022, with the notable changes reflected in increasing sales prices across all market types.

Table 8 presents key changes in the MVA results from 2017 to 2022.

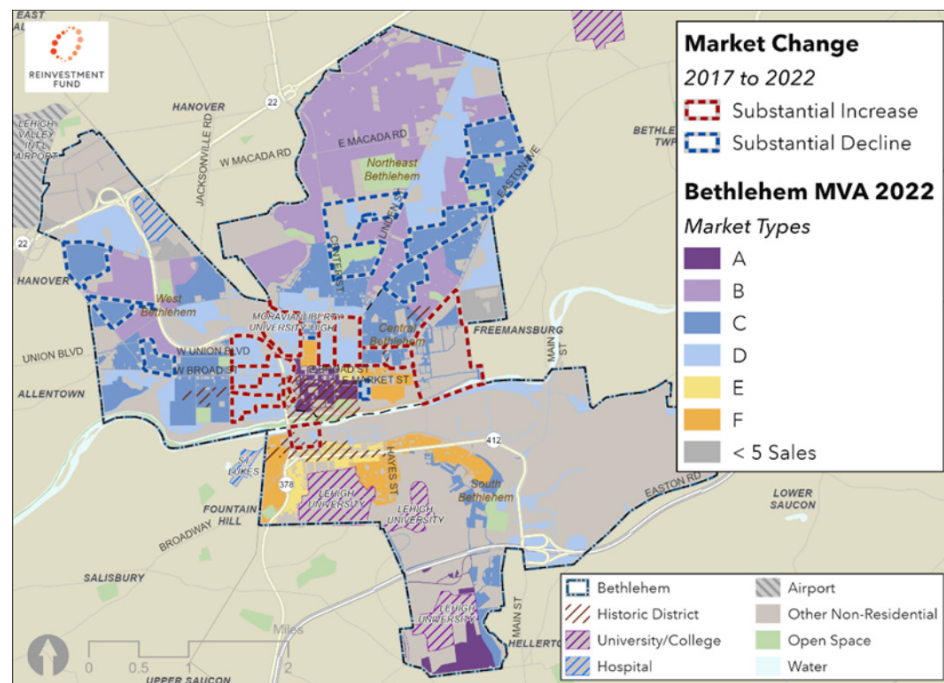
Table 8: Change in Key MVA Indicators: 2017 to 2022

MVA	Median Sales Price			Home Ownership		Code Violations		Investor Purchases		Permit Activity	
	2017	2022	% Change	2017	2022	2017	2022	2017	2022	2017	2022
A	\$375,000	\$413,850	+10%	26%	26%	9%	5%	24%	27%	10%	13%
B	\$184,481	\$293,838	+59%	90%	91%	12%	3%	8%	4%	6%	7%
C	\$166,000	\$214,577	+29%	64%	69%	0%	6%	4%	14%	21%	6%
D	\$143,933	\$200,660	+39%	51%	39%	17%	9%	16%	17%	4%	5%
E	\$125,386	\$176,880	+41%	47%	13%	21%	18%	31%	60%	5%	12%
F	\$110,178	\$145,758	+32%	11%	30%	4%	22%	54%	39%	6%	6%
G	\$69,047			36%		28%		46%		4%	
City Average	\$155,385	\$222,609	+43%	57%	51%	16%	9%	22%	20%	6%	7%

As seen in Table 8, the primary changes in the MVA from 2017 to 2022 are associated with substantial home sale price increases – from a citywide median of \$155,385 in 2017 to \$222,609 in 2022, an increase of roughly 43%. These price increases were rather consistent across most market types in Bethlehem, and represent substantial challenges for affordability, particularly in the city’s middle and weaker markets (C – F markets).

Map 5 presents the spatial distribution of substantial changes in market types from the 2017 to 2022 MVA periods. Those block groups outlined in green experienced a substantial improvement, while those outlined in red experienced a substantial decline along the MVA continuum from 2017 to 2022. For the purposes of this analysis, a ‘substantial change’ represents a move of two or more categories in either direction, i.e., an increase from an “E” market to a “C” or a decline from a “B” to a “D”. It is important to note the changes in individual block groups are subject to changes in other block groups across the city due to the internally referenced nature of the MVA. For this reason, ‘movement’ of individual block groups could be due to actual market change within that block group, changes in other block groups that might affect the relative position of other block groups across the city, or due to change in the way the MVA was estimated in 2022 compared to 2017.

Map 5: Change in Key MVA Market Types: 2017 to 2022



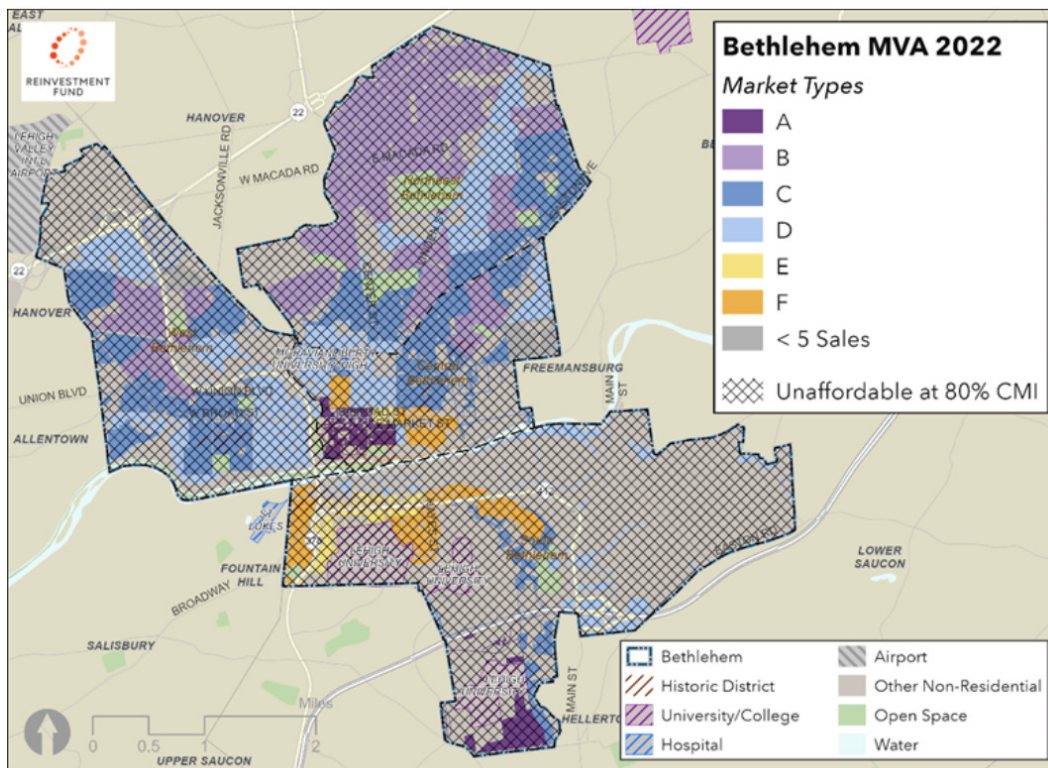
Much of the ‘substantial movement’ across market types in Bethlehem from 2017 to 2022 occurred in stronger markets to the north ‘declining’ into “C” or “D” markets, whereas a few distressed block groups on the Southside and approximate to downtown improved into “C” and “D” markets in 2022.

The starkest change from 2017 to 2022, the change in home sale prices, presents substantial challenges for housing affordability, particularly for residents with incomes around the city average. Maps 6 to 9 present the share of the city’s block groups that would be considered ‘affordable’ for households with increasing incomes relative to the City Median Income (CMI). The crosshatched block groups would be considered ‘unaffordable’ for residents at each income: 80% of CMI; 100% of CMI; 120% of CMI; and 150% CMI^{xiii}.

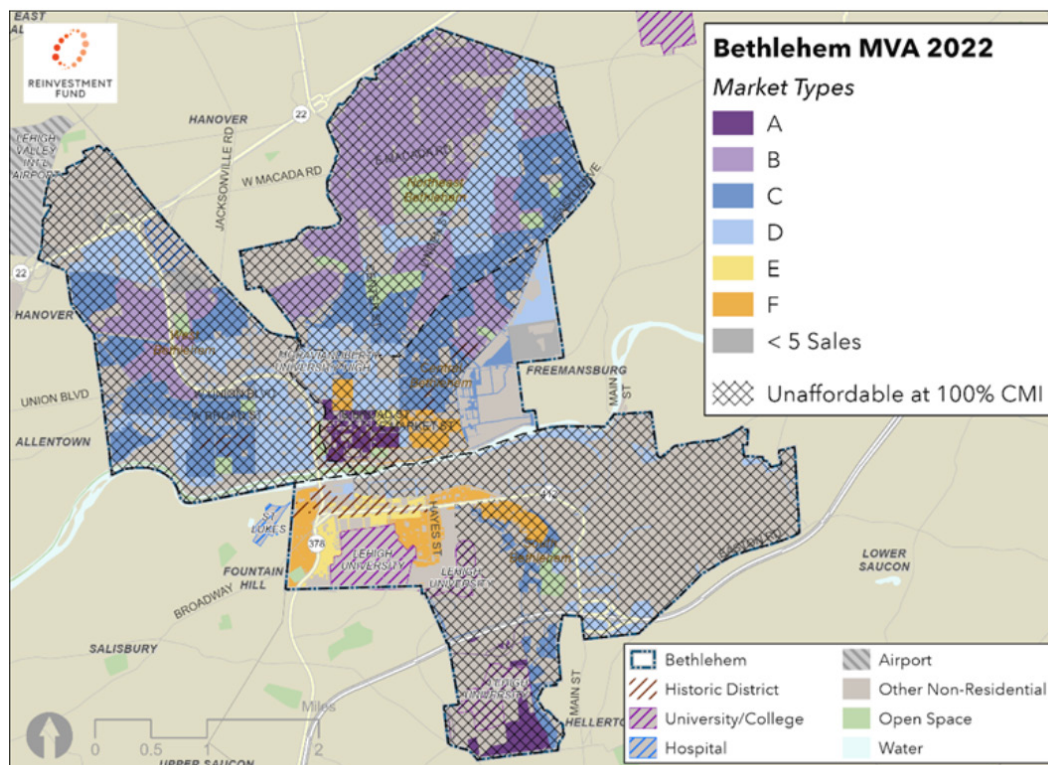
Affordable Home Ownership in Bethlehem

The findings presented in Maps 6 to 9 suggest that it is very difficult for households of modest means to buy into the Bethlehem housing market. Increasing prices are also likely putting considerable pressure on current and long-term residents to remain in their homes, due to increases in property tax, insurance, and potentially unwelcome neighborhood changes.

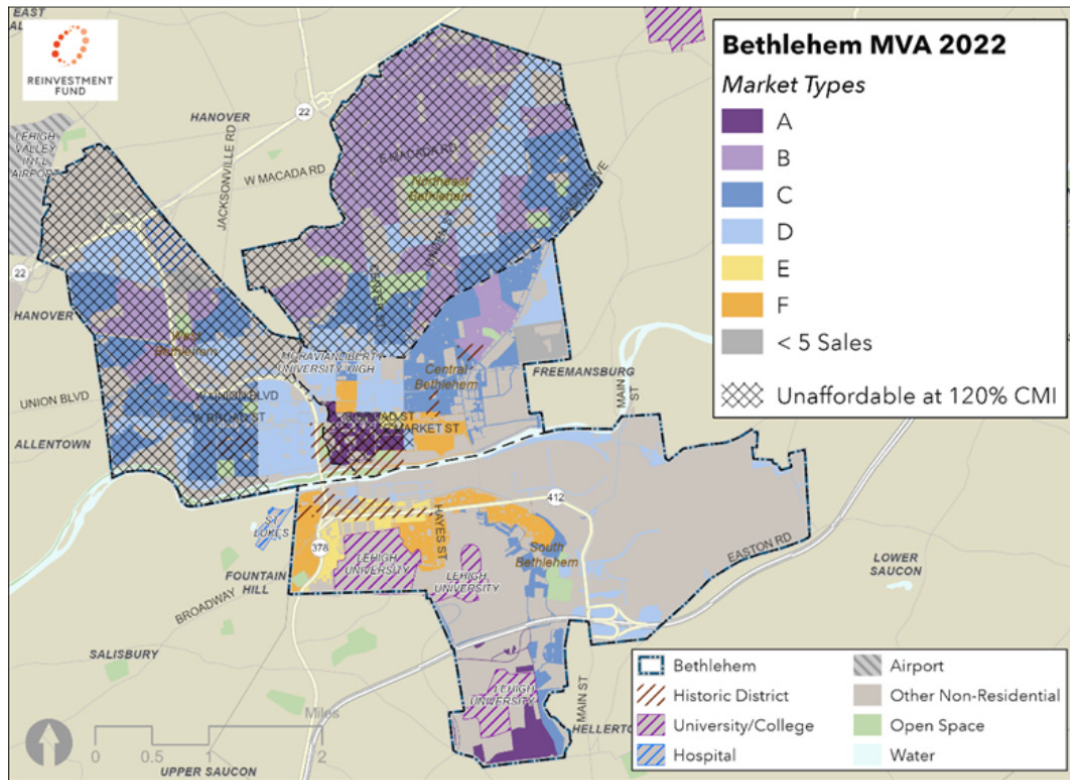
Map 6: Affordable Block Groups for Households with Incomes at 80% of City Median Income (\$44,827)



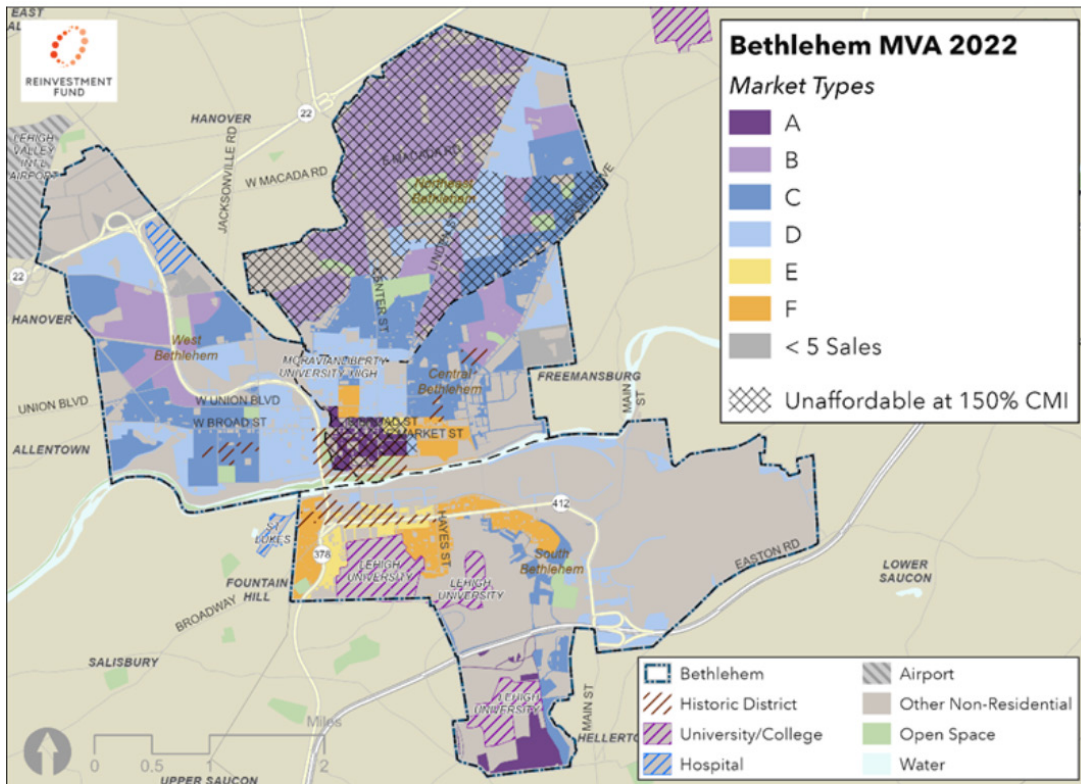
Map 7: Affordable Block Groups for Households with Incomes at 100% of City Median Income (\$56,034)



Map 8: Affordable Block Groups for Households with Incomes at 120% of City Median Income (\$67,241)



Map 9: Affordable Block Groups for Households with Incomes at 150% of City Median Income (\$84,051)



Displacement Risk in Bethlehem - Displacement Risk Ratio

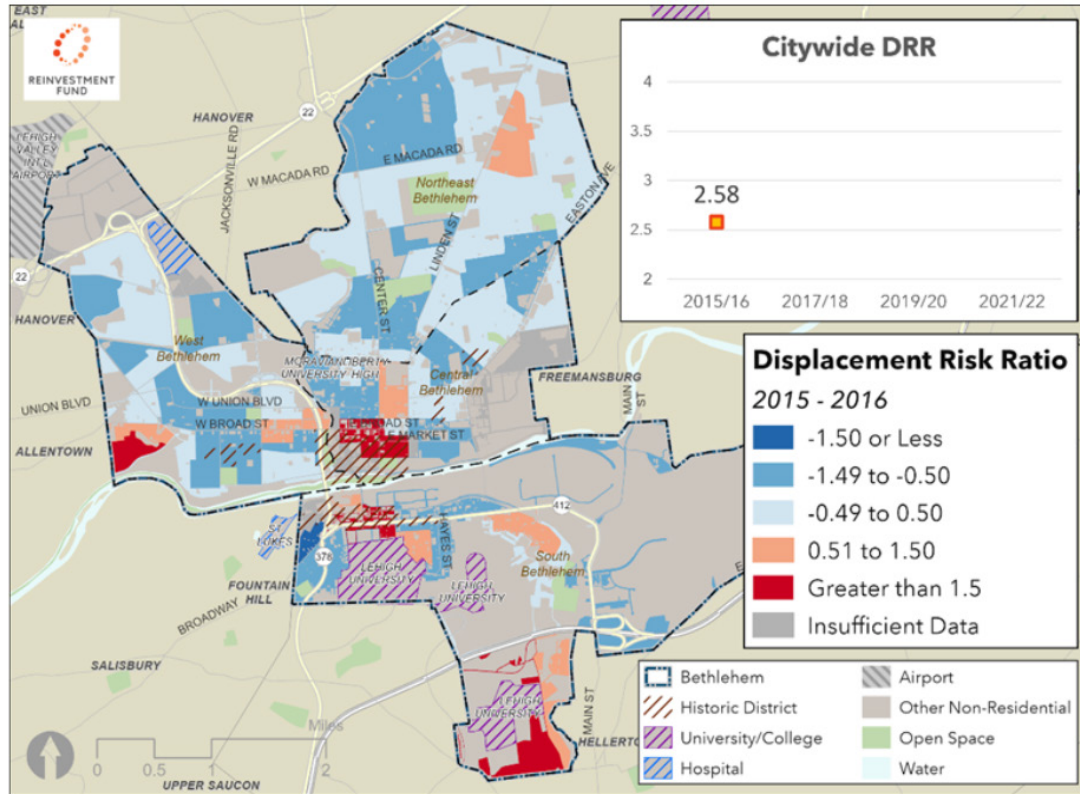
To augment findings from the MVA update, a Displacement Risk Ratio (DRR) was calculated for all Bethlehem block groups. The DRR identifies places where households may be experiencing displacement pressure associated with rising home prices, which tend to be circumstances beyond their control (e.g., rapidly rising taxes / insurance, rent increases, or conversion of rental property into owner-occupied stock). Places identified as ‘high pressure’ suggest that existing residents may be experiencing difficulties with rising prices, and that potential new buyers with economic circumstances similar to those of residents a decade ago would find it very difficult to buy into these markets. The DRR in Bethlehem was estimated using the following calculation:

- Establish block group incomes using the 2010 Census median family incomes as a benchmark for each block group in Bethlehem.
- Inflate block group median family incomes each year using Consumer Price Index (CPI).
- For each block group calculate the ratio of the median home sale prices to the inflated median income for each block group, using rolling two-year periods.
- Adjust each block group ratio by subtracting the citywide ratio to establish a city-wide reference.

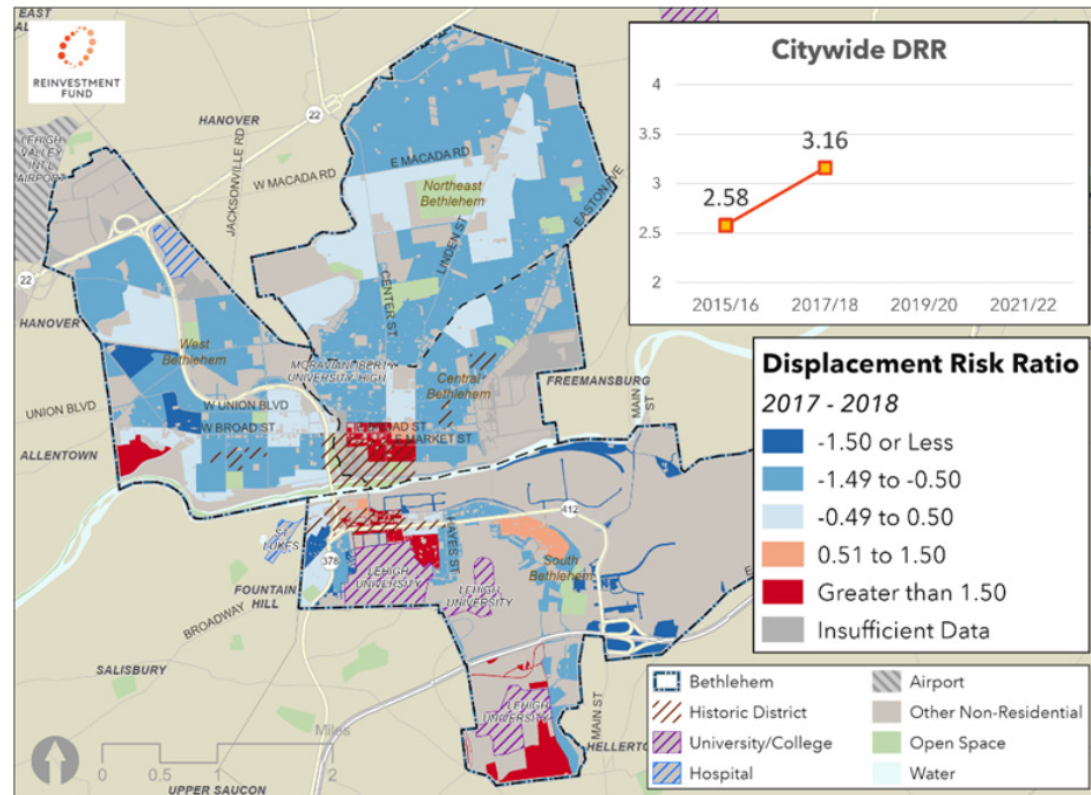
In Bethlehem, block groups with DRR scores that reach 3.0 or above over time are generally considered ‘high pressure’. **Maps 10 to 13** on the following pages present the spatial distribution of the DRR from 2015 to 2022. For each map:

- High-Pressure Areas: Block groups shaded red and light red. These are block groups where the DRR is well above the city average.
- Average-Pressure Areas: Block groups shaded in lightest blue. These are block groups where the DRR is roughly equal to the city average.
- Market Affordable: Block groups shaded blue and light blue. These are block groups where the DRR is below the city average.

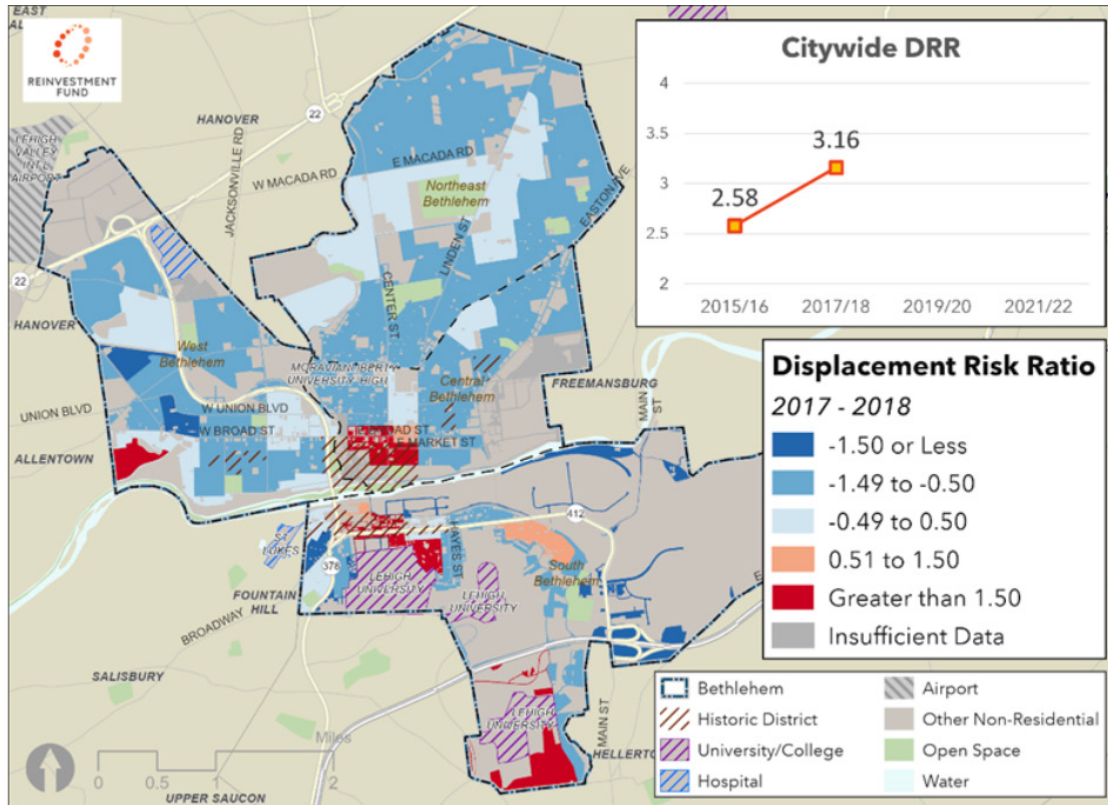
Map 10: Displacement Risk Ratio: 2015-16



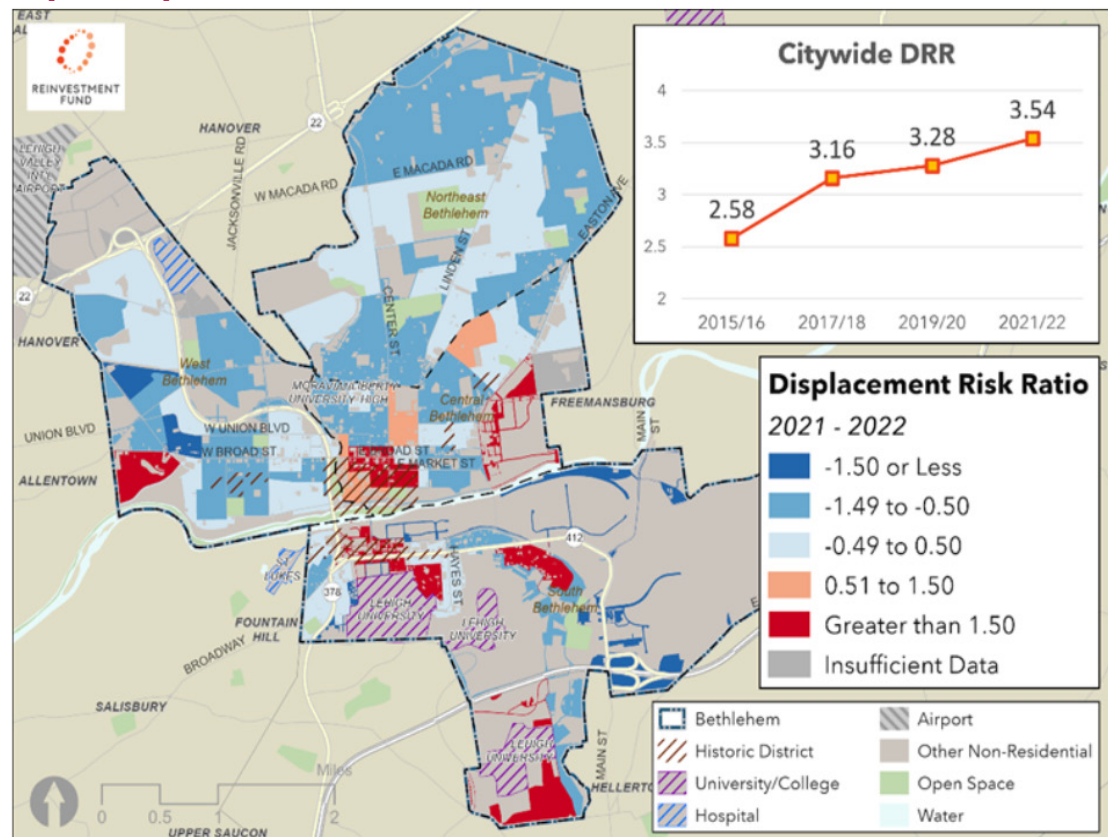
Map 11: Displacement Risk Ratio: 2017-18



Map 12: Displacement Ratio: 2019-20



Map 13: Displacement Risk Ratio: 2021-22



From 2015 to 2022, displacement pressure increased across Bethlehem as home prices have risen throughout the city. In 2015-16, a citywide DRR of roughly 2.6 suggests that on average, home prices were ‘market affordable’ throughout much of the city, i.e., residents in these places had incomes that generally would support affordable housing payments for the available homes, on average.

By 2022, the citywide DRR of roughly 3.5 suggest that on average, home prices were generally unaffordable across the city. By this time, even those block groups shaded in the lightest blue had become unaffordable, and those block groups shaded light and dark red had become extremely unaffordable for long-time residents in these parts of the city. The geographic pattern of displacement risk has remained relatively consistent from 2015 to 2022, but the intensity of the pressure on long-term residents has continued to ratchet up over the past decade.

From a policy perspective, identifying where long-term residents are likely experiencing acute displacement pressure associated with rising prices can provide insight into where time, attention and resources can be deployed to preserve affordability in rapidly changing parts of the city. **Figure 1** presents an overlay between the DRR and the MVA that can provide a nuanced way to identify priority areas where residents are likely experiencing displacement pressure, and that are places where affordability can still be preserved for existing and future residents.

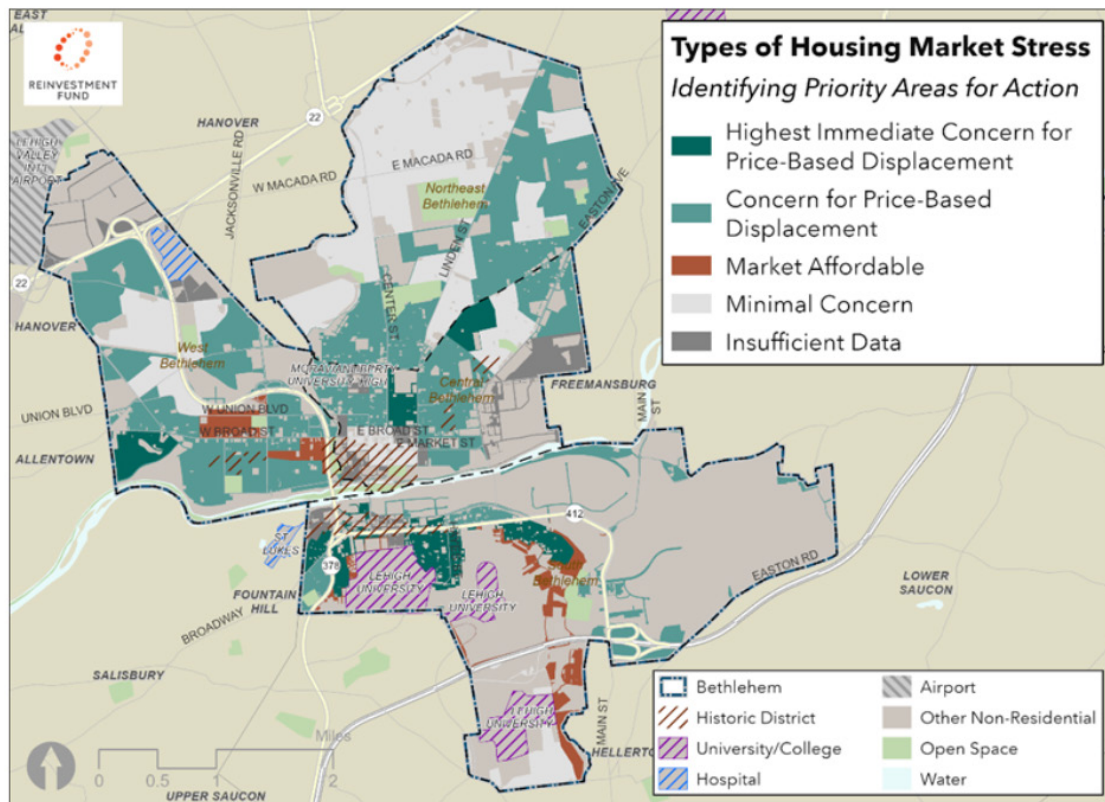
Figure 1: MVA Market Types Displacement Risk Levels

Market Value Analysis Classifications

		Strong Markets	Middle Markets	Weaker Markets
Change in Displacement Risk Ratio	Very High Pressure		Highest Immediate Concern for Price-Based Displacement	
	High Pressure		Concern for Price-Based Displacement	
	Market Affordable		Opportunities to Preserve Affordability	

Map 14 presents these different categories as a way for thinking about the intersection of the MVA market types (Strong Markets, Middle markets, Weaker Markets) and Displacement Risk in Bethlehem (Very High-Pressure Markets, High-Pressure Markets, Market-Affordable Markets). Priority areas for interventions to preserve affordability are those Middle and Weaker Markets that are experiencing high pressure. At the other end of the spectrum, Middle and Weaker Markets that are still ‘Market Affordable’ are also places where there are opportunities to preserve affordability for existing and future residents.

Map 14: Priority Areas to Mitigate Displacement & Preserve Affordability



As seen in **Map 14**, a majority of the city is either ‘Highest Immediate Concern for Price-Based Displacement’ (dark green) or ‘Concern for Price-Based Displacement’ (light green), reflecting the intense price pressure experienced by residents across the city. However, Middle Markets and Weaker Markets where prices are not rising as fast as other parts of the city (i.e., Market-Affordable Middle Markets) represent ideal locations for efforts to preserve affordability given the relative strength of these housing markets overall, and the fact that they are not currently subject to as much price pressure as other markets across the city.

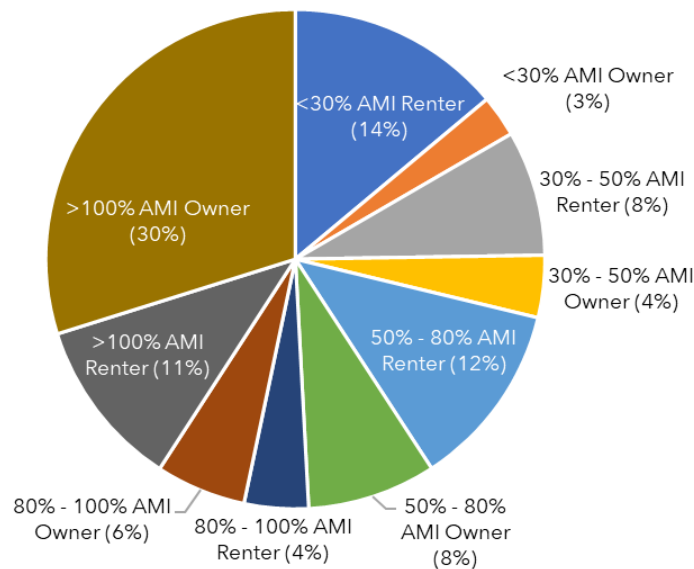
III. Housing Challenges

What is Affordable?

The conversation around affordable housing typically focuses on housing need among low-and moderate-income households, defined as households earning less than the area median income (AMI), with area being the Allentown-Bethlehem-Easton metropolitan area. HUD provides an estimated breakdown of income categories for all Census Tracts in the U.S.

Based on HUD definitions, 49% of all households in Bethlehem are low-income (earning less than 80% of AMI), the majority of whom are renters (69% of all low-income households).

Chart 8: Household Distribution by Income and Tenure



Source: HUD CHAS based on ACS 2015-2019

HUD's income categories vary based on household size (described in the table below). For example, a one-person household earning \$55,000 per year is considered moderate income, but a four-person household earning the same would be considered low income.

Using the guideline that households should pay no more than 30% of their income on housing, we provide estimates on the maximum rent and maximum home price for an individual and a family of four. We compare this to median rents for a one-bedroom and three-bedroom unit, as well as the typical sale price for a condo and single-family home.

We see that typical home prices are unaffordable for households earning less than 80% AMI; individuals earning less than \$50,000 per year and families of four earning less than \$72,000 per year. This represents 49% of all households in Bethlehem, including many young professionals.

Table 9: Housing Affordability by Income Category

	Extremely Low Income <30% AMI	Very Low Income 30% - 50% AMI	Low Income 50% - 80% AMI	Moderate Income 80% - 100% AMI
Income Range – 1 Person	Less than \$19,050	Between \$19,050 and \$31,749	Between \$31,750 and \$50,799	Between \$50,800 and \$63,449
Income Range – Family of 4	Less than \$27,180	Between \$27,180 and \$45,299	Between \$45,300 and \$72,479	Between \$72,480 and \$90,599
Affordable Monthly Rent – 1 Person	\$476	\$793	\$1,270	\$1,587
Cost to Rent a 1-Bedroom Unit in Bethlehem (median) - \$1,400 per month				
Affordable Monthly Rent – Family of 4	\$679	\$1,132	\$1,812	\$2,265
Cost to Rent a 3-Bedroom Unit in Bethlehem (median) - \$2,000 per month				
Affordable Home Price – 1 Person	\$71,259	\$118,715	\$190,123	\$237,579
Cost to Buy a Condo in Bethlehem (average) - \$292,000				
Affordable Home Price – Family of 4	\$101,649	\$169,464	\$271,263	\$339,078
Cost to Buy a Single-Family Home in Bethlehem (average) - \$314,000				

Source: HUD Fair Market Rent 2022 and Zillow SOVI market data effective May 2023

Low-income residents in Bethlehem struggle to afford housing in the city and in much of the Lehigh Valley. The problem is particularly acute for renters earning less than 80% of AMI (less than \$50,000 for a single- person household and less than \$72,000 for a family of four); and owners earning less than 50% of AMI (less than \$32,000 for a single-person household and less than \$48,000 for a family of four).

Many of the workers fueling the Lehigh Valley’s economy cannot afford local housing prices. Workers in low-wage occupations like food service, retail, home health aides and janitorial services, would need to double their wages to afford a one-bedroom unit. These renters, who generally earn less than 50% of AMI, cannot afford to rent in the city without housing subsidy.

Overall, most city seniors own their homes and have higher incomes. But out of the seniors who rent, a substantial number are paying too much for housing expenses. More than half of all senior renters - 1,725 households – are cost-burdened, and half of all senior renters earn less than 30% of AMI and are extremely low-income.

There is racial disparity in who experiences housing challenges and who can access homeownership. Black and Latino homeowners are more likely to be cost-burdened than White, non-Latino homeowners, even when controlling for income. Black and Latino households are also less likely to be homeowners regardless of income.

Among Bethlehem households earning more than 100% AMI, the White homeownership rate is 79% compared to 64% among Latino households and 32% among Black Households.

The city's residents with the greatest housing needs are those without homes or who are at risk of losing their homes. The 2022 Point in Time Survey (the annual survey HUD requires to account for homeless populations) identified 541 homeless households in the Lehigh Valley, with a significant need among homeless families with children.

HUD Comprehensive Housing Affordability Strategy

HUD provides extensive data to help housing providers understand their housing needs through their Comprehensive Housing Affordability Strategy (CHAS) dataset. This data set uses five-year American Community Survey (ACS) data to quantify the housing challenges families and individuals face based on race and ethnicity, income, tenure and household size. It is based on self-reported survey responses that lag the most recently available reporting (the data available in 2022 reflect the 2015 – 2019 ACS). However, it clearly details who is struggling to find decent, affordable housing among renters, individuals, seniors, large families and minority households.

We use this data to identify key housing challenges among households living in Bethlehem in comparison to the region and state. The data is also presented by census tract in maps displaying affordability challenges.

The data represented here illustrates the number and percentage of households who are cost-burdened. HUD defines housing cost burden as paying more than 30% of pre-tax household income on housing costs. HUD also provides another category for extreme cost-burden, defined as households who pay more than 50% of their pre-tax income on housing. These figures depict a dire shortage of affordable housing, especially among households earning less than 50% of AMI. These households have limited options to find more affordable housing and are at-risk of foreclosure or eviction.

It should be noted that the number and types of households experiencing cost burden does not indicate housing demand; these families and individuals already live in the community and have a housing unit. However, the CHAS numbers illustrate the need for more affordable housing options and potential maintenance programs for cost-burdened, low-income homeowners.

3,710 low-income households pay more than half their income on housing costs and are extremely cost-burdened. This represents 12% of all households in the city.

According to the HUD CHAS data, there are 6,139 low-income renter households who pay too much for housing. Of those households 2,886 pay more than half of their income on housing and are extremely cost-burdened.

Among low-income homeowners, 2,177 households pay more than one-third of their income on housing; 824 of these households pay more than half.

In total, 3,710 low-income households pay more than half their income on housing representing 12% of all households in the city, and 78% of these households are renters.

Summary of Affordability Challenges:

- Renters experience far greater affordability challenges than homeowners, with 45% of all renters experiencing cost burden compared to 18% of homeowners.
- One in five renters is extremely cost-burdened by housing costs, paying more than 50% of their income on rent. This represents 2,900 households.
- There are roughly 1,900 renter households who earn less than 30% of AMI (~ less than \$25,000 per year) and are extremely cost-burdened. These renters face the greatest risk of eviction and are most at-risk for homelessness. This includes those on Social Security, the disabled and low-wage workers in industries like healthcare, retail, janitorial and food services.
- In Bethlehem, rents are unaffordable for 51% of renter households earning 50% - 80% of AMI which is significantly higher than the state (32%). This indicates an atypical shortage of rental units priced between \$1,000 and \$1,500 per month.
- Although most homeowners are middle-income and above, 70% of very low-income homeowners are cost-burdened (1,374 households). This includes seniors on fixed incomes and homeowners with high interest-rate mortgages.
- Low-income homeowners experience the greatest affordability challenges in the more expensive housing markets in the northern parts of the city and outside city limits, while South Bethlehem is more affordable for homeowners (see Map 15).
- Low-income renters experience the greatest affordability challenges in the northern parts of the city and downtown, but also in South Bethlehem (see Map 16).

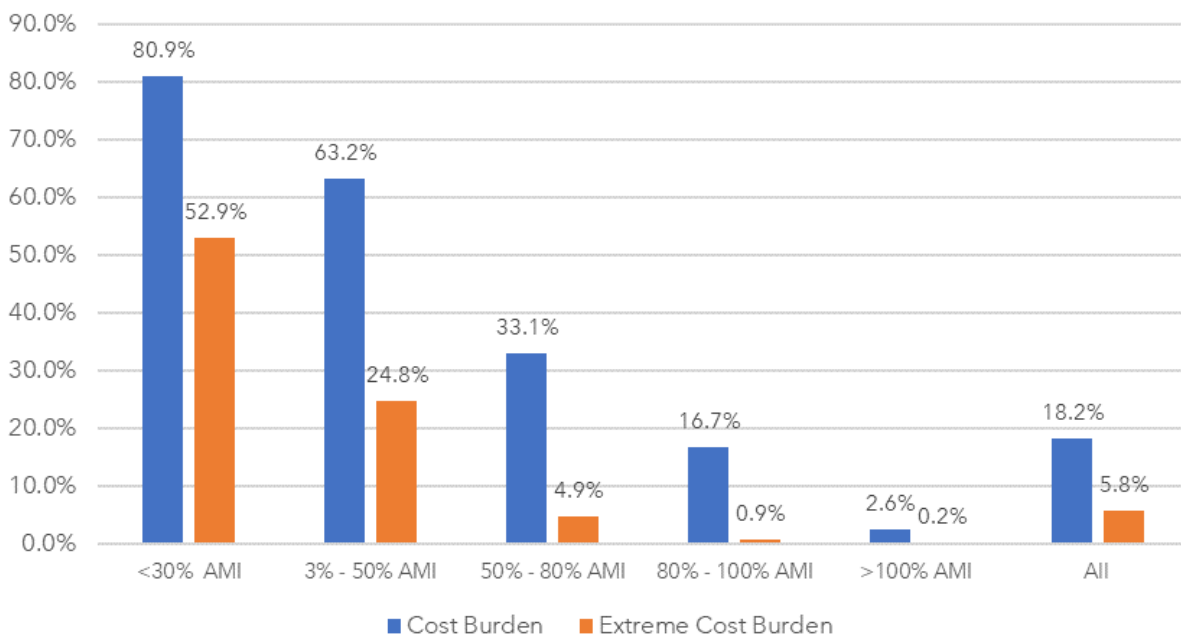
80%

development costs that would
need to be subsidized to create a
rental unit affordable to someone
earning less than 50% of AMI

30%

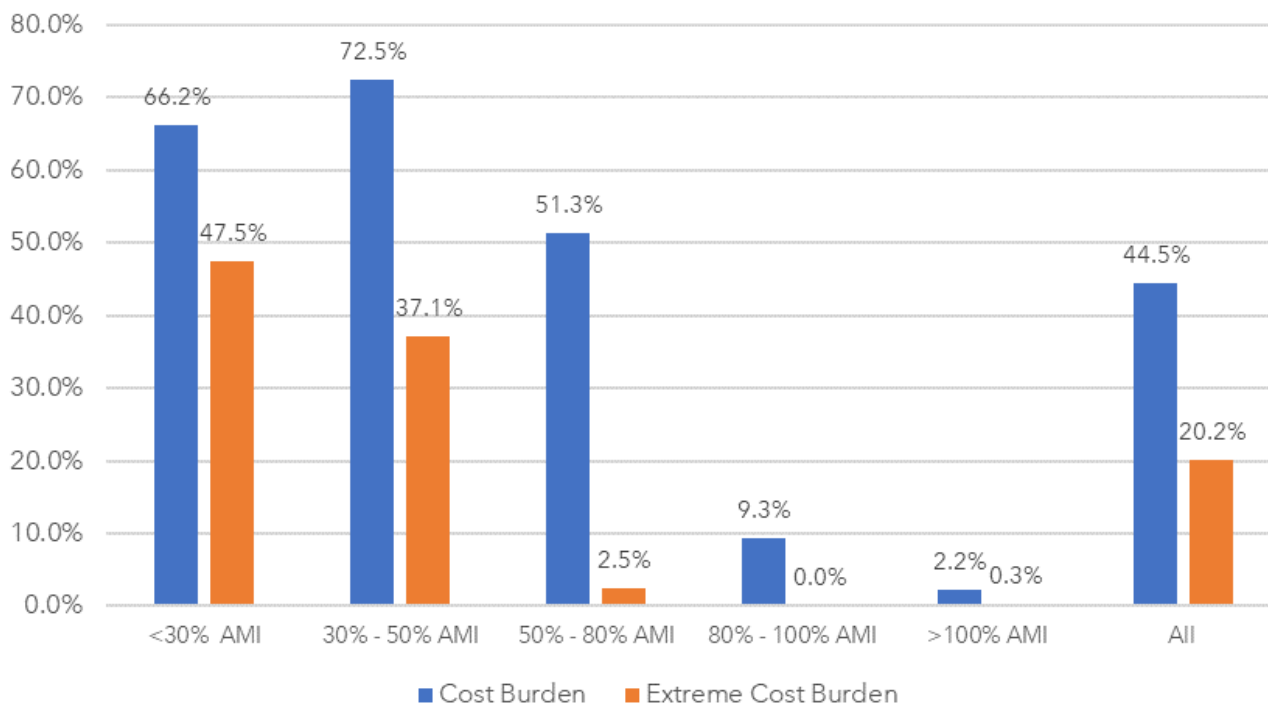
development costs that would
need to be subsidized to construct
a home affordable to a family of
four earning less than 80% of AMI

Chart 9: Affordability Challenges for Homeowners in Bethlehem by Income



Source: HUD CHAS 2022 based on ACS 2015-2019

Chart 10: Affordability Challenges for Renters in Bethlehem by Income



Source: HUD CHAS 2022 based on ACS 2015-2019

Table 10: Cost Burden and Extreme Cost Burden, Renters

City of Bethlehem					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	4,050	2,682	66.2%	1,922	47.5%
30% - 50% AMI	2,360	1,712	72.5%	876	37.1%
50% - 80% AMI	3,500	1,795	51.3%	88	2.5%
80% - 100% AMI	1,209	112	9.3%	0	0.0%
>100% AMI	3,200	70	2.2%	10	0.3%
All	14,319	6,371	44.5%	2,896	20.2%
Allentown-Bethlehem-Easton MSA					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	19,742	14,576	73.8%	12,358	62.6%
30% - 50% AMI	16,233	13,047	80.4%	5,174	31.9%
50% - 80% AMI	18,433	8,693	47.2%	989	5.4%
80% - 100% AMI	7,889	1,287	16.3%	105	1.3%
>100% AMI	19,750	700	3.5%	185	0.9%
All	82,047	38,303	46.7%	18,811	22.9%
Pennsylvania					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	434,468	318,877	73.4%	260,385	59.9%
30% - 50% AMI	298,145	210,330	70.5%	69,868	23.4%
50% - 80% AMI	327,466	103,633	31.6%	13,299	4.1%
80% - 100% AMI	154,916	16,348	10.6%	2,314	1.5%
>100% AMI	356,996	10,350	2.9%	1,365	0.4%
All	1,571,991	659,538	42.0%	347,231	22.1%

Source: HUD CHAS 2022 based on ACS 2015 - 2019

Table 11: Cost Burden and Extreme Cost Burden, Owners

City of Bethlehem					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	785	635	80.9%	415	52.9%
3% - 50% AMI	1,169	739	63.2%	290	24.8%
50% - 80% AMI	2,425	803	33.1%	119	4.9%
80% - 100% AMI	1,700	284	16.7%	15	0.9%
>100% AMI	8,675	223	2.6%	15	0.2%
All	14,754	2,684	18.2%	854	5.8%
Allentown-Bethlehem-Easton MSA					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	9,202	7,641	83.0%	6,041	65.6%
3% - 50% AMI	13,617	8,708	63.9%	4,009	29.4%
50% - 80% AMI	26,189	10,233	39.1%	2,662	10.2%
80% - 100% AMI	19,099	4,382	22.9%	502	2.6%
>100% AMI	102,669	5,622	5.5%	450	0.4%
All	170,776	36,586	21.4%	13,664	8.0%
Pennsylvania					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	270,947	202,832	74.9%	147,087	54.3%
3% - 50% AMI	337,209	169,602	50.3%	70,658	21.0%
50% - 80% AMI	561,537	161,612	28.8%	38,253	6.8%
80% - 100% AMI	376,210	62,526	16.6%	7,900	2.1%
>100% AMI	1,934,642	82,897	4.3%	8,134	0.4%
All	3,480,545	679,469	19.5%	272,032	7.8%

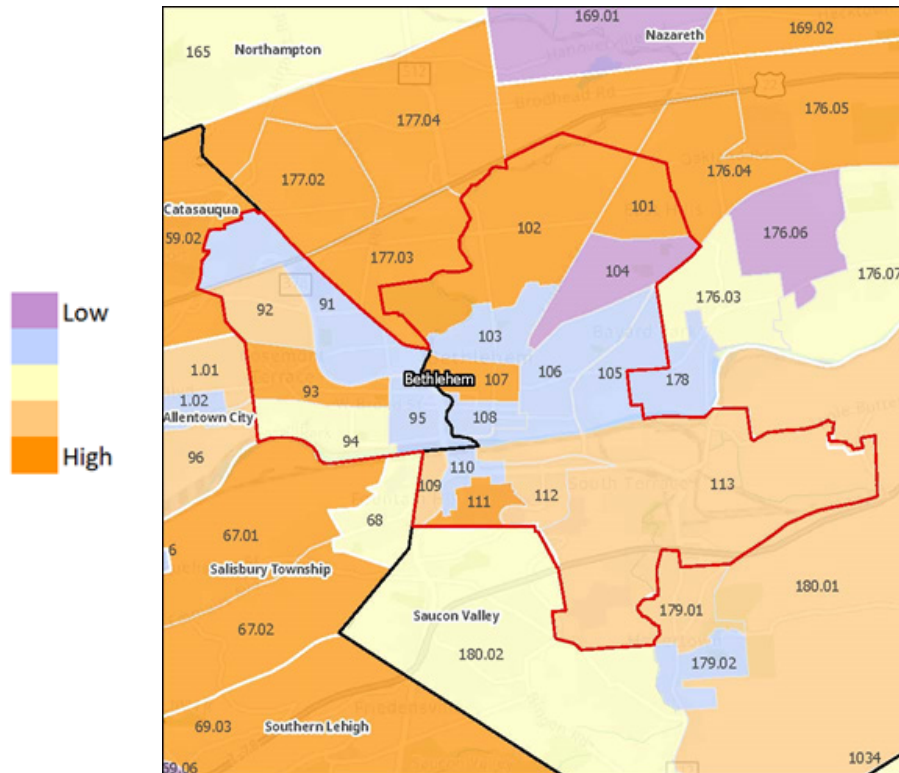
Source: HUD CHAS 2022 based on ACS 2015 - 2019

Table 12: Cost Burden and Extreme Cost Burden, All Households

City of Bethlehem					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	4,835	3,317	68.6%	2,337	48.3%
3% - 50% AMI	3,529	2,451	69.5%	1,166	33.0%
50% - 80% AMI	5,925	2,598	43.8%	207	3.5%
80% - 100% AMI	2,909	396	13.6%	15	0.5%
>100% AMI	11,875	293	2.5%	25	0.2%
All	29,073	9,055	31.1%	3,750	12.9%
Allentown-Bethlehem-Easton MSA					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	28,944	22,217	76.8%	18,399	63.6%
3% - 50% AMI	29,850	21,755	72.9%	9,183	30.8%
50% - 80% AMI	44,622	18,926	42.4%	3,651	8.2%
80% - 100% AMI	26,988	5,669	21.0%	607	2.2%
>100% AMI	122,419	6,322	5.2%	635	0.5%
All	252,823	74,889	29.6%	32,475	12.8%
Pennsylvania					
	All Households	Cost-Burdened Households	Cost Burden	Extremely Cost-Burdened Households	Extreme Cost Burden
<30% AMI	705,415	521,709	74.0%	407,472	57.8%
3% - 50% AMI	635,354	379,932	59.8%	140,526	22.1%
50% - 80% AMI	889,003	265,245	29.8%	51,552	5.8%
80% - 100% AMI	531,126	78,874	14.9%	10,214	1.9%
>100% AMI	2,291,638	93,247	4.1%	9,499	0.4%
All	5,052,536	1,339,007	26.5%	619,263	12.3%

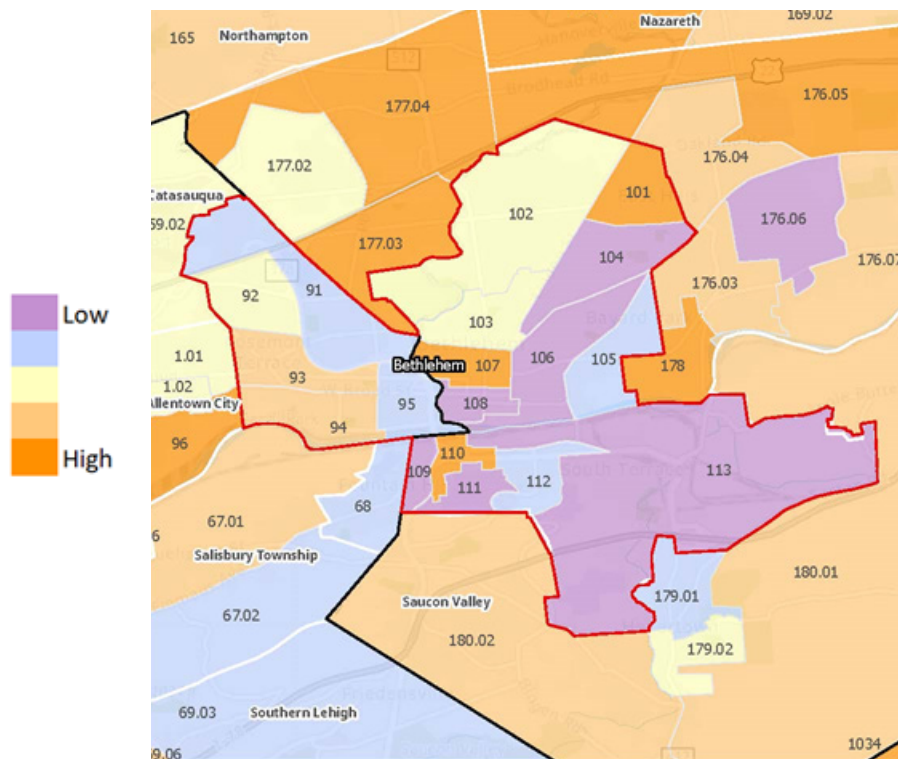
Source: HUD CHAS 2022 based on ACS 2015 - 2019

Map 15: Percentage of Low-Income Renters who are Extremely Cost Burdened



Source: HUD CHAS 2022 based on ACS 2015-2019

Map 16: Percentage of Low-Income Owners who are Extremely Cost Burdened



Source: HUD CHAS 2022 based on ACS 2015-2019

Equitable Housing

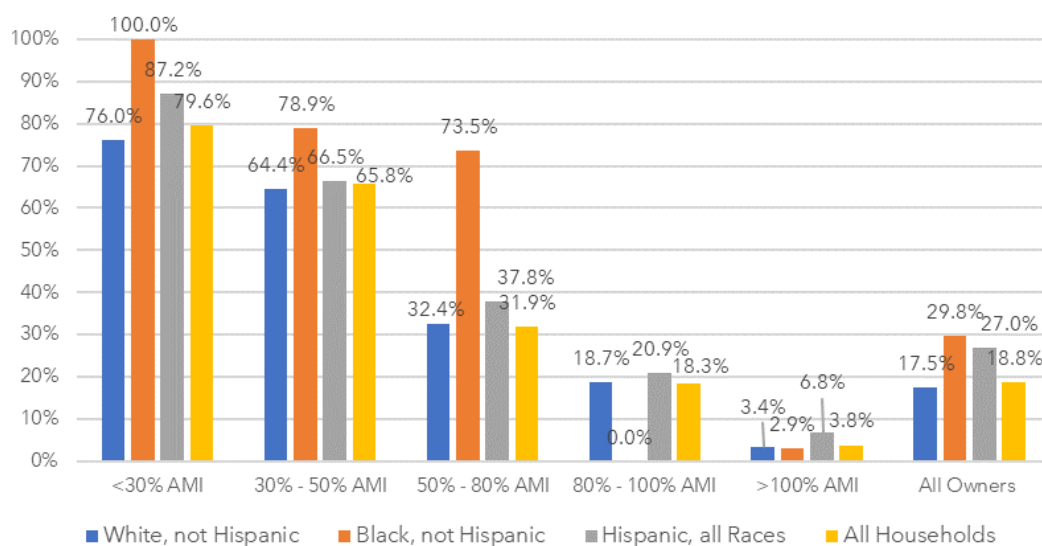
HUD provides data on housing challenges renters and owners experience categorized by race/ethnicity and income. Housing challenges include paying more than 30% of income on housing; living in overcrowded conditions; or living without adequate plumbing or kitchen facilities. This information is used to understand racial disparity in homeownership and the housing burdens minority households experience.

According to the data, Black and Hispanic families experience greater housing challenges than White, non-Hispanic households, even when controlling for race.

Among homeowners, 18% of White households experience housing challenges, compared to 30% for Black households and 27% for Hispanic households.

Even controlling for income, Black homeowners experience more housing challenges. Among homeowners earning between 50% and 80% of AMI (often a target income bracket for first time homebuyers), 74% of Black households experience housing challenges, compared to 38% for Hispanic households and 32% for White households.

Chart 11: Homeowners with Housing Challenges by Race and Ethnicity in Bethlehem



Source: HUD CHAS 2022 based on ACS 2015-2019

The racial disparity among renters in Bethlehem is not as severe. Forty-five percent of White households experience housing challenges, compared to 46% for Black households and 49% for Hispanic households.

While the majority of renters earning less than 50% of AMI experience housing challenges, the problem is less severe among White and Hispanic households than Black households. This disparity is strongest among renters earning less than 30% of AMI; 84% of Black households experience housing challenges, compared to 65% of White and Hispanic households.

The data indicates that affordability challenges drop significantly once the household earns above 80% AMI. However, the most recent HUD data is from prior to the start of the pandemic. When we factor in the rental market price hikes, we can assume the percentages are even higher and many low-income renters who experienced housing challenges prior to the pandemic have been displaced.

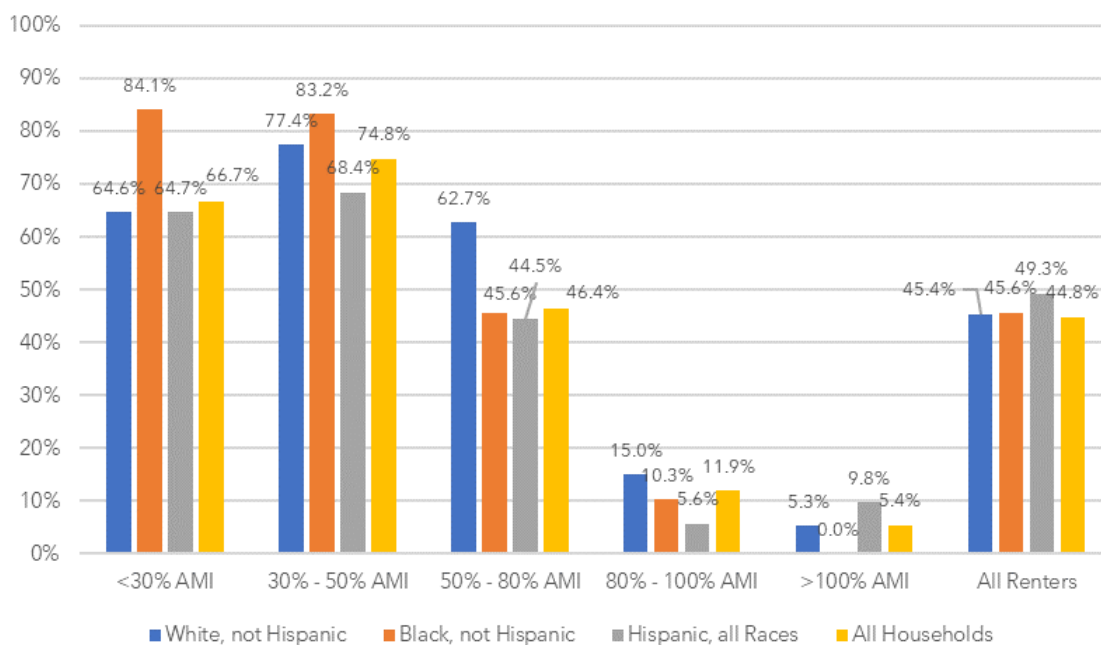
Access to Homeownership

It is well-documented that homeownership rates are substantially lower for minority households (notably Black and Latino households) than for White households. The disparity can partially be attributable to longstanding income gaps, (which we can assume would lead to lower homeownership rates among Black and Latino households), but the disparity is evident even when controlling for indicators like income and education. As the Urban Institute points out, Black college graduates have a lower homeownership rate (56.4%) than White high school dropouts (60.5%)^{xiv}.

Within Bethlehem, low-income White households are far more likely to own a home than Black or Latino households. For example, among households earning between 50% and 80% of AMI, the White homeownership rate is 53% compared to 14% and 24% for Black and Latino households, respectively. Among households earning above median income, the gap closes for Latino households, with a homeownership rate of 64% compared to 79% for White households. But the gap remains significant among Black households, with a homeownership rate of only 32%.

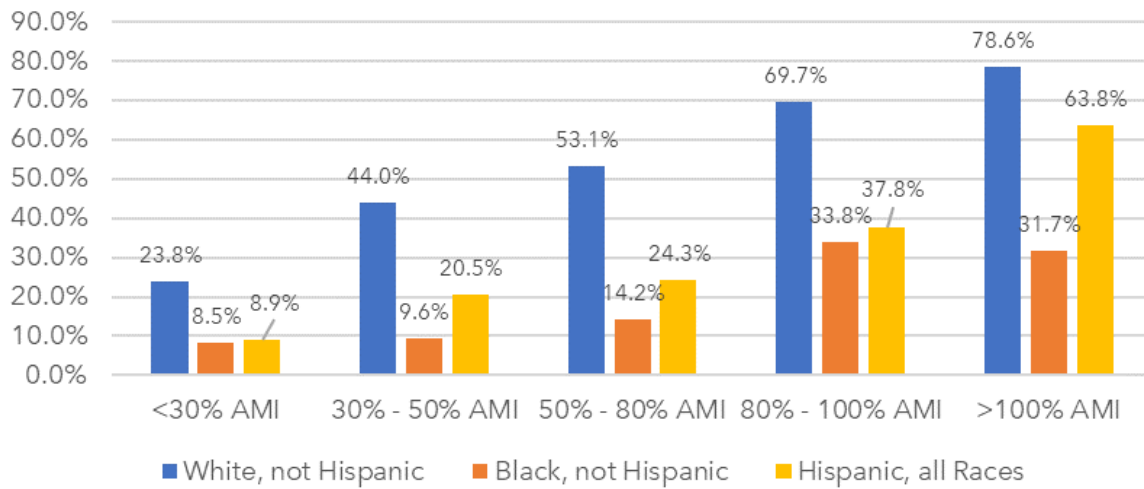
Note: The homeownership rates are also lower for Asian households, but only 625 Asian households are recorded in the CHAS data.

Chart 12: Renters with Housing Challenges by Race and Ethnicity in Bethlehem



Source: HUD CHAS 2022 based on ACS 2015-2019

Chart 13: Homeownership Rates by Race/Ethnicity and Income



Source: HUD CHAS 2022 based on ACS 2015-2019

The disparity in homeownership rates can partially be attributed to higher loan denial rates for Black and Latino households than White households within the Lehigh Valley. However, this does not fully explain the disparity in homeownership rates. Black and Latino households are less likely to even apply for a loan. Eighty-four percent of all loan applications were from White applicants even though they comprise 70% of the population. Only 12% of loan applications were from Latino applicants even though they comprise 20% of the population.

Table 13: Loan Applications and Denials by Race/Ethnicity, 2019-2021

	White		Black		Latino All Races	
	Applied	Denial Rate	Applied	Denial Rate	Applied	Denial Rate
<50% AMI	11,524	26.7%	852	30.0%	3,318	24.4%
50% - 80% AMI	20,288	15.9%	1,394	22.5%	4,331	17.3%
80% - 100% AMI	6,929	13.7%	414	23.7%	1,080	16.7%
>100% AMI	55,864	11.1%	2,456	20.2%	4,298	16.9%

Source: FFIEC Home Mortgage Disclosure Act for the Allentown-Bethlehem-Easton MSA

Senior Housing

The projected growth in Bethlehem's low-income, older adult population over the next decade means the demand for corresponding affordable housing solutions for owners and renters will also grow. Older adults today have distinctly different life experiences than in 2000 and therefore have unique housing needs. Increasing life expectancies mean Americans will be living on fixed incomes for a larger percentage of their lifetime. Older adults are also more likely to be working, requiring housing to be conveniently located near employment. Finally, senior homeowners today are more likely to have a mortgage than twenty years ago, an impact of the mortgage crisis of 2008, and therefore will have less equity to use for long-term care.

With rising rents, home prices and utility costs, low-income seniors will increasingly find it difficult to afford housing. Those with the greatest needs, earning less than 50% of AMI, are more at-risk of homelessness, foreclosure and living in deteriorating housing conditions.

Among senior Bethlehem homeowners, there were 682 cost-burdened seniors earning less than 50% AMI, with about half experiencing extreme cost burden, according to HUD CHAS data.

The financial strain was more severe for low-income seniors who are renters. Among these seniors, 1,306 households earned less than 50% AMI and were cost-burdened. And 61% of those households spent more than half of their income on housing, making them extremely cost-burdened.

Seniors earning above 50% AMI face fewer financial challenges, according to the data. But this doesn't reflect recent spikes in rental prices due to the dataset's inherent time lag.

A majority of senior renters earning between 50% to 80% of AMI also are priced out of the market. Without guaranteed affordability, low-income senior renters are at a greater risk of eviction and displacement.

Table 14: Cost Burden for Seniors (65+ Years Old)

	Owners								
	Elderly Family			Elderly Non-Family			All Elderly Households		
	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden
<30 % AMI	113	74.3%	74.3%	339	85.0%	48.1%	452	82.3%	54.6%
30% - 50% AMI	143	58.0%	16.1%	460	49.3%	17.2%	603	51.4%	16.9%
50% - 80% AMI	664	20.2%	1.5%	499	23.2%	5.8%	1,163	21.5%	3.4%
80% - 100% AMI	399	15.8%	0.0%	183	10.9%	0.0%	582	14.3%	0.0%
>100% AMI	1,910	4.9%	0.8%	680	8.8%	0.0%	2,590	5.9%	0.6%
All	3,229	14.2%	4.1%	2,161	32.9%	12.5%	5,390	21.7%	7.5%
	Renters								
	Elderly Family			Elderly Non-Family			All Elderly Households		
	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden
<30 % AMI	240	80.8%	74.6%	1,310	54.9%	30.8%	1,550	58.9%	37.6%
30% - 50% AMI	94	56.4%	41.5%	565	60.2%	31.0%	659	59.6%	32.5%
50% - 80% AMI	118	37.3%	0.0%	469	65.9%	7.2%	587	60.1%	5.8%
80% - 100% AMI	89	0.0%	0.0%	50	40.0%	0.0%	139	14.4%	0.0%
>100% AMI	163	0.0%	0.0%	219	22.8%	4.6%	382	13.1%	2.6%
All	704	41.3%	31.0%	2,613	55.0%	23.8%	3,317	52.1%	25.4%
	All Households								
	Elderly Family			Elderly Non-Family			All Elderly Households		
	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden	All	Cost Burden	Extreme Cost Burden
<30 % AMI	240	78.8%	74.5%	1,310	61.1%	34.4%	1,550	82.9%	53.5%
30% - 50% AMI	94	57.4%	26.2%	565	55.3%	24.8%	659	106.7%	48.0%
50% - 80% AMI	118	22.8%	1.3%	469	43.9%	6.5%	587	102.7%	12.4%
80% - 100% AMI	89	12.9%	0.0%	50	17.2%	0.0%	139	74.1%	0.0%
>100% AMI	163	4.5%	0.7%	219	12.2%	1.1%	382	53.4%	6.5%
All	704	19.0%	8.9%	2,613	45.0%	18.7%	3,317	87.4%	37.5%

Source: HUD CHAS 2022 based on ACS 2015 - 2019

Housing for the Homeless and Those At Risk

Developing accurate estimates of a homeless population is an impossible task. Many are transient and live out of public view. Data we see is largely based on persons experiencing homelessness that have received some form of assistance and are “in the system.” The homeless who are squatting in abandoned buildings, sleeping in parked cars, living in the woods or in hidden parts of the city are typically not accounted for. Data also does not account for a much larger homeless population: households who are living in precarious situations like short-term motels, in the homes of friends or family, or living in recreational vehicles.

There is also a discrepancy in how homeless individuals and families are accounted for, leading to a wide range of estimates. To gain a better understanding of the homeless population, this study utilizes the Point in Time (PIT) Survey administered by HUD’s Continuum of Care (CoC) providers. The survey is conducted one day every January. Surveyors count the population within shelters, transitional housing and homeless they can identify in known encampments or hotspots. Naturally, the count excludes the unseen homeless on the day of the survey.

Based on the PIT surveys, there were 921 homeless in the Lehigh Valley in 2022, a 36% increase from 2020. (The survey was not conducted in 2021 due to COVID-19). There were alarming increases between 2020 and 2022 for the following populations: 51% increase in families with children; a 93% increase for veterans; a 46% increase in individuals experiencing chronic homelessness; and a 46% increase for households experiencing domestic violence.

Based on 2022 CoC data, the Annual Housing Service Demand for the Lehigh Valley was 746 households for homeless prevention services; 601 households for Rapid Rehousing, and 295 households for Permanent Supportive Housing.

According to a Statement of Need developed by Diana T. Meyers and Associates, the Lehigh Valley only has 14% capacity to meet this need, with acute shortages in rapid rehousing units and emergency shelters.

In the Lehigh Valley, it is extremely challenging to transition someone experiencing homelessness into affordable, permanent housing. The Lehigh Valley Homeless Advisory Board (LVRHAB) created a Coordinated Entry System in 2016 to assess people experiencing homelessness or who are at risk and refers them to available housing resources. According to 2022 data, only 14% of those enrolled by the LVRHAB exited to permanent housing (it was 30% across the entire Eastern Pennsylvania Continuum of Care). This difference can partially be explained by a shortage of transitional and permanent supportive housing units for those who have experienced homelessness to access.

Workforce Housing

To understand housing affordability challenges for the local workforce, we analyzed the median wages and home affordability for the top twenty occupations with the most workers in the region. It highlights the pricing of homes (for rent or for sale) they can afford. Affordability is defined as paying no more than 30% of household income on housing expenses.

We provide two variations for each occupation, one representing a single-earner household and the other representing a two-earner household where both workers have comparable pay.

Table 15: Housing Affordability for Top 20 Occupations in the Lehigh Valley

	Total Employed	Annual Median Salary \$	One-Earner Household		Two-Earner Household	
			Rent Affordability \$	Home Affordability	Rent Affordability \$	Home Affordability
General Laborers and Material Movers	14,620	36,570	762	\$127,995	1524	\$182,850
Registered Nurses	9,930	77,830	1,621	\$272,405	3243	\$389,150
Stockers and Order Fillers	9,020	30,380	633	\$106,330	1266	\$151,900
Home Health and Personal Care Aides	8,960	28,350	591	\$99,225	1181	\$141,750
Retail Salespersons	8,270	28,200	588	\$98,700	1175	\$141,000
Cashiers	8,130	23,480	489	\$82,180	978	\$117,400
Fast Food and Counter Workers	7,470	23,230	484	\$81,305	968	\$116,150
Office Clerks, General	7,270	37,860	789	\$132,510	1578	\$189,300
General and Operations Managers	6,720	97,930	2,040	\$342,755	4080	\$489,650
Customer Service Representatives	6,530	36,510	761	\$127,785	1521	\$182,550
Heavy and Tractor-Trailer Truck Drivers	6,410	49,140	1024	\$171,990	2048	\$245,700
Janitors and Cleaners	5,780	29,750	620	\$104,125	1240	\$148,750
Industrial Truck and Tractor Operators	5,780	38,730	807	\$135,555	1614	\$193,650
Administrative Assistants	4,960	38,050	793	\$133,175	1585	\$190,250
Nursing Assistants	4,800	36,410	759	\$127,435	1517	\$182,050
Miscellaneous Assemblers and Fabricators	4,790	38,180	795	\$133,630	1591	\$190,900
Elementary School Teachers	3,980	77,710	1619	\$271,985	3238	\$388,550
Maintenance and Repair Workers, General	3,870	46,640	972	\$163,240	1943	\$233,200
Waiters and Waitresses	3,830	25,100	523	\$87,850	1046	\$125,500
Secondary School Teachers	3,700	72,200	1504	\$252,700	3008	\$361,000
Median Rent 1-Bedroom			\$1,465			
Median Rent 2-Bedroom			\$1,750			
Typical Home Value			\$310,000			

Source: Occupational Employment and Wages in Allentown-Bethlehem-Easton — May 2021; Zillow SOVI and Rentals Data effective March 2023

In March 2023, the average home price in Bethlehem was \$310,000 and the average rent for a one- or two-bedroom unit was \$1,465 and \$1,750, respectively.

According to the affordability chart in Table 15, 16 of the top 20 occupations in the region could not afford a one-bedroom unit in the city. Even when we assume a dual-income household (with each worker earning roughly the same), only four of the top 20 occupations could afford a median-priced home in the city.

More alarmingly, many of the city's workers – cashiers, food servers, home health aides, retail and janitorial workers - cannot afford to rent a one-bedroom apartment, even with two earners in the household.

Note: Workforce housing is often defined as housing for moderate and middle-income households, those earning between 80% and 120% of AMI. However, estimates for labor demand suggest that a substantial share of future local and national job growth will occur in low-skilled service industry jobs, which earn well below 80% of AMI.

Workers with occupations in lower-paying and necessary jobs like food service, retail and home health care, would need to earn roughly

\$40,000 more per year

to afford a one-bedroom unit in Bethlehem.

Housing Demand

According to household forecasts produced by ESRI Business Analyst, Bethlehem's population is anticipated to change very little over the next five years despite high demand for housing in the city and the Lehigh Valley. These projections are based on regional job growth, recent construction and building permit activity, and aerial analyses of land availability.

Because the city has limited vacant land for new construction, it makes sense that projections are low. However, because the Lehigh Valley is expected to add roughly 5,700 households by 2028, and the demand for housing in Bethlehem is high (as indicated by low vacancy and surge in home prices), we can expect any new housing construction in Bethlehem will be sold or leased quickly.

Forecasts predict a significant shift in income among Bethlehem's residents while the population remains mostly static, suggesting an in-migration of wealthier households and an out-migration of low-income households.

Over the next five years, forecasts show Bethlehem gaining 262 homeowner households and losing 28 renter households, for a net gain of 234 households. Projections show the city losing 1,450 households making less than \$100,000 a year, while gaining 1,700 households earning more than \$100,000 a year.

While Bethlehem's total population will remain stable, the city must add rental units to address its acute housing shortage. **The city's 2% rental vacancy rate signals a crisis.** The city needs 719 new rental units to rebalance the market to a healthier 7% vacancy rate.

These figures do not account for the housing demand created by the 541 households that experienced homelessness in the Lehigh Valley in 2022. There is demand for 47 additional permanent supportive housing units in Bethlehem if the city were to construct housing for a portion of the Lehigh Valley's homeless population based on a per capita basis.

The demand model also factors in the obsolescence of rental units leaving the market due to aging housing stock. The estimated loss of 0.4% annually creates demand for an additional 296 units.

Over the next five years, Bethlehem needs 1,052 additional rental units to alleviate its existing rental housing shortage and provide housing for a portion of the Lehigh Valley's homeless population. Forty-seven percent of those units should be affordable to very low-income households, earning less than 50% of AMI, while 29% should be market-rate.

Table 16: Additional Rental Units Needed, 2023-2028

	Studio or 1 BR	2-BR	3-BR	4-BR	Total
Very Low Income	295	139	56	7	497
Low Income	120	84	36	3	243
Market Rate	148	112	46	6	312
Total	563	335	138	16	1,052

Source: Atria Planning using data provided by ESRI BAO 2022, HUD CHAS 2015 – 2019, Urban Institute, and Lehigh Valley RHAB PIT Survey 2021 and 2022

The construction of an additional 1,052 rental units will alleviate some of the rental housing market pressure but it will not solve the regional affordability dilemma. Without a significant increase in the region's subsidized rental housing, it will be difficult to alleviate the cost burden for the 4,400 very low-income renters living in Bethlehem and paying too much for housing.

While the forecasts for homeownership indicate that future market demand will be for higher priced units, there is an opportunity to ensure a portion of new homebuyers are first-time homebuyers with low-to moderate-incomes. According to the National Association of Realtors, first-time homebuyers make up 26% of home purchases. If the City were to target a percentage of new home sales to low- and moderate-income renters as part of a first-time homebuyer program, there is demand for 156 units.

Table 17: Demand for Low-and Moderate-Priced Homes for Sale

	2 BR or Less	3 or more Bedrooms	Total
Low Income (<80% AMI)	33	59	92
Moderate Income (80% - 100% AMI)	23	41	64
Total	56	100	156

Source: Atria Planning using data provided by ESRI BAO 2022, HUD CHAS 2022, MLS sales transactions 2023, and National Association of Realtors Market Trends 2022

IV. Community Engagement

This housing plan incorporates resident perspectives as well as the feedback of local housing experts and business leaders collected via community engagement. These stakeholders helped identify Bethlehem's most pressing housing needs and strategies to tackle them. Community engagement activities included multiple rounds of pop-up activities at community events across the city, and multiple rounds of focus groups and interviews with key housing stakeholders.

Pop Ups

Pop-up events were held throughout the city engaging residents by asking for their input on housing improvements in their community. The City of Bethlehem team set up tables at existing events asking participants to take part in three activities: a housing improvement activity, a housing survey, and a map activity indicating where they reside. All three activities were designed to collect meaningful information to inform strategies going forward. A total of eleven pop-up engagement events were held throughout the city in the months of October, November and December. Events were selected to reach a wide geographic area, and a diverse collection of Bethlehem residents. These events included:

- Farmers Market - October 20, 2022
- Kellyn Mobile Market - October 21, 2022
- BASD Football Game - October 21, 2022
- Trunk or Treat - October 25, 2022
- We Build Bethlehem - October 26, 2022
- BASD ESOL Night - November 4, 2022
- Lincoln Literacy Night - November 16, 2022
- City of Bethlehem Tree Lighting - November 18, 2022
- Donegan Elementary Conferences - November 21, 2022
- Fountain Hill Elementary Conferences - November 22, 2022
- Tranquility Park Tree Lighting - December 2, 2022

The Housing Improvement activity focused on collecting initial feedback from participants about prioritization of potential housing strategies. Eight frames were set up on a table, containing different housing strategy options. These eight strategies included:

- Address Gentrification and Displacement Risks
- More Affordable Apartments for Low-Income Households
- Eviction Prevention/Better Protections for Renters
- Housing for People with Mental or Physical Disabilities or Addiction Disorders
- Help with Home Maintenance for Low-Income Homeowners
- More Homeownership Opportunities for Low-Income Working Families
- Housing and Services for the Homeless
- Housing Programs for Low-Income Seniors.

Participants were each given \$100,000 in community bucks (play money) and instructed to spend their money on strategies most important to them by placing their community bucks inside the bucket located in front of each frame. Participants could either spend all of their money on one strategy or disperse it among several strategies.

A total of 308 residents participated in the activity spending a total of \$30,750,000 on the housing strategies. The results of the activity are ranked in the amount of money spent on each strategy. Residents' priorities are listed below in rank order:

- Housing and Services for the Homeless
- More Homeownership Opportunities for Low-Income Working Families
- Housing for People with Mental or Physical Disabilities or Addiction Disorders
- More Affordable Apartments for Low-Income Households
- Housing Programs for Low-Income Seniors
- Help with Home Maintenance for Low-Income Homeowners
- Eviction Prevention/Better Protections for Renters
- Address Gentrification and Displacement Risks

Housing Survey

A Housing Survey focused on providing feedback for what the City should include in the Housing Strategy Plan. The 10-question survey, available in English and Spanish, asked participants about their current housing conditions and opinions on future housing strategies. The survey was available to fill out in person at the events or online through the We Build Bethlehem website. The survey was live from October 20, 2022 through December 15, 2022. A total of **3,219 surveys** were completed. The results from the survey helped inform the selection of strategies and policies to meet the city's most pressing housing issues. (A complete summary of resident survey responses is presented in the Appendix.)

The following housing issues were most commonly identified by residents as issues facing Bethlehem owners and renters:

- Falling behind on mortgage and rent payments
- Insufficient funding to make needed repairs
- Adult children involuntarily living at home
- Overcrowding
- Price increases – home prices and rents

These are the strategies most commonly identified by residents, who then ranked the following strategies by importance as shown below:

Affordable housing construction

- Create diversity of housing types
- Supports for renters and landlords
- Financial assistance and tax relief for residents
- New policies, programs and partnerships

Focus Groups & Interviews

In December of 2022 and January of 2023, four focus groups were conducted with local and regional housing providers, nonprofit and for-profit developers, fair housing advocates, community leaders, lenders, and other housing stakeholders to discuss the housing challenges and opportunities to address these issues. In addition to the focus groups, phone interviews were conducted with elected officials and major employers to understand their specific concerns regarding housing needs in the community.

Following is a summary of responses from focus group participants and stakeholder interviews.

Challenges

- The Low-Income Housing Tax Credit (LIHTC) is the largest program for funding affordable rental housing in the U.S. The competitive tax incentive program requires a complex application that carries significant upfront costs. Many nonprofit and smaller developers do not have the resources to compete.
- To avoid the competitive 9% LIHTC, developers can use the 4% tax credit program, but this requires significant gap funding.
- Construction costs have increased significantly, including contingency requirements, from 10% to as high as 25%, increasing overall development costs.
- The zoning and approval process is unclear. Zoning also limits multi-family housing due to zoning restrictions and parking requirements.
- There is strong opposition to affordable rental housing in the city and especially in communities outside the city. This Not-In-My-Backyard mentality opposes higher density because of traffic concerns and farmland preservation. Community members also vocally oppose the “transient nature” of renters.
- Skyrocketing rents price out vulnerable residents and much of the city and region’s workforce. Landlords frequently hike rents beyond what people can afford, sometimes by 50% to 80% at once.
- Housing Choice Vouchers (Section 8) go unused because voucher holders cannot find landlords who will accept them. The subsidy attached to the vouchers is not sufficient to meet market-rate rent, and landlords are opting to rent to high-income residents with more upfront costs related to down payments, deposits and moving expenses.
- There isn’t enough land available to build new housing, and larger lots are expensive and attracting market-rate developers. Additionally, land may have environmental challenges.
- It is challenging to preserve existing affordable housing, including subsidized housing with expiring contracts. Units that were “naturally affordable” pre- pandemic are essentially gone.
- Homeless families do not have access to shelters that allow them to be together; they are split up due to gender restrictions.
- Persons experiencing homelessness or in transitional housing cannot find affordable apartments. The transition to permanent housing is nearly impossible when units are priced above \$1,200 per month. Low-income seniors need home repair assistance.
- Many homeowners cannot purchase a home because investors are offering all cash purchases.

Priorities/Opportunities

- Streamline the approval process for new projects and build more flexibility in zoning to allow diverse housing types, including alley-houses and middle housing, i.e., condos, townhomes, and small-scale rental buildings.
- Increase density allowances in low-density areas to promote mixed-income and mixed-use development.
- Work with churches to build affordable housing. Provide technical assistance to churches to build capacity and use their land.
- Build more transitional housing for persons who are homeless.
- Partner with the public housing authority for more development that can target deeply affordable units, for households making less than 50% of AMI.
- Provide tax abatements to developers of affordable housing.
- Provide tax abatements to low-income seniors.
- Build alley houses/ADUs.
- Require affordable housing in all new developments.
- Enact a rent stabilization program.
- Offer landlords incentives for maintaining affordability and accepting Housing Choice (Section 8) vouchers.
- Partner with banks for alternative financing and first-time homebuyer programs.
- Incentivize sellers to sell to owner-occupied buyers rather than investors.
- Convert non-residential structures to affordable housing.
- Increase student housing to free up units.
- Partner with health care network and universities for employer-sponsored housing programs.

Housing Committee Engagement

The City's Housing Strategy Committee, comprised of nonprofit organizations, university and hospital representatives, advocacy groups, and community development professionals, provided feedback to the City's proposed potential housing solutions in February and March of 2023.

These housing solutions were presented based on recommendations from focus groups, City leadership, and recommendations from the consulting team.

Committee members were provided with a series of online videos describing 20 housing programs, policies or tools, along with examples of how they were used in other places. The committee members then provided the City with feedback and recommendations for which programs or tools make the most sense for Bethlehem given the current capacity, resources, and development potential.

The committee's recommended strategies include the following:

1. Incentivize landlords to maintain affordability of their rental units.
2. Expand the development capacity in Bethlehem and the Lehigh Valley.
3. Find ways to do scattered site and infill development.
4. Find additional funding and allocate available funding for affordable housing development.
5. Incorporate alternative housing products, like accessory dwelling units (ADUs), repurposing commercial buildings, and modular construction, to lower development costs.

6. Partner with local institutions and other regional government entities for advocacy work and pooling of resources.
7. Invest in programs that provide homeless prevention services and assistance.

The Housing Strategy Committee then participated in a working session to discuss the challenges with priority strategies, potential opportunities for collaboration and partnerships, and the policies or funding that would need to be in place to implement these strategies. Following is a summary of the recommendations presented by Housing Strategy Committee members:

Landlord Incentives

- One-time cash payments to landlords in exchange for accepting a Housing Choice (Section 8) Voucher.
- Provide rehabilitation/repair match grants in exchange for accepting Housing Choice (Section 8) tenants.
- Develop a Landlord Network/Landlord Engagement Program.
- Collaborate with multiple public housing authorities to pool vouchers and use regionally.
- Create a partnership between the City and public housing authority to incentivize landlords.
- Support a nonprofit and/or small developer to build new rental housing that accepts project-based vouchers.

Increase developer capacity

- Secure more development partners through outreach at the regional and national level.
- Provide training to existing nonprofit developers regarding best practices.
- Create partnerships between national developers and local organizations.
- Create an incentive package for developers for affordable housing construction.
- Provide zoning exemptions/change single-family zoning for affordable housing development.

Incentivize development in scattered sites throughout the city

Acquire land through one of many vehicles, including:

- Create a land bank.
- Work through local Land Banks and Community Land Trusts.
- Enable a Redevelopment Authority to acquire property.
- Acquire property through Bethlehem Economic Development Corporation.
- Acquire property through the Bethlehem Housing Authority's nonprofit entity.

Provide funding for affordable housing development

Maximize project-based vouchers for new development.

- Prioritize Community Development Block Grant (CDBG) funds for affordable housing construction.
- Use the City's discretionary housing funds to avoid onerous federal regulations like environmental review.
- Provide predevelopment financing for affordable housing projects.
- Form partnerships with healthcare networks.
- Offer ground leases to developers for affordable housing development using public or institutional land.
- Designate a funding source for a City-managed affordable housing fund.
- Donate land to developers for affordable housing construction.

Create an Accessory Dwelling Units (ADUs) Program

- Focus development in West Bethlehem, which has sewer access in alleys and can support ADUs.
- Support a partnership between Community Action, Lehigh University and the City to develop and implement an ADU program.
- Provide gap funding, articulate policies and regulations, and offer zoning exemptions for ADUs.

Partner with local institutions for affordable housing development

- Encourage employer-assisted housing sponsored by the universities and hospital networks.
- Collaborate with institutional partners to pool land and funding for affordable and workforce housing.

Provide homeless prevention services

- Provide eviction prevention and mediation services for renters at-risk of losing their homes, including emergency rental assistance.

V. Current Housing Programs

Federal & State Programs

Low-Income Housing Tax Credit Program (LIHTC)

The LIHTC Program is the primary source of funding for affordable rental housing in America. It is operated through the U.S. Treasury and administered by each state's housing finance agency, who creates the priorities and scoring criteria for each state. The Pennsylvania Housing Finance Agency (PHFA) administered \$35,952,902^{xv} in tax credits in 2022, which funds an estimated \$460 million in rental housing development per year through its 9% tax credits. The PHFA also administers a non-competitive 4% tax credit combined with bond financing.

The application process for the 9% credits – which provides capital for approximately 70% of development costs - is highly competitive. Developers are required to fund substantial predevelopment costs as part of the application process (e.g., architectural fees, environmental and engineering assessments, purchase options, etc.), and may not be able to recuperate these expenses if the project does not receive tax credits. For this reason, many non-profits and small developers are unable to compete in the state's LIHTC Program.

Housing Options Grant Program

In 2023, Pennsylvania created a new affordable rental housing program using \$100 million in remaining American Rescue Plan Act (ARPA) funds earmarked for COVID-related recovery needs. The program, operated by the PHFA, prioritizes rental housing projects that are not competitive for tax credits and serves renter households earning less than 60% of AMI. The program requires applicants to pledge a 25% match.

Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE)

The PHFA administers the Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE), which serves as the state's housing trust fund. The program is funded by several sources, including the National Housing Trust Fund (HTF); a Realty Transfer Tax (RTT) funded by a 1% transfer tax on real estate transactions (capped at \$40 million per year); and a portion of impact fees paid by shale extraction enterprises (Marcellus Shale Fund). HTF funds are earmarked for tax credit projects to increase affordability for households earning less than 50% AMI. The Marcellus Shale Fund is reserved for shale-producing counties. The RTT is the most flexible funding pool and available to local government, nonprofits, for-profits, community development corporations and housing organizations. Eligible activities include housing construction, rehabilitation, supportive services, and homebuyer programs. It is a competitive annual grant.

Whole-Home Repairs Program

In 2022, Pennsylvania lawmakers created a new county-level housing rehab program with \$120 million of American Rescue Plan funding. Whole-Home provides funding to county-level agencies to distribute grants to low-to moderate-income families and forgivable loans to small landlords to repair and weatherize their properties.

Lehigh County hired Community Action Lehigh Valley to administer about \$1.8 million in home repairs funding and the response was overwhelming when applications opened this spring. Northampton County expects to award about \$1.5 million for home repairs, but it has not yet opened its application period.

The overwhelming statewide response to the program led to lawmakers allocating another \$50 million for Whole Home in the 2023-24 budget.

Act 58

Enacted in 2022, Act 58 gives Pennsylvania municipalities more power to grant tax incentives to spur affordable housing development on blighted or deteriorated properties.

The law allows a local government to grant a 10-year tax exemption on the assessed value of new construction of multi-unit buildings where 30% of units qualify as affordable housing or when a blighted property is repaired. To qualify under the act, the units must be rent restricted and available to individuals making no more than 60% of the area median income. Act 58 requires a local government to designate the boundaries of a deteriorated property prior to construction.

Act 58 also grants local authority to forgive or refund property taxes owed by low-income families due to property tax or assessment changes.

Public Housing Authorities

HUD provides funding to public housing authorities for two main programs – Public Housing and Section 8.

The Section 8 program provides Housing Choice Vouchers (HCVs) to low-income households so that they may rent a unit on the open market. Landlords may choose to accept a voucher, which equals the difference between what the tenant can afford to pay and the asking rent. Voucher holders are limited to moderately priced units, determined by HUD's Fair Market Rent (FMR) for the area. (For example, Bethlehem's FMR for a one-bedroom unit in 2023 was \$1,102 per month.) The housing authority may designate up to 20% of their vouchers to fixed units (project-based vouchers). Developers often use these vouchers as additional subsidy for new projects. The Bethlehem Housing Authority has funding for approximately 580 vouchers.

The housing authority also has capital funds, reserved for the maintenance and rehabilitation of their public housing units. Their capital fund budget in 2023 was \$4.7 million.

The Lehigh and Northampton County housing authorities have funding for about 1,672 and 859 vouchers respectively.

For major rehabilitation, housing authorities may apply for a HUD Choice Neighborhood Implementation (CNI) grant, which provides up to \$50 million for the redevelopment of at least one HUD-assisted housing development in distress. The program leverages significant public and private dollars through a comprehensive approach to neighborhood transformation. The grant requires collaboration between the public housing authority, city government, local schools, police, public

housing residents, and neighborhood stakeholders. The CNI grant is highly competitive; in 2022, HUD received 22 applications and funded six.

Other HUD Programs

HUD also operates the Section 202 Program for seniors and the Section 811 Program for very low-income persons with disabilities. The Section 202 Program provides capital grants and project rental assistance contracts to senior developments. The Section 811 Program provides funding to non-profits for rental housing development, supportive services, and rent subsidies, with the goal of integrating permanent supportive housing (PSH) into a rental community.

Local Programs

CDBG & HOME Funding

From 2017 to 2022, Bethlehem received \$5.7 million in Community Development Block Grant (CDBG) funds and HOME funds. The community development and housing priorities for these funds are established in the City's Consolidated Plan (2020 – 2024) and funded activities are tracked through annual Action Plans. During program years 2022 and 2023, approximately 51% of the City's aggregate CDBG and HOME funding was allocated to housing-related activities.

Key housing goals include the rehabilitation of homes for affordable homeownership; financial assistance and education for first-time homebuyers; creation or preservation of affordable rental units; homeless prevention services; and financial assistance for fair housing mediation. The plan is available through the City's Community Development Bureau.^{xvi}

The City's CDBG and HOME funds support a variety of housing-related activities. Some of these are down payment and closing cost assistance for income-qualified first-time homebuyers; home ownership financial counseling; for affordable homeownership; acquisition, rehabilitation, and development of affordable rental units; façade repair programs; funding for the repair of homes owned by low-and moderate-income households; funding for acquiring and constructing an emergency shelter.

The **Housing Rehabilitation Program**, funded with CDBG and HOME and administered by the Community Development Bureau, helps low-and moderate-income homeowners improve their residences, comply with City code requirements, make weatherization improvements, remediate lead paint and pay for emergency work. The program offers two types of rehabilitation funding: deferred payment loans, which only require repayment if the property is sold or a default under the loan documents occurs before the ten-year expiration; and direct loans, which require a monthly payment to the City, at an interest rate of 3% per annum, over a maximum of 10 years. Since 2021, the City has rehabilitated and provided façade repairs to more than 100 homes.

The Bethlehem Health Bureau's **Lead and Healthy Homes Programs** aim to improve the health and safety of the city's housing stock as the conditions in a home can have a major impact on one's health. Healthy Homes takes a comprehensive approach to addressing multiple childhood diseases and health hazards. The Lead program makes lead testing and, potentially, remediation available for eligible households. The bureau also connects children with elevated lead blood levels to services.

Both owner-occupied and rental units with income-qualifying tenants are eligible for each program. Landlord agreements include rent stabilization provisions over the life of the grant.

The **Homebuyer Assistance Program (BHAP)** and financial counseling provides first-time homebuyers purchasing a home in Bethlehem with down payment and closing cost assistance. Homebuyers must be low-income under HOME program guidelines and must complete a first-time homebuyer counseling program provided by Community Action of Lehigh Valley. Both CDBG and HOME funds support this program.

CDBG Residential Façade Programs. The City funds several residential façade programs through CDBG grants. These programs aim to improve the exterior appearance of residential properties in target areas of the City. These programs are administered by CDBG subrecipients, and depending on the program, are available for owner-occupied as well as rental properties. Examples of eligible work include exterior woodwork, painting, weatherization, doors and upper-story windows, brick and stone masonry and other work. The City currently partners with Community Action Development Corporation of Bethlehem, a Community Action Committee Lehigh Valley subsidiary, on façade projects throughout the city. Recent efforts focus on targeted areas in the City's Southside and the Friendship Park area in the City's Northside Alive/Neighborhood Revitalization Strategy Area (NRSA).

Redevelopment Authority Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE) Residential Façade Program.

Funded by state PHARE funds, this program provides an incentive to homeowners to rehabilitate the exterior of their home. Funds must be used in conjunction with the City's existing Housing Rehabilitation program. To be eligible, the property must be owner-occupied, the owner's primary residence and located in designated areas of the City. The income of all persons residing in the home determines income eligibility.

Single-Family Housing Acquisition/Development/Rehabilitation. The City supports local partners in the acquisition, development, and rehabilitation of single family homes throughout the City for sale to low-and moderate-income buyers. Recent partners include the Lehigh Valley Community Land Trust, Habitat for Humanity Lehigh Valley and Bethlehem Redevelopment Authority.

Affordable Rental; Single Room Occupancy; and Transitional Housing. In recent years, the City partnered with Greater Valley YMCA, Bethlehem Branch, to fund the heating and other improvements to the YMCA's single-room occupancy units. The City assisted New Bethany with funding for a new roof on their facility providing transitional housing for 28 families. Additionally, the City supported Valley Housing Development Corporation, with HOME funding, in their acquisition and rehabilitation of 33 units of affordable rental housing, including nine HOME-assisted units. The City also partnered with Moravian Development Corporation to fund the rehabilitation of 10 affordable rental units at Moravian House II.

Northampton County Residential Historic Façade Program. Utilizing non-federal funding administered by Northampton County, this program provides grant incentives for homeowners to restore the primary elevation of their home to its original historic state. The program requires properties to be owner-occupied, the primary residence of the applicant, and located in the Northside 2027 Neighborhood (Northside Alive) or the Southside Historic District.

Homelessness Assistance. In addition to several CDBG-funded food pantries supporting homeless, near-homeless and resource-constrained clients, the City currently funds the Bethlehem Emergency Shelter which provides emergency shelter and services for homeless individuals in Bethlehem and is open during the coldest months of the year, from November to April.

HOME-ARP Non-congregate Shelter.

In December of 2022, the City proposed a substantial amendment to their annual Action Plan to direct a portion of its American Rescue Plan Act funding to construct a non-congregate shelter. HUD approved the amendment in 2023.

Following are the projects awarded more than \$100,000 in the past five years. A complete list of projects is available in Bethlehem's approved 2023 budget.^{xvii}

Projects over \$100,000	Budget (2017 – 2022)
Home Rehabilitation Loan Program	\$1,376,043
Develop emergency shelter using American Rescue Plan funding	\$1,404,987
Emergency COVID Response	\$434,302
Childcare Facility Improvements – YMCA	\$325,000
First Time Homebuyer Program	\$208,615
Habitat for Humanity – construction for homeownership	\$100,791
Grace Mansion Senior Housing bathroom renovations	\$119,000

Source: [City of Bethlehem Approved Budget 2023](#)

Local Economic Revitalization Tax Assistance (LERTA)

The City has two LERTA programs that include an affordable housing requirement as part of its Local Economic Revitalization Tax Assistance (LERTA) program. LERTA is a tax abatement program to encourage investment in the redevelopment of vacant and underutilized properties. The affordable housing component requires developers of multifamily, mixed-use buildings who construct more than 10 units to set aside at least 10% of housing units for households earning less than 80% of AMI or pay a fee in-lieu. One program, passed in 2020, requires a fee in-lieu of \$25,000 and the other, passed in 2021, requires a \$52,320 per unit fee in-lieu towards an affordable housing fund. The tax abatement limits property tax increases on the approved building(s) over a 10-year period.

County Housing Trust Funds

Both Northampton and Lehigh Counties have affordable housing trust funds authorized by the state's optional County Affordable Housing Funds Act of 1992. They are funded through fees on mortgage and deed recordings. In 2022, Lehigh and Northampton had \$500,000 and \$239,000 respectively in their housing trust fund.

Barriers to Developing Affordable Housing

Regulatory Environment

Housing stakeholders during this study suggested the City of Bethlehem restrict rents; implement inclusionary zoning and mandate eviction mediation between landlords and tenants.

State restrictions on local government authority mean that Pennsylvania cities have limited powers to implement many desired affordable housing strategies. While Bethlehem enjoys enhanced governing powers under the Optional Third Class City Charter Law, it remains subject to the general laws enacted by the state legislature. The Landlord and Tenant Act of 1951 is a comprehensive regulatory scheme that governs the relationship between residential landlords and tenants in Pennsylvania. There are no provisions in the Landlord and Tenant Act or any other statute of the Commonwealth that authorizes a city such as Bethlehem to enact rent control or mandate eviction mediation.

Availability of Land

Bethlehem is largely built out, resulting in stiff competition from market-rate developers vying for the few available empty parcels. Many of the vacant properties are too small to support larger multi-family development.

Many of the available sites are former industrial properties that require costly environmental remediation, often making residential redevelopment cost prohibitive.

Land Use

Much of the city outside the downtown core is zoned exclusively for single-family development, making it impossible to develop multi-family housing in these areas without a variance or special exception from the Zoning Hearing Board. The process requires an applicant to submit a narrative, site plans, floor plans, eight copies of the application, and a filing fee. The board meets once or twice a month, and if a request is denied, the applicant can appeal but may find it difficult to pursue the appeal without the assistance of an attorney, which can be costly. This arduous process without any guarantees deters developers from pursuing multi-family projects in these areas.

City zoning lays out minimum parking requirements in certain zoning districts. It can be hard to meet these requirements on infill projects due to the size and layout of parcels. A large share of Bethlehem's buildings were built prior to the advent of the car, making it nearly impossible to retrofit older structures into residential units without parking relief.

Development Costs

The high cost of land paired with escalating construction costs makes it difficult to develop housing for low-to moderate-income households without some form of subsidy.

Currently, it costs more than \$250,000 – or \$295 per square foot – to construct an apartment unit in Bethlehem. This requires rents above \$1,750 per month to be financially feasible without a form of subsidy (assuming enough cash flow for monthly loan payments and to maintain the property). It costs more than \$300,000 to construct a modestly-sized – 1,400 square foot – home.

It's even more expensive to build affordable housing within the fabric of communities on vacant lots, known as scattered-site development. Many factors contribute to such projects having higher per-unit costs. Pre-development costs remain relatively fixed regardless of a project's unit count. Scattered-site development requires contractors and property managers to manage construction, leasing and maintenance across several sites. And typically, such projects result in fewer units, generating less income to ensure project viability.

Bethlehem's industrial history means certain sites can require costly environmental remediation, further driving up costs.

Development Capacity

Bethlehem is built out. Available lots and buildings for new housing construction or rehabilitation are limited and tend to be smaller, awkwardly configured and with more environmental issues than greenfield sites.

They are also less profitable, deterring for-profit developers from working within city limits. To develop these scattered sites and promote infill development, the City will need to rely on nonprofit and small-scale developers.

However, the Lehigh Valley has only a handful of nonprofit organizations who develop affordable rental housing; and they tend to focus on smaller projects (single-family homes and rental housing with less than five units) due to financial and technical capacity. Overall, the Lehigh Valley needs more nonprofit builders with the financial resources and expertise to compete for available land and acquire the grants and tax credits necessary for larger development projects.

Access to Funding

LIHTC is the primary funding source for affordable rental housing development in the U.S. But only 13% of Pennsylvania's 9% tax credits are allocated to urban areas outside of Philadelphia under Pennsylvania's Qualified Allocation plan, which establishes priority for tax credit allocation. This means affordable housing projects in Bethlehem, Allentown, Pittsburgh, Scranton, Harrisburg and 10 other communities all compete for the same pot of money.

This would fund roughly 200 to 240 units per year based on the state's 2022 allocation plan. While 4% tax credits are easier to obtain since they're not competitive, they require substantial additional subsidies to make projects financially feasible.

Smaller scale projects carry the same predevelopment costs as large projects but come with fewer units to generate income to pay down debt.

Simply submitting a LIHTC application carries significant financial costs. An applicant must gain site control, invest staff time and pay upfront for engineering, legal and financing fees. Many small and nonprofit developers don't have the discretionary dollars to even submit an application.

Deeply affordable rental units – those that rent below 50% of AMI – require greater subsidies beyond

tax credit equity and permanent debt. Typically, projects must obtain federal CDBG or HOME funding or partner with an agency to use project-based vouchers. Each of these federal programs triggers additional onerous regulations. Deeply affordable rental projects require savvy developers accustomed to navigating and layering complex financing structures and development requirements. Many developers, especially nonprofit ones, lack experience with these complex structures and require partnerships with a larger developer or technical assistance.

Similarly, development costs are higher for the rehabilitation of blighted structures or reconfiguring commercial structures for residential use, requiring additional subsidy from other sources, such as brownfields remediation, historic tax credits and New Markets Tax Credits for mixed-use development. These projects usually require funding from multiple sources, which can be complicated to secure and manage.

VI. Housing Plan

Bethlehem's recommended Housing Plan was developed using a combination of analyses of local housing data; community feedback through surveys, interviews, and focus groups; and working with the City's Housing Committee and staff to understand needs and feasible new programs.

This plan focuses on 10 new programs that the City will be responsible for implementing and monitoring. It augments the City's existing programs for home rehabilitation and first-time homebuyers, along with the City's Strategic Plan to Address Homelessness released in 2022.

This plan prioritizes affordable rental housing based on the findings of this study, which show that 69% of low-income households with housing cost burdens are renters and that recent spikes in rental prices increase the displacement risk for long-term renters. The City does not currently offer a program or incentive for affordable rental housing. Therefore, several proposed programs will create financial and zoning incentives to encourage new rental development and assist existing renters at-risk of displacement.

The plan also recommends ensuring a portion of new rental units are deeply affordable for households earning less than 50% of AMI through funding priorities and/or set-asides. New rental housing should also include set-asides for permanent supportive housing units for those experiencing homelessness or in temporary housing.

Affordable homeownership will remain a priority using the existing Home Rehabilitation Loan Program and First-Time Homebuyers Program, which may be modified or expanded as needed.

To support long-term change at the regional and state level, the plan recommends the City work with other jurisdictions and the Lehigh Valley Planning Commission to create regional housing policies and encourage development in areas near job centers outside of Bethlehem, Allentown and Easton. This effort, along with regional advocacy initiatives, will rely on the collaboration of other entities and will be part of a larger Lehigh Valley housing and planning initiative.

The 10 proposed new housing programs and activities should be at least partially implemented within five years, with the first one to two years dedicated to planning, securing contractors, designing programs, developing policies and procedures and establishing monitoring requirements.

The City may at any time review programs to determine effectiveness and additional needs. Program performance reviews and budget allocations will be published annually as part of the City's Annual Action Plan.

Proposed New Housing Strategies

Strategy 1: Update Zoning and Land Use to Encourage a Variety of Housing Types and Infill Development

Project 1. Update City Zoning to Encourage Neighborhood Compatible Infill Affordable Housing Development

Review the current zoning ordinance and identify areas, parcel types and project types that warrant by-right affordable housing development without requiring a special exception or variance. Increase development opportunities in higher value neighborhoods.

Project 2. Pilot an Accessory Dwelling Unit (ADU) Program

Create the necessary zoning regulations and policies that will allow homeowners to add apartments to their property. Provide technical assistance to homeowners and support nonprofit builders to ensure new units are affordable to low-and moderate-income households.

Strategy 2: Offer Incentives to Create and Preserve Affordable Housing

Project 3. Create an Affordable Rental Housing Construction Program

Offer gap funding to developers to increase project competitiveness in other grant programs like the Low-Income Housing Tax Credit Program. Ensure the program is flexible enough to fund a variety of potential projects and works in tandem with zoning changes.

Project 4. Create a Landlord Incentive Program

Working closely with the Bethlehem Housing Authority, provide gap funding to pay the difference between what a Housing Choice (Section 8) Voucher holder can pay and market-rate rent to ensure vouchers are utilized.

Strategy 3: Foster Partnerships with the Bethlehem Housing Authority and Local Institutions to Support New Housing and Community Investment

Project 5. Create and Implement a Choice Neighborhoods Transformation Plan

Apply for a HUD Choice Neighborhoods Planning Grant to develop a transformation plan for the Stefko-Pembroke neighborhood. Implement the plan, with investment in 400 to 600 new housing units, neighborhood improvement projects, and programs that improve the health, safety and economic opportunity of its residents.

Project 6. Gain Site Control of Vacant Land and Buildings to Develop Affordable Housing

Work with the Bethlehem Housing Authority and partner institutions to gain site control of parcels and buildings that can support the construction of 400 to 600 new units as part of the future Choice Neighborhood Transformation Plan.

Strategy 4. Protect Tenants At-Risk of Displacement and Increase the Supply of Deeply Affordable Rental Units

Project 7. Implement Eviction Prevention and Rental Assistance Program

Assist nonprofit service providers so that they may provide education, eviction mediation services and emergency rental assistance to households currently housed and at-risk of homelessness.

Project 8. Increase the Supply of Deeply Affordable Units

Create priority scoring and set-asides in all housing programs to ensure more housing units affordable to households earning less than 50% of Area Median Income are constructed.

Strategy 5. Advocate For State-Enabling Affordable Housing Policies, Programs & Regional Housing Planning

Project 9. Engage in State-Level Advocacy and Lobbying to Enhance Resources for Affordable Housing Development

Combine forces with other Lehigh Valley housing departments and providers to advocate for more affordable housing tools than what is currently allowed in the State Municipal Code and more opportunity for acquiring Low-Income Housing Tax Credits.

Project 10. Support and Promote Regional Housing Planning

Approach housing needs with a regional perspective that incorporates “fair share” allocations and invests in workforce housing-infrastructure needs. Convene with the Lehigh Valley Planning Commission and participating jurisdictions to start planning regionally.

Strategy 1 – Update Zoning and Land Use to Encourage a Variety of Housing Types and Infill Development

Summary of Need

There is a severe shortage of affordable rental housing in Bethlehem as well as a lack of land available for new large-scale development. This makes it difficult to develop new units because traditional multi-family financing tools — namely the Low-Income Housing Tax Credit program — cater to developments of 30-plus units that require lots of land.

Through the community engagement process, developers and builders cited the lack of developable land and zoning restrictions as two major challenges for new construction. Most of the land outside downtown is currently restricted to single-family development, further limiting the areas where rental housing can be built.

To address this, stakeholders emphasized the need to use available land and buildings in creative ways, including:

1. Building middle housing - small-scale housing projects of 10 units or less –as well as infill development on smaller lots interspersed throughout the city.
2. Adaptive reuse of vacant or underutilized buildings for residential housing.
3. Allowing homeowners to add an ancillary rental unit -- an accessory dwelling unit or ADU - to their property.

To encourage this, it is recommended that the City review and revise its zoning ordinance to designate certain areas by-right for affordable housing development. A more rules-based approach will help streamline the development process and lower costs by creating a faster, more predictable approval process, while creating new housing.

The City should also develop an ADU pilot program that simplifies the permitting process and offers technical assistance to homeowners and ADU builders.

Project 1. Update City Zoning to Encourage Neighborhood-Compatible Infill Affordable Housing Development.

The City should review its current zoning ordinance and identify areas, parcel types and project types that warrant by-right affordable housing development without requiring a special exception or variance.

Priority affordable housing projects may include adaptive reuse of existing buildings, and middle housing, a range of house-scale buildings with multiple units compatible in scale and form with detached single-family homes. This includes twins, townhomes, duplexes, stacked townhomes, cottage courts and other similar housing types.

New zoning provisions should still include design requirements to ensure projects are compatible with the neighborhood, including limits in elevation and dimensions, minimum distance from other structures and the street and restricted square footage based on lot size.

The new provisions should help the City meet its goal of increasing overall affordable housing stock by allowing a variety of housing types to be built in more areas of the city. After the review, developers may be able to build new housing types in areas currently zoned exclusively for single-family development. Additional program benefits may include a reduction in parking requirements, fee waivers and a streamlined review process.

Activities - The City should hire a planning consultant to review current ordinances and develop program guidelines for updating and adopting ordinance revisions.

The program would also require staffing resources, likely a new hire, to provide streamlined assistance, review and approval of affordable housing development projects.

Geographic Alignment – The most promising opportunities in Bethlehem for zoning and land-use updates exist primarily north and west of downtown in the city’s strongest B markets and C and D middle markets.

Income Target – Households earning less than 80% of AMI.

Timeframe - If taken on as a priority, implementation would take multiple years -- includes research, analysis, community engagement, drafting of proposed zoning updates, public meetings and comment, and review and vote by City Council.

Estimated Budget - \$40,000 one-time fee for technical advisory services plus staff augmentation.

Chart 14: Examples of Middle Housing & Adaptive Reuse



4-Plex



Cottage Court



Reconfigured Mansion into Multi-Family



Reconfigured Commercial into Senior Apartments



New Construction 4-Story Condo Building



Carriage House

Project 2. Accessory Dwelling Unit (ADU) Pilot Program

An accessory dwelling unit (ADU) is a small dwelling on the same grounds as, or attached to, a single-family home. It may be an apartment over a garage; a basement conversion; a stand-alone home in the backyard; or a portion of a home converted into a separate unit.

ADUs have grown in popularity as a viable and cost-effective solution to increasing affordable rental housing stock. Advancements in prefabricated and modular construction mean that ADU construction can cost much less than traditional multifamily.

ADUs also give homeowners an opportunity to generate rental income or provide housing to a parent or adult child, meeting the growing demand for intergenerational housing.

ADUs are not new. Homeowners have been converting their residences and garages into secondary units for decades. The growing affordable housing crisis has spurred cities and states to establish ADU-building programs to increase the housing supply. ADUs are not automatically affordable rental units. Pricing depends on location, unit size and amenities.

To guarantee affordability, the City would likely need to partially subsidize the units and/or provide a zoning special exception only for ADUs that restrict rents.

ADUs are not currently allowed by-right in any Bethlehem neighborhoods. An ADU pilot program would need to designate certain areas, target types of units and/or establish affordability requirements for new units.

Currently, the City is in the early stages of an exploratory partnership with Lehigh University, Community Action Lehigh Valley, New Bethany Ministries and Catalyst 4 to develop a pilot alley house program. Lehigh is seeking grant funding to develop a prototype alley house -- an ADU fronting on an alley, akin to a carriage house or garage apartment. The funding would allow the City to hire a consultant to update zoning to allow for ADUs in appropriate neighborhoods.

The pilot seeks to make the alley houses affordable by working with homeowners to build small ADUs on the back of their lots and then have a nonprofit manage the rentals, providing the homeowner with a portion of the rent in return or a gradual transfer of ownership.

The City may further support this or similar programs by encouraging developers to also apply for predevelopment or construction funding through its Affordable Housing Construction Program (2.a.).

Activities – It is recommended the City hire a technical advisor to review current ordinances and develop program guidelines for zoning updates. The City may also fund another organization (e.g. architecture firm, university, nonprofit organization or any combination) to create specific design guidelines and provide technical assistance and resources directly to homeowners, and/or provide some level of funding (as a loan or grant) for predevelopment costs like permitting and site plans. The organization may be selected through a traditional procurement method, or the City may initiate a design competition with a set-aside of nominal funding for firms to submit preliminary designs.

Geographic Alignment – ADUs are most suitable in areas with utility access and road frontage. The City has the opportunity to diversify housing stock and increase affordable rental housing in high-priced areas by targeting ADUs in the city’s strongest A and B markets and C and D middle markets north and west of downtown.

Income Target – Households earning less than 80% of AMI

Timeframe - Two years for program design and implementation; two to seven years for implementation

Estimated Budget - \$40,000 one-time fee for a consultant to draft the program and policy requirements; \$50,000 for preliminary designs; and \$500,000 for predevelopment financing and technical assistance to homeowners. ^{xviii}

Estimated Units – 15 to 30 units.

Chart 15: Examples of Accessory Dwelling Units



Carriage House in West Chester, PA



Backyard Cottage in Pennsylvania



Garage Apartment in Bethlehem, PA



Backyard ADU in Oakland, CA

Strategy 2 – Offer Incentives to Create and Preserve Affordable Housing

Summary of Need

There is an urgent lack of affordable rental housing for many working and low-income households earning at or below area median incomes.

Over the past five years, median rents have increased 45%, diluting the power and stability of Housing Choice Vouchers. Vouchers once offered landlords stable rental income close to what they could collect in the private market. The sharp spike in rental rates has created a gap between the value of a voucher and market-rate rents that leaves many vouchers today unused.

Bethlehem over this same time has lost its naturally affordable rental units due to market pressures and new affordable units are not in the pipeline. The City has not had a Low-Income Housing Tax Credit development since 2014, despite considerable interest from affordable housing developers. Bethlehem's lack of large parcels of developable land makes large-scale affordable housing projects, like LIHTC, challenging. The available land is best suited for infill and scattered site development, projects that inherently carry higher predevelopment costs per unit. Such smaller parcels are generally not attractive to large-scale affordable housing developers.

This lack of available land, paired with elevated construction costs and intense market-rate developer competition, play a large role in the City's lack of new LIHTC projects.

To drive affordable housing development, the City must dedicate additional funding to support infill development, which is inherently more costly, and develop relationships with local and national non-profit affordable housing builders.

Project 3. Affordable Rental Housing Construction Program

It is recommended that the City provide gap financing to affordable rental housing projects to help catalyze development and leverage other public and private funding sources.

Given the severe shortage of rental housing, the City can maximize its resources by funding a portion of project costs, relying on the developer to secure financing for the remainder of the project.

The program would target medium and large-scale rental projects —10 units or more — where City funding will increase the viability of the project in competitive grant applications. This includes the Low-Income Housing Tax Credit (LIHTC) Program; Section 202 senior projects; Project-based Section 8 vouchers; funds for the redevelopment of public housing; and projects with other foundation, state, or federal grants.

The program should be flexible and broad, catering to a variety of affordable housing rental projects and prioritizing projects using the programs outlined in this plan. Potential projects include:

- Development of small-scale rental housing projects.
- Adaptive reuse of existing buildings for affordable housing.

- An ADU project that builds scattered-site ADUs for affordable rental housing.
- Scattered-site projects applying for Low Income Housing Tax Credits.
- Projects developed by or affiliated with the Bethlehem Housing Authority.
- Projects that meet housing requirements of a HUD-approved Choice Neighborhoods transformation plan.

The City may structure the program so that developers could access funds for a variety of uses. This may include:

- Acquisition costs.
- Predevelopment financing.
- Construction financing.
- Permanent debt.

The City intends to structure all or a portion of the funds as a revolving loan pool, with loans repaid by permanent debt or structured as permanent debt repaid by project revenue or at time of sale.

Activities – The City would need to procure a consultant with experience designing and administering multi-family gap funding using federal funds to create the program and policy guidelines, establish compliance and monitoring documentation aligned with respective funding sources and administer the program from project solicitation to closeout.

To capture developer interest outside the region, the City should market the program through affordable housing networks and reach out to national nonprofit developers.

Income Target – Renter households earning less than 80% of AMI with priority to renters earning less than 60% of AMI.

Timeframe – 12 to 18 months for program rollout; two to seven years for construction.

Estimated Budget - \$4,000,000. ^{xix}

Estimated Units – 50 units.

Project 4. Landlord Incentive Program

The Bethlehem Housing Authority (BHA) has a high number of Housing Choice Vouchers (HCVs) that are going unused, roughly 100 vouchers as of March 2023.

This means there are 100 households – the majority of whom earn less than 50% of AMI - who have a voucher worth \$1,000 to \$1,500, depending on household size. Yet, they still cannot find a landlord willing to rent to them.

Community stakeholders report this is a result of an extremely tight rental market, where HUD's Fair Market Rent limits, which supposedly equal the market rent for a non-luxury unit, are much lower

than actual market rents.

With such high demand for available units, landlords can be picky and select higher-income tenants, who can afford large security deposits and two or more months' rent upfront. Families with vouchers cannot compete.

To help the BHA get more vouchers in use, it is recommended that the City offer additional rental assistance to landlords who accept a family with a voucher.

Activities – A landlord incentive program would operate as a stop gap measure to ensure placement of unused HCVs by further subsidizing these vouchers for landlords up to current market rents. This incentive would remain in place until new project-based units and new BHA-managed units come online that will accept HCVs. This program would be in partnership with the BHA.

Timeframe - Three years.

Estimated Budget - \$500,000. ^{xx}

Estimated Households Served – 20 to 30 households.

Strategy 3 – Foster Partnerships with the Bethlehem Housing Authority and Local Institutions to Support New Housing and Community Investment

Summary of Need

There is no functioning private market for the creation of new affordable housing in Bethlehem. It is simply not feasible for developers to build new homes affordable to low-income households without public subsidy.

This is similarly true for adaptive reuse, renovation, or other conversion of existing properties to affordable housing – land, building materials, and labor cost far outstrip the revenues that can be generated from affordable rents, or affordable sales prices.

No affordable housing tax credit project has been built in Bethlehem for almost 10 years. Outside of the housing authority, no nonprofit developers in the community are building affordable rental units. Bethlehem needs new affordable rental units.

To increase the supply in a sizeable way, the City will need to “think big.” This means larger projects that may be complicated to build. They will require multiple funding sources, public and private partners and champions of these projects from the city, region and state.

It will also require time and coordination – for land assembly, to secure the financing needed, and to build the partnerships necessary with other local, regional and national institutions and developers.

To address this need, the City and the Bethlehem Housing Authority are forging a partnership to pursue federal grants that will provide the seed funding needed to create a roadmap for large-scale development and community revitalization activities.

Project 5. Create and Implement a Choice Neighborhoods Transformation Plan

Over the course of developing this plan, the City met with the Bethlehem Housing Authority (BHA) to discuss ways to work together to address affordable housing needs in the community.

From these efforts, the City funded a consultant to assist the BHA and City (as joint partners) to apply for a HUD Choice Neighborhoods planning grant.

Choice Neighborhoods is the primary public funding source for redeveloping large and outdated public housing projects. It doesn’t simply replace units one-for-one, rather Choice strives for total neighborhood transformation.

It requires community investments, strong partnerships, and programs that improve the quality of life for public housing and neighborhood residents. The BHA has targeted the 196-unit Pembroke Village as the redevelopment site. Built in 1941, Pembroke was last remodeled almost 30 years ago.

Activities – In the summer of 2023 the City was awarded a \$500,000 planning grant to create a transformation plan for the site and surrounding neighborhood. The plan is currently underway and will outline how the City, BHA, partner developers, local institutions, and community stakeholders will transform the site and surrounding neighborhood into a mixed-income, vibrant, healthy, equitable and sustainable community. The Transformation Plan will be completed in mid-2025.

The City will work with the BHA, community leaders, and housing stakeholders to establish the relationships and working groups needed to implement a transformation plan. It will propose neighborhood investments and programs for local residents around health, education, safety and economic development. At its core, it will be a large-scale housing redevelopment using public-private funding sources and targeting a mix of incomes and unit types.

HUD is more likely to fund the plan if the City has a strong partnership with local institutions like a university or hospital network.

As part of the planning process, the City, BHA and its partners will explore ways in which Northampton Community College, Lehigh and Moravian universities and St. Luke's University and Lehigh Valley health networks can contribute.

Other Choice Neighborhood community partners assisted grantees by conducting resident needs assessment; providing education and workforce development programs for residents; establishing mobile health clinics or a telemedicine network; establishing a neighborhood safety program; urban farming; and leading healthy food initiatives.

Choice requires mixed-income development. The eventual transformation plan will detail the type, number and location of new housing units. It will also feature a mix of public and workforce housing, market-rate apartments, and homes for sale to low- and moderate-income households. The City and the BHA may partner with a nonprofit organization or local developer to build or rehabilitate homes for sale to first-time homebuyers.

Development costs should be subsidized to ensure prices are affordable to households earning less than 80% of AMI and could be combined with down payment and closing cost assistance available through the City's First-Time Homebuyer Program.

Based on similar Choice Neighborhoods plans, Bethlehem's plan will likely include construction of between 400 and 600 units on the Pembroke Village site and within various other sites throughout the neighborhood.

After completing the transformation plan, the City and BHA plan to apply for a \$30 million to \$50 million Choice Neighborhoods implementation grant. This will not cover the total project costs.

It is estimated such a project in Bethlehem would cost \$165 million based on a \$275,000 per unit cost. The estimated funding sources \$110 million in tax credit equity; \$30 million in public housing redevelopment funds with the remaining \$25 million coming from private debt, City contribution, and other public and private sources.

Geographic Alignment – Choice Neighborhoods defined neighborhood.

Timeframe – Two to three years to develop the transformation plan; two to 10 years for housing construction.

Estimated Budget - \$300,000 to \$500,000 to develop the transformation plan; City contribution towards construction dependent on need and sourced from City's Affordable Housing Construction Program and other CDBG and HOME funds.

Estimated Households Served – 400 to 600 households.

Project 6. Gain Site Control of Vacant Land and Buildings to Develop Affordable Housing

The Choice Neighborhood program requires a one-for-one replacement of public housing and development of a mixed-income community.

This means every public housing unit demolished must be replaced with another public housing unit or equivalent. And half to two-thirds of all units should be targeted to residents earning more than 50% of area median income, which includes workforce rental housing, market-rate rental housing and homeownership opportunities.

To meet these requirements, the BHA, its selected developer, and/or the City will need to have enough land and buildings to create 400 to 600 units. This can be accomplished using several mechanisms outlined below.

Activities -

1. Create a list of properties designated for affordable housing currently owned by public entities, universities and hospitals. Work with the City's Planning and Zoning, BHA, Lehigh and Moravian universities, St. Luke's University and Lehigh Valley health networks, to identify sites available for affordable housing development. These partners indicated potential willingness to enter into ground-leasing agreements of unused properties for the purpose of affordable housing development, as either a contribution or as a ground-lease priced at market value.
2. City acquisition of property for affordable housing development. The City may elect to acquire property using its CDBG or discretionary funds, and then donate, sell or ground-lease the property to a selected developer.
3. City provides grants or loans to community housing development organization (CHDO). The City may set aside HOME funds for CHDOs and other developers to acquire land for affordable housing. The funds may be structured as a grant or a loan.
4. Bethlehem Housing Authority acquires property. The BHA currently has a nonprofit organization capable of acquiring property, applying for Low-Income Housing Tax credits as a developer, building new housing and building and selling homes for ownership.

Considerations: The City may elect to acquire property currently zoned for single-family development or non-residential development, and then rezone the property for higher density residential use at a later date.

Timeframe: One to five years.

Estimated Budget: \$1,500,000. ^{xxi}

Partner(s): Bethlehem Housing Authority; Just Born; Lehigh Valley Health Network; St. Luke's University Health Network; Lehigh University; Moravian University; Northampton Community College; CHDOs

Strategy 4. Protect Tenants At-Risk of Displacement and Increase the Supply of Deeply Affordable Rental Units

Summary of Need

Between 2017 and 2022, the supply of rental units affordable to Bethlehem's low-to moderate-income renters has rapidly dwindled.

Average rents increased 45% during this period and the rental vacancy rate dropped to 2%. The supply of units priced less than \$1,000 per month – a price point affordable to moderate-wage workers – largely disappeared from the market. Based on a point-in-time survey of the rental market in October 2022, only two units were available priced below \$1,000. Because the market is so competitive, landlords are often requiring first- and last-months' rent and large deposits that many renters do not have.

Rising rents throughout the city are putting increasing pressure on households of modest means to remain in their homes. The number of individuals and families experiencing housing insecurity is stretching the capacity of existing resources, such as emergency shelters and rapid rehousing providers.

Under current state law, landlords may raise rents indiscriminately when leases expire. Renters are experiencing significant rent hikes that put them at a greater risk of displacement and homelessness.

This is especially true for renters who live in lower-priced units, who cannot find more affordable options when their rent rises. Every \$100 increase in the median rent results in a corresponding 9% increase in homelessness.^{xxii} Families who could afford housing three years ago no longer can. And those experiencing homelessness are struggling to get back into the housing market.

To address this, the City can support programs that assist renters at-risk of eviction and establish policies that will increase the supply of deeply affordable rental housing, those units affordable to households at or below 50% of AMI.

Project 7. Implement Eviction Prevention and Rental Assistance Program

Homelessness is primarily a function of the housing affordability crisis.

The best way to address homelessness is by preventing it from occurring. Significant rent increases coupled with inflation mean that low-wage households are increasingly at-risk of eviction and homelessness.

The experience of losing one's home and becoming homeless is traumatic, destabilizing, and often leads to health issues, physical injuries and mental health problems. The negative impact of experiencing homelessness is particularly acute for children.

North Penn Legal Services is piloting a promising eviction diversion program in a South Bethlehem Magisterial District Court, which could be expanded if successful.

Activities – It is recommended the City set aside funds for a nonprofit organization to design and ad-

minister the program. The organization should:

1. Administer the City's rental assistance to families at-risk of eviction due to financial hardship.
2. Provide mediation services to resolve disputes between landlords and tenants outside the court system.
3. Serve as a resource for tenants' rights.
4. Provide referral services to other housing providers and/or legal representation.

Timeframe – Ongoing.

Estimated Budget – \$350,000. ^{xxiii}

Estimated Households Served – 50 households.

Project 8. Establish Priority for Increasing Supply of Deeply Affordable Units Within Existing Funding Programs

More than two-thirds of renters earning less than 50% of AMI experience housing challenges. And nearly half of those 4,300 households pay more than half their income on rent and utilities.

Most of these renters represent the city's lower-wage workforce, earning \$10 to \$15 per hour, along with residents on fixed incomes due to disability or age. These renters can afford rents between \$500 and \$800 for a one-bedroom unit.

In the current market, rent for a one-bedroom is roughly twice this amount, meaning that very low-income renters are precariously housed and at the greatest risk of displacement and homelessness.

The City acknowledges that this is an urgent housing need, closely tied to homelessness. The City in its existing and proposed programs should prioritize increasing the supply of "deeply affordable units" for renters earning less than 50% of AMI. This policy will be an integrated guiding principle of the City's overall housing plan.

Activities - Review existing and forthcoming housing programs and prioritize deeply affordable units through scoring criteria and set-asides. Encourage or require new affordable housing development that receives City funding or support to accept Housing Choice Vouchers (HCV). Work with the Bethlehem Housing Authority (BHA) to increase HCV utilization, access other voucher providers (e.g., VASH vouchers, PSH vouchers), and maximize the project-based voucher program. Support the BHA's non-profit organization to develop more affordable units through priority in its current funding programs or as a set-aside of available funds.

Timeline – Immediate and ongoing.

Strategy 5: Advocate for State-Enabling Affordable Housing Policies, Programs & Regional Housing Planning

Summary of Need

The Lehigh Valley has a severely competitive rental housing market and a shortage of affordable rental housing. According to a survey released by RentCafe in December of 2022, the Lehigh Valley was ranked the second most competitive rental market for small cities in the country, manifesting in sharp price increases and historically low vacancy rates. Adding new rental units in the region is challenging despite having abundant vacant land outside Bethlehem, Allentown and Easton because many jurisdictions have strict limitations on multi-family housing development.

Despite this sudden and severe market pressure, the region's two counties, three major cities and 62 separate municipalities have not collectively developed a joint plan for relieving this pressure. In 2022, the Lehigh Valley Planning Commission released a Regional Housing Market Report ([available here](#)) and will be initiating a study in 2024 that will include recommendations for targeted housing development at a regional level. However, these recommendations will not be implementable without agreement among governments or statutory enforcement.

At the state level, cities like Bethlehem do not have access to municipal affordable housing tools that many other cities of similar size do. With a population of roughly 76,000, Bethlehem is classified as a third-class city and is therefore restricted to provisions outlined in the state's Municipalities Planning Code. As a result, Bethlehem cannot enact various affordable housing tools that have proved to be effective in other areas. For one, the City cannot enact an inclusionary zoning ordinance, which requires new development to set aside a percentage of new units for low- and moderate-income households or contribute financially to an affordable housing funding pool. The City also cannot establish any rent stabilization policies or require landlords to participate in mediation proceedings before evicting tenants. Although these recommendations came forth from the community engagement process and from Housing Committee members, the City cannot implement them.

Additionally, the state's tax credit finance agency, which manages the LIHTC program, does not prioritize affordable housing needs in the Lehigh Valley despite recent price increases drawing national attention, making it more competitive for future affordable rental housing projects to receive funding.^{xxiv}

Project 9. Engage in State-Level Advocacy and Lobbying to Enhance Resources for Affordable Housing Development

The City should align itself with other regional entities (city and county government and the Lehigh Valley Planning Commission) to inform state housing agencies and elected leaders of the Lehigh Valley's housing shortage and its potential impact on economic development. As part of this regional collective, the City will also advocate for the Lehigh Valley's housing needs via the Housing Alliance of Pennsylvania, National Low Income Housing Coalition and various press outlets. Additionally, the City will advocate for revisions to the state Municipalities Planning Code to allow greater flexibility in how third-class cities can address the affordable housing crisis and urge the Pennsylvania Housing Finance Agency to address Lehigh Valley's affordable housing shortage in the state's Qualified Allocation Plan (QAP).

Activities – It is recommended the City collaborate with existing regional housing planning efforts to develop a unified message for the Lehigh Valley’s housing needs. The City will then designate one or more representatives to collaborate with other jurisdictions and, as a collective, inform state housing agencies and elected leaders of the region’s housing needs. The City, as part of a regional effort, will advocate for:

- a. Changes to the Municipalities Planning Code to allow third-class cities the ability to enact housing tools currently unavailable such as inclusionary zoning and rent stabilization measures;
- b. Prioritization of future affordable rental housing projects in the Lehigh Valley through the bonus points or a set-aside in the state’s QAP and access to other available funds (e.g., Housing Options Grant Program, PHARE funds, unused CDBG-DR funding).

Timeline – Ongoing.

Project 10: Support and Promote Regional Housing Planning

Affordable housing is not merely a City of Bethlehem issue. It is a regional and national issue as well. However, many of the region’s most affordable residential units are clustered in the region’s larger cities and several older boroughs. The affordable housing crisis is not one that can be solved with only the involvement of cities and boroughs. In fact, the cities and boroughs are typically already the most densely developed with the least amount of open land for new infill development. Many of the region’s outlying and suburban municipalities need updated ordinances to allow for denser development with a variety of housing types. Bethlehem, in partnership with the counties and regional planning and housing advocates, should advocate for a more shared responsibility in addressing the affordable housing crisis throughout this region.

Activities - The City should continue to support and participate in regional housing planning efforts in partnership with the Lehigh Valley Planning Commission and county, city and municipal governments. The City will designate one or more representatives to participate in forthcoming regional planning efforts and assist in analyzing and planning for regional growth.

Timeline - Ongoing.

Implementation Timeline

The strategies and key activities described in the previous section will follow the following implementation timeline:

Strategies & Projects	Year 1	Year 2	Year 3	Year 4	Year 5
Strategy 1. Update Zoning and Land Use to Encourage a Variety of Housing Types and Infill Development					
Project 1. Update City Zoning to Encourage Neighborhood-Compatible Infill Affordable Housing Development.**	x	x	x	x	x
Project 2. Accessory Dwelling Unit (ADU) Pilot Program	x	x	x	x	x
Strategy 2. Offer Incentives to Create and Preserve Affordable Housing					
Project 3. Affordable Rental Housing Construction Program	x	x	x	x	x
Project 4. Landlord Incentive Program	x	x	x		
Strategy 3. Foster Partnerships with the Bethlehem Housing Authority and Local Institutions to Support New Housing and Community Investment					
Project 5. Create and Implement a Choice Neighborhoods Transformation Plan	x	x	x	x	x
Project 6. Gain Site Control of Vacant Land and Buildings to Develop Affordable Housing	x	x	x	x	x
Strategy 4. Protect Tenants at Risk of Displacement and Increase the Supply of Deeply Affordable Rental Units					
Project 7. Implement Eviction Prevention and Rental Assistance Program	x	x	x	x	x
Project 8. Establish Priority for Developing Deeply Affordable Units Within Existing Funding Programs	x	x	x	x	x
Strategy 5. Advocate For State-Enabling Affordable Housing Policies, Programs & Regional Housing Planning					
Project 9. Engage in State-Level Advocacy and Lobbying to Enhance Resources for Affordable Housing Development	x	x	x	x	x
Project 10. Support and Promote Regional Housing Planning	x	x	x	x	x
Planning Years					
Implementation Years					

** Implementation of Strategy 1, Project 1, if prioritized, would require multiple years of work that includes, but is not limited to, research, analysis, community engagement, drafting of proposed zoning updates, public meetings and comment, and review and vote by City Council.

Data Sources

U.S. Department of Housing and Urban Development (HUD)

- **Comprehensive Housing Affordability Strategy (CHAS) Dataset.** The CHAS data set is a special tabulation of American Community Survey data that represents a count of the number of households (or housing units) that have certain combinations of HUD-specified characteristics, summarized for HUD-specified geographies. The most recently available CHAS dataset for the Housing Needs Assessment was data collected under the American Community Survey for 2015-2019 five-year estimates. <https://www.huduser.gov/portal/datasets/cp.html>
- **Picture of Subsidized Households.** <https://www.huduser.gov/portal/datasets/assthsg.html>
- **Fair Market Rents.** https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/landlord/fmr
- **Building Permits Database.** <https://socds.huduser.gov/permits/summary.odt>
- **Low Income Housing Tax Credit Database Access.** <https://lihtc.huduser.gov/>
- **Point in Time Survey** for homeless counts. <https://www.hudexchange.info/resource/3031/pit-and-hic-data-since-2007/>

United States Census

- **American Community Survey** Five Year Estimates, 2016-2020 and 2017-2021. Owner occupancy estimates from 2016-2020 were used for the Market Value Analysis that was conducted in summer/fall 2022 prior to the release of the 2017-21 ACS estimates. After the release of the 2017-2021 estimates these data were used for other pieces of the Housing Needs Assessment <https://www.census.gov/programs-surveys/acs>
- **US Decennial Census.** <https://www.census.gov/programs-surveys/decennial-census.html>
- **Longitudinal Employer Household Dynamics** to assess in- and out-migration for workers and residents. <https://lehd.ces.census.gov/>

Home Mortgage Disclosure Act (HMDA) The Home Mortgage Disclosure Act (HMDA) requires many financial institutions to maintain, report, and publicly disclose loan-level information about mortgages. These data help show whether lenders are serving the housing needs of their communities; they give public officials information that helps them make decisions and policies; and they shed light on lending patterns that could be discriminatory. <https://www.consumerfinance.gov/data-research/hmda/>

ESRI Business Analyst is a data tool offered by ArcGIS that combines demographic, business, lifestyle, spending, and census data with map-based analytics to inform place-based decision making for individuals, businesses, and governments and provides current year estimates and five-year forecasts. <https://www.esri.com/en-us/arcgis/products/arcgis-business-analyst/resources>

U.S. Bureau of Labor Statistics Occupational Employment and Wages in Allentown-Bethlehem-Easton — May 2021 provides wages by occupation in the metro area. <https://www.bls.gov/oes/>

Redfin Market Analytics Redfin is a real estate brokerage with direct access to data from local multiple listing services, as well as access to their real estate agents across the country. Redfin regularly updates key housing market metrics for housing markets across the country. <https://www.redfin.com/news/data-center/>

National Association of Realtors (NAR) Market Trends Data NAR produces housing statistics on the national, regional, and metro-market level where data is available. <https://www.nar.realtor/research-and-statistics/housing-statistics-and-real-estate-market-trends>

Multiple Listing Service A multiple listing service (MLS) is a database established by cooperating real estate brokers to provide data about properties for sale. An MLS allows brokers to see one another's listings of properties for sale with the goal of connecting homebuyers to sellers. <https://www.nar.realtor/nar-doj-settlement/multiple-listing-service-mls-what-is-it>

Zillow Home Value Index (SHVI) and **Observed Rent Index (ZORI)** provides a smoothed measure of historical and current typical home price and rent within select markets. <https://www.zillow.com/research/data/>

GIS Map of Lehigh County and Northampton County Parcels provided by the City of Bethlehem

Endnotes

- i Association of General Contractors of America 2023 Annual Workforce Survey, available at: https://www.agc.org/sites/default/files/Files/Communications/2023_Workforce_Survey_Pennsylvania.pdf
- ii Zillow Observed Rent Index and Redfin Market Analytics.
For rental housing, assumes 30% of income or less is affordable. For homeownership, assumes 300% of household income or less is an affordable home price.
- iii For rental housing, assumes 30% of income or less is affordable. For homeownership, assumes 300% of household income or less is an affordable home price.
ESRI Business Analyst 2022 estimates.
- iv ESRI Business Analyst 2022 estimates.
- v Based on median income by occupation in U.S. Bureau of Labor Statistics Occupation and Wages, May 2021.
- vi Point2Homes Survey 2023.
- vii HUD Comprehensive Housing Affordability Strategy 2022.
- viii National Low Income Housing Coalition, 2023 Gap Analysis available at: <https://nlihc.org/gap>.
- ix Whitney Peyton, “Number of Renters Burdened by Housing Costs Reached Record High in 2021,” Harvard Joint Center for Housing Studies, published 2/1/2023.
<https://www.lgc.state.pa.us/thirdClassCityCode.cfm>.
- x <https://www.lgc.state.pa.us/thirdClassCityCode.cfm>.
- xi HUD Building Permits Database
- xii Lehigh Valley Planning Commission.
- xiii The sales transactions records used to estimate affordability for Maps 6 to 9 were obtained from Home Mortgage Disclosure Act records of home purchase transactions with a mortgage for 2020 and 2021. This decision inflates tract-level sales prices by excluding cash transactions that don’t rely on mortgage financing, which represented roughly 22% of the market. Excluding these transactions more accurately reflects the prices owner occupiers would likely have to pay in Bethlehem since most potential buyers who intend to live in the home they purchase need mortgage financing. Also, the median incomes used to estimate affordability in Maps 6 to 9 represent a percentage of the City Median Income, which is lower than Area Median Incomes (AMI) used by HUD which relies on regional incomes rather than incomes of Bethlehem residents. Using this unstandardized income measure in combination with the HMDA sales values helps to highlight the affordability challenges facing potential homebuyers in Bethlehem.
- xiv Urban Institute Reducing the Racial Homeownership Gap Project (www.urban.org).
- xv Novogradac Affordable Housing Resource Center (www.novoco.com).
- xvi Bethlehem’s Five Year Consolidated Plan for CDBG and HOME funds available here as of 8/16/2023: <https://www.bethlehem-pa.gov/CityOfBethlehem/media/DCED-Media-Library/CommunityDevelopment/v3-DRAFT-2022-Action-Plan.pdf>
- xvii The City’s CDBG and HOME budget allocations are available here as of 8/16/2023: <https://www.bethlehem-pa.gov/CityOfBethlehem/media/AdminMediaFolder/Budgets/COB-Approved-Budget-2023-Compressed-Search.pdf>
- xviii Include \$7,500 for six firms each to develop preliminary designs via a competition or the entirety for a selected architect to draft design guidelines and prototypes for homeowners to select from as part of the technical assistance program; \$15,000 per applicant in predevelopment costs plus admin fee 10%.
- xix Assumes \$60,000 to \$70,000 per unit plus 10% - 15% administrative fee that includes program design, compliance and monitoring, and legal services.
- xx Based on average subsidy of \$18,000 per unit (~500 additional per month) for a three-year period plus 10% admin fee.
- xxi Estimates \$20,000 per unit in acquisition costs and 75 off-site affordable units.
- xxii U.S. Government Accountability office: <https://www.gao.gov/products/gao-20-433>
- xxiii \$30,000 annual grant to non-profit to administer program; \$200,000 in rental assistance averaging \$4,000 per household.
- xxiv Pennsylvania Housing Finance Agency Qualified Allocation Plan for 2022 Low Income Housing Tax Credits available at: www.phfa.org

