

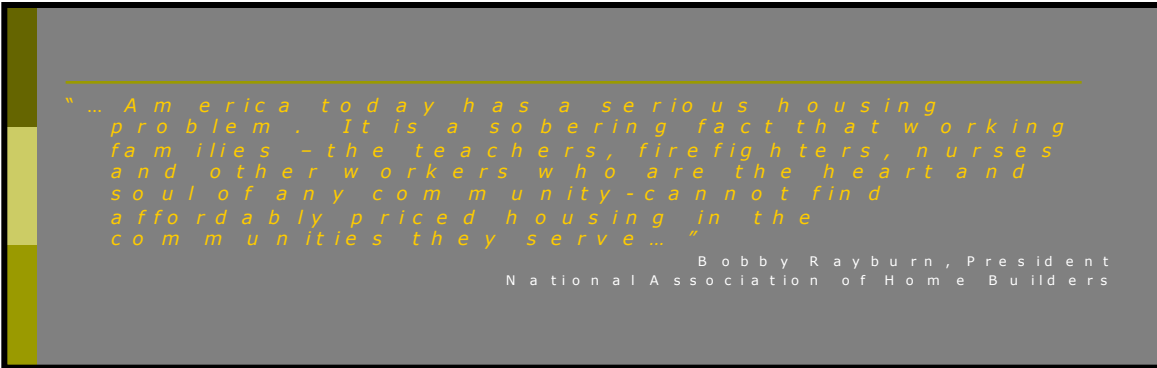
**Workforce Housing:
Defining Issues and Trends
in the
Treasure Coast Region**

July 19, 2005
Revised
October 4, 2005

FORWARD

This paper is intended to provide background information to policymakers in the Treasure Coast Region on the subject of workforce housing. It is the first part in a reference series designed to provide a comprehensive overview of workforce housing issues in the Region and suggest pragmatic courses of action to address the issues raised. This reference paper provides a definition of workforce housing, presents an overview of regional workforce housing issues and highlights the connection between housing and the economy. Part II, to follow will provide a review of efforts underway within the Region to address the need to create workforce housing opportunities and suggest initiatives – both public and private that can be undertaken along with current efforts underway to meet the demand for workforce housing across the Region.

INTRODUCTION



The cost of housing in the Treasure Coast Region is soaring. Middle-income households are finding it increasingly difficult to locate housing they can afford in proximity to where they work. According to business and community leaders, many moderate income families are seeking housing they can afford outside of the Region's major job centers.

A lack of affordable workforce housing in our communities affects the Region's economy through increased commute times to work and congested roads. Hardships are created for employers who find it increasingly difficult to find employees to fill much-needed entry and mid-level positions in industries such as Professional Services, Retail Trade, Education and Health Services. "Workforce Housing" can generally be defined as housing designed to be affordable to those earning between 60 and 120% of Area Median Income (AMI). That is housing that is moderately priced and addresses the demand for new homes generated by households with annual incomes ranging between \$32,000 and \$75,000.

What are Workforce Households?

The term "workforce households" is defined here as "households, with at least one full-time worker, whose members earn incomes that are too low for them to afford to pay market prices for homes or apartments in the communities where they work but, by most definitions, too high to enable them to qualify for significant federal housing subsidies." The target group includes teachers, police officers, fire fighters, and other municipal employees, as well as health care workers, retail clerks, administrative personnel, and other moderate income workers, all of whom are essential to the economic vitality of a city or a region and the success of its corporations, institutions, and governmental functions.

Urban Land Institute, 2003
*Encouraging Workforce
Housing in the Chicago
Region, Atlanta, and
the District of Columbia*

The Strategic Regional Policy Plan for the Treasure Coast Region highlights the chief dimensions of the affordable housing problem:

- Rapid population growth has stressed the ability of the private sector to provide a range of affordable housing concurrent with need;
- The cost of housing in much of the Region is much higher than the ability of workers to pay;
- An increasing proportion of the population earns low wages;
- There is a lack of rental housing of alternative types for low-income residents;
- There is a lack of housing in proximity to employment opportunities;
- Many local codes and subdivision regulations prohibit historic methods and means for naturally providing a range of housing affordabilities within existing and new communities; and
- Large lot, low density forms of development do not include a range of building types and lot sizes necessary to accommodate affordable housing.

Chapter 1 HOUSING MARKET TRENDS

Over the past decade housing prices have increased faster than incomes making it increasingly difficult for middle income families to enter the housing market. From 1995 to 2005, median housing prices increased 240 percent, while median family incomes rose by 33 percent¹. This growing gap between house prices and incomes is even more pronounced over the last six year period from 1999 to 2005.

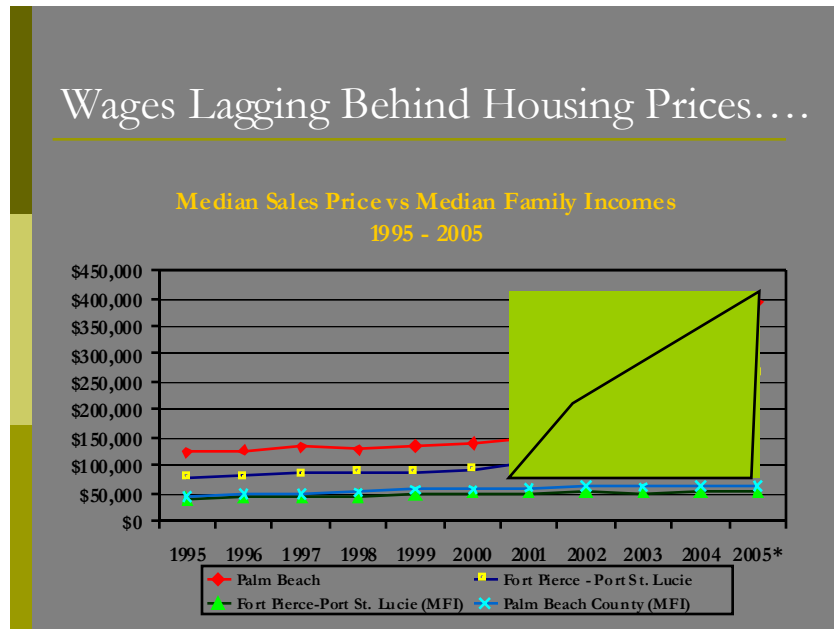


Figure 1

Over the past six years the median price of housing in the Treasure Coast has more than doubled while median family incomes have increased by about 10-12 percent. In Palm Beach County, for example, the median sales price of an existing home increased from \$130,500 in 1999 to \$391,600 in 2005. Median sales prices in the Fort Pierce-Port St. Lucie MSA increased dramatically over the same period from \$89,200 to \$265,300. The growing gap between wages and house prices makes it especially difficult for a growing number of wage earners in the Region to afford housing.

MSA	Median Sales Price ¹		% Change
	Year End 1999	3 rd Quarter 2005	
Fort Pierce-Port St. Lucie	\$89,200	\$265,300	197
West Palm Beach-Boca Raton	\$130,500	\$391,600	200

¹ Single-Family, Existing Homes.

¹ In Palm Beach County, median housing prices increased 219 percent compared to median family incomes which rose 39 percent.

Housing Affordability

Access to affordable housing for the Region’s wage earners is becoming difficult. According to the National Association of Homebuilders’ quarterly housing opportunity index, in the first quarter of 2005, only 43% of the homes in the Region’s two metropolitan areas - Fort Pierce – Port St. Lucie and West Palm Beach – Boca Raton were affordable to median income households, that is households earning \$52,450 and \$62,100, respectively, per year or less.

The core problem is inadequate income. In the Fort Pierce-Port St. Lucie, MSA for example, median income is \$52,450 while the median house price is \$253,200. A household would need an annual income of more than \$74,000 to afford the median house.

Indeed, many of the Region’s middle-income workers - the teachers, firefighters, police officers and nurses and others who provide day-to-day essential services cannot afford to live in the communities they serve. The following table uses annual income data for seven common occupations in the Treasure Coast Region to estimate affordable home purchase prices and rents. As illustrated in Table 1, essential service workers cannot afford to purchase a median priced home.

**Table 1
Housing Statistics for Select Workforce Housing Occupations**

Occupation	Annual Income (2005)¹	Monthly Housing Allowance	Affordable Purchase Price²	% of Median Price (\$253,200)³	Affordable Rent	% of Average Rent (\$686)³
Waiter/Waitress	\$13,700	\$343	\$ 44,500	18%	\$268	39%
Retail Salesperson	\$20,000	\$500	\$55,500	22%	\$425	62%
Customer Service Representative	\$23,500	\$588	\$72,000	28%	\$513	75%
Police Officer	\$38,000	\$950	\$128,000	50%	\$875	128%
Fire Fighter	\$42,300	\$1,058	\$150,000	59%	\$983	143%
Elementary School Teacher	\$42,700	\$1,068	\$152,000	60%	\$993	145%
Registered Nurse	\$47,500	\$1,188	\$172,000	68%	\$1,113	162%

Source: TCRPC

Notes:

1. Median salaries in Treasure Coast Workforce Board region.
2. Affordable purchase price is estimated using the prevailing 2005 interest rate, assumes a 10% down payment and includes a rough estimate of taxes and insurance. Calculation does not include allowance for monthly debt which would further reduce affordable purchase price.
3. May 2005 median sales price (existing homes) from the Florida Association of Realtors for Fort Pierce-Port St. Lucie. West Palm-Boca Raton median sales price is \$390,900.
4. HUD Fair market rent for a two-bedroom unit in Fort Pierce-Port St. Lucie, MSA. Two-bedroom Fair Market Rent in West Palm-Boca Raton, MSA is \$898.

Figure 2 illustrates the concept of the affordability gap, that is, the difference between what many householders in the Region can afford to pay and housing cost, ranges from 22% for a registered nurse to 82% for a waiter/waitress.

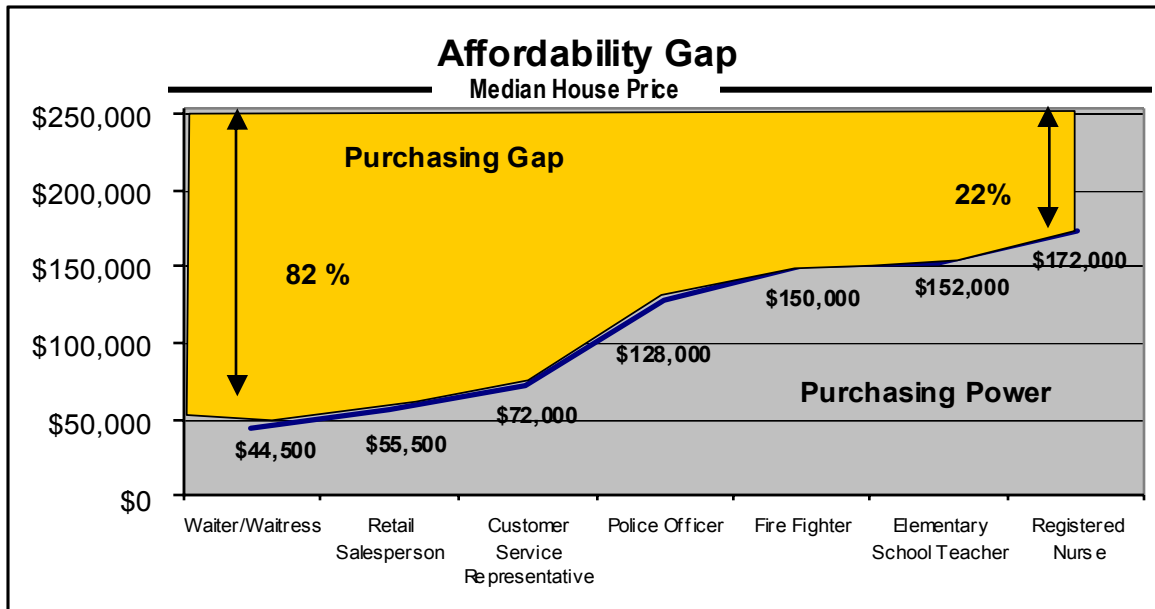


Figure 2

- Rental housing is affordable if these items total no more than 30% of gross income:
- Rent
 - Electric
 - Gas
 - Water & Sewer

- Homeownership is affordable if these items total no more than 30% of gross income:
- Mortgage payment, including:
 - Principal
 - Interest
 - Taxes
 - Insurance
 - Condominium fees or manufactured housing costs
 - Electric
 - Gas
 - Water & Sewer

Increasingly, housing is seen as a competitiveness issue. A report from the Brookings Institution notes that skill and suitability of the labor market, availability and cost of housing and adequacy of the transportation system are among the key factors influencing business location decision-making. Successful and sustainable regions need a diverse workforce to compete nationally and globally. Fairfield County, Connecticut, is an example of a community that is grappling with workforce housing.

...The competition to attract and retain skilled labor will define Fairfield County's ability to maintain its economic vitality and standard of living...The past three decades of Fairfield County growth demonstrate the consequences of economic growth without adequate housing growth. When workers cannot afford to live close to where they work and forced to drive long distances, highway congestion intensifies, open space is consumed, and urban sprawl is accelerated, further threatening the economic competitiveness of the region.

Housing Demand and Supply

As the Region's population and jobs grow at present levels, the demand for housing for all income levels outstrips the capacity to meet this demand. From 2002 to 2025, approximately 390,000 new housing units need to be developed to meet projected demand across all income levels. On average, meeting this demand would require the construction of about 17,000 units per year across the Region.

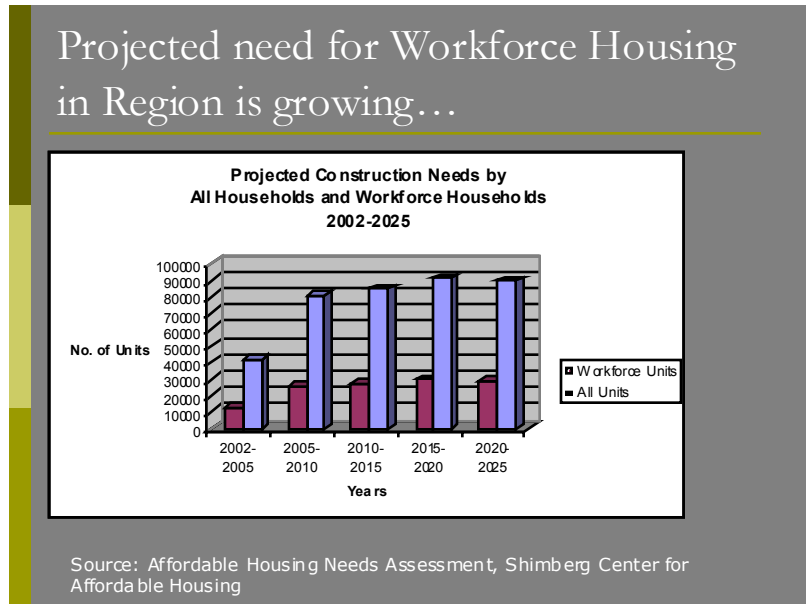


Figure 3

Just meeting the need for workforce housing units, as illustrated in Figure 3 represents a significant challenge to the Region. Approximately 126,000 housing units or one third of all new units that need to be developed to meet demand between now and 2025 should be affordable to workforce households. That means, on average, over 5,500 workforce housing units need to be developed annually throughout the Region to satisfy projected demand.

Sustained population and economic growth in the late 1990s and this decade stimulated demand for construction of new housing units. As Figure 4 illustrates, from 1999 to 2004, the number of single family housing units permitted in the Region averaged 15,224 per year. The average number of multifamily units permitted per year over this period was 5,584. On the surface housing supply

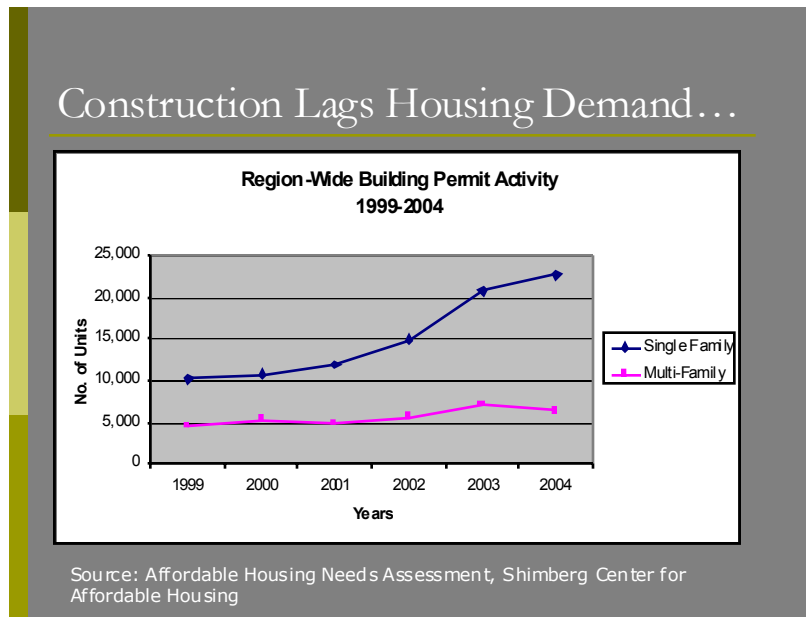


Figure 4

as evidenced by building permits generally seems to exceed demand by a wide margin. However, if one considers that thousands of the Region's households are experiencing a housing cost burden in either ownership or rental housing situations, that is, these households are paying more than 30% of their gross income on housing, the problem becomes more complex.

In 2005, it is estimated that over 179,000 households with incomes less than 120% of Area Median Income in the Region are experiencing a housing cost burden. These can be broken down further into 108,000 owner and 71,000 renter households.

Over time, the projected increase in severely-cost burdened, low-income workforce households worsens. Over the period of 2005-2010, the need for workforce housing in the Region grows by over 7,700 households. The average rate of growth over the next twenty years (2005-2025) is 1,709 households per year.

The construction of housing units to meet this projected growth in cost-burdened households only keeps the affordable housing shortage from worsening but does not in fact address the existing need.

Projected growth in affordable housing need, Treasure Coast Region

(severely cost burdened households with incomes less than 80% AMI)

- 2005 – 2010:
 - 7,766 households
 - 4,892 owners
 - 2,874 renters
- Growth 2005-2025 averages 1,709 households annually

Source: Affordable Housing Needs Assessment, Shimberg Center for Affordable Housing
Adapted by TCRPC Staff.

Figure 5

Chapter 2 HOUSING AND THE ECONOMY

Increasing housing costs have a negative impact on the Region's economy and its overall competitiveness. Community leaders in California and Massachusetts, for example, have cited housing costs as a key factor in out-migration of skilled workers. A recent study by the State of New Hampshire found a tight housing market costs New Hampshire annually:

- 1,300 to 2,800 fewer jobs;
- \$57 to \$121 million less personal income;
- \$123 to \$253 million reduction in Gross State Product; and
- \$21 to \$33 million less in State and local revenues.

As the Treasure Coast Region is approximately 1.3 times the population of the entire State of New Hampshire, the effects to our Region of a tight housing market are likely to be even more serious. In order to estimate the potential impacts of increasing housing and land prices on the region's existing businesses and residents, we have employed an economic modeling tool called REMI.

Regional Economic Models, Inc. (REMI) was established in 1980. It is an economic and demographic forecasting and policy analysis model. The model is calibrated for seven local counties in the South Florida region. The model has a large amount of detailed economic and demographic data for each county in the region. REMI also contains a wide range of policy variables so that any specific initiative can be evaluated in terms of its predicted economic and demographic effects. REMI will generate annual estimates of total regional impacts and the explicit model structure will present an explanation of the impacts. The model equations have a theoretical foundation that is well documented in the leading economic professional journals. REMI is used by a number of Florida Departments and Agencies, Regional Planning Councils, Universities, and consulting firms in the state.

This analysis uses the "housing and land prices" variable in the REMI model to simulate the effects of higher than national house prices in the Treasure Coast Region. The "housing and land prices" variable compares average house and land prices in the Region in a given year to the average house and land prices in the United States in that same year. This simulation covers the period of 2002 to 2010.

The REMI model allows for simulations of the effects of a relative change in housing prices on the region's existing businesses and residents as compared to a control forecast (the Nation) where there are no changes. For example, housing prices in Florida in general, and the Treasure Coast, in particular, have escalated much faster than across the nation. The median sales price of a typical existing home in the nation reached \$207,000 in May of 2005, according to the National Association of Realtors, up 12.5% over the median price a year ago. Over the same period, the median sales price of an existing single-family home in the Treasure Coast Region increased 35%. Although, this significant relative difference cannot be sustained indefinitely, the Region is likely to continue to see higher relative house prices

as compared to the nation for some time to come. The simulation therefore, ran a conservative scenario which accounted for a 5.0% increase in housing prices in the Treasure Coast Region as compared to the nation. What follows is a summary description of the model simulation results.

Simulation

A simulation of a five percent increase in housing and land prices relative to the nation was conducted using the REMI model. If the national housing and land prices are increasing by 15% then this assumes that the regions' prices are rising by twenty percent. The exposition of the model simulation results will work backwards from the final impact along a chain of events to the initial increase in land and housing prices. The total effect of the rise in land and housing prices can be measured by the decline in gross regional product.

Table 1. Gross Regional Product (millions), Treasure Coast, 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Gross Regional Product	-221	-295	-366	-430	-491	-546	-602	-658	-715

As table one indicates the losses are in the hundreds of million dollars range for the region as a whole. To examine how individual industries are affected, the output for individual sectors is displayed in table two.

Table 2. Output (millions), Treasure Coast, 2002-2010

Output	2002	2003	2004	2005	2006	2007	2008	2009	2010
Forestry, Fishing, Other	-0.442	-0.631	-0.785	-0.913	-1.032	-1.133	-1.230	-1.323	-1.415
Mining	-0.386	-0.502	-0.624	-0.727	-0.817	-0.883	-0.941	-0.994	-1.044
Utilities	-22.380	-27.030	-31.360	-35.000	-38.190	-40.920	-43.510	-45.950	-48.350
Construction	-42.450	-66.010	-80.560	-89.320	-94.170	-96.440	-97.550	-98.060	-98.360
Manufacturing	-26.200	-40.310	-55.910	-71.960	-89.940	-108.100	-127.800	-149.500	-173.300
Wholesale Trade	-13.920	-18.980	-24.390	-29.390	-34.460	-38.950	-43.400	-47.810	-52.240
Retail Trade	-29.730	-36.920	-43.630	-49.570	-55.570	-60.280	-64.980	-69.600	-74.260
Transportation, Warehousing	-2.659	-3.530	-4.311	-5.003	-5.661	-6.236	-6.799	-7.349	-7.898
Information	-14.710	-19.370	-23.930	-28.320	-32.810	-36.890	-41.030	-45.190	-49.440
Finance, Insurance	-45.080	-56.560	-68.960	-80.500	-91.710	-101.900	-112.000	-122.100	-132.200
Real Estate, Rental, Leasing	-78.180	-106.400	-132.500	-155.000	-175.300	-193.500	-210.500	-226.600	-242.000
Professional, Technical Services	-19.350	-26.950	-33.750	-39.890	-45.810	-51.140	-56.350	-61.450	-66.540
Management of Corporation, Enterprise	-8.629	-11.470	-14.420	-17.140	-19.880	-22.340	-24.800	-27.270	-29.770
Administration, Waste Services	-10.870	-14.620	-18.210	-21.440	-24.550	-27.380	-30.210	-33.030	-35.900
Educational Services	-2.290	-2.471	-2.716	-2.941	-3.162	-3.343	-3.530	-3.714	-3.902
Health Care, Social Assistance	-5.728	-7.138	-8.731	-10.330	-12.030	-13.910	-15.960	-18.260	-20.760
Arts, Entertainment, Recreation	-6.116	-7.539	-8.943	-10.220	-11.450	-12.560	-13.660	-14.740	-15.840
Accommodation, Food Services	-16.160	-19.300	-22.510	-25.150	-27.770	-29.980	-32.180	-34.360	-36.560
Other Services (excl Gov)	-12.480	-13.940	-15.560	-17.060	-18.510	-19.740	-21.000	-22.250	-23.530

The largest impacted industries are real estate, finance and manufacturing. The decline in output results from the response of business firms to an increase in production costs. The rise in production cost leads to a decline in the profitability and competitiveness of the region's enterprises. As a result a number of current firms shut down or leave the area and

some potential new firms decide not to locate in the region. This phenomenon is represented by the drop in the region's output.

Increasing housing and land prices will effect the location decisions of of economic migrants. Economic migrants are those job seekers looking to relocate to a particular area for work and escalating housing cost will slow the growth of those individuals entering the local job market. Table 3 may seem like a slight decline in economic migrants but one has to take into account that the annual numbers accumulate each year so that the total impact is the sum across the years.

Table 3. Average Economic Migrants, Treasure Coast, 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Economic Migrants	-2,334	-2,097	-1,929	-1,757	-1,591	-1,440	-1,306	-1,186	-1,077

The effect that the decline in economic migration into the area has on the region's labor force is illustrated in Table 4. As the labor supply declines there will be upward pressure on the wage rate to attract new workers into and retain current workers in the region.

Table 4. Labor Force, Treasure Coast, 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Labor Force	-1,875	-3,191	-4,342	-5,344	-6,219	-6,990	-7,678	-8,296	-8,862

Chapter 3 PROGRAM AND POLICY RESPONSES

There are numerous and varied program and policy responses to meet the challenge of providing workforce housing in the Treasure Coast Region. Often people ask why the market can't fix the problem or why local governments can't mandate a solution. The problem, however, is housing markets are inherently complicated. They are influenced by diverse factors such as local demographics and geography, the price of land, types of housing available, mobility of the workforce, interest rates, and land use regulations. Access to and availability of moderately priced housing for working households is determined by two conditions – market and non-market.

Market conditions such as a strong demand for housing, a limited supply of land, high land prices and higher profit margins for the construction of high-end housing all contribute to where and how much workforce housing is built.

Non-market conditions relate to regulatory policies and practices at the local level which often discourage the construction of moderately-priced homes even if market conditions would encourage this type of development. Regulatory barriers to workforce housing include:

- Large lot zoning;
- Restrictions on attached and manufactured units;
- Exclusionary zoning;
- Building codes;
- Lack of regulatory and program coordination.

Local governments, through their SHIP programs, recent FEMA hurricane relief funding and other initiatives have attempted to provide affordable housing for their residents but the demand for affordably priced housing continues to exceed supply. Additional measures being adopted and/or reviewed by local governments include:

- ✓ Adoption of inclusionary zoning;
- ✓ Developing community land trusts;
- ✓ Sponsoring a regional housing trust fund;
- ✓ Brownfields redevelopment;
- ✓ Density bonuses for affordable units;
- ✓ Allowing granny flats/accessory apartments;
- ✓ Traditional neighborhood development.

The State of Florida recently announced the availability of approximately \$207,500,000 in hurricane recovery funding for counties affected by the 2004 hurricane events. The four counties of the Treasure Coast Region have received approximately \$54,000,000 from this special one-time legislative appropriation. The funding is designed to stimulate the repair and replacement of affordable home owner and rental housing in the communities hardest hit by the hurricanes. Each community will administer a Hurricane Housing Recovery

Program (HHRP) that will accommodate its different housing needs. The provision of workforce housing opportunities can be addressed through this one-time allocation and local governments are taking the opportunity to do just that. St. Lucie County and its municipalities for example, received approximately \$22 million in funding and have agreed to divide the allocation equally among the unincorporated County, Fort Pierce and Port St. Lucie. Through its formation of an Attainable Housing Task Force, St. Lucie County is examining a comprehensive array of options and resources to address its attainable housing needs.

It is worth noting however, that no single solution exists to the problem of meeting an increasing demand for affordably-priced workforce housing. Most local governments are working on the problem and will need to consider a number of options. There are demand-side and supply-side strategies to consider. Demand side initiatives typically focus on the cost of housing and seek to alleviate barriers such as subsidizing the down payment on a home purchase. Employer assisted housing is an example of a demand-side solution. Supply-side solutions seek to correct inadequacies in the housing market by increasing the supply of housing units provided. Sample programs include inclusionary housing and housing trust funds.

Part II of this series will examine what local governments are doing to address this problem across the Region and pose regional approaches – both public and private to meet the growing demand for workforce housing.

APPENDICES

Appendix A – Reference Materials

Appendix B – REMI Model Description

Appendix C – REMI Model Simulation

Appendix A

WORKFORCE HOUSING – REFERENCE MATERIAL

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Creating Inclusive Communities in Florida. *A Guidebook for Local Elected Officials and Staff on Avoiding and Overcoming the Not in my Backyard Syndrome*. www.flhousing.org

Appendix B

REMI Description

The REMI economic model includes markets for industry production, imports and exports. The local economy's market shares in any of the regional and foreign markets will be determined by its cost of production and any agglomeration economics of scale that it possesses. REMI has markets for labor, capital and intermediate goods. The latter market is represented by detailed inter-industry transactions while the former factors of production are determined by their relative factor costs. The labor supply includes migration into the region in response to expected real wage and employment opportunities. And in turn the wage rate depends on labor market conditions. The market for goods and services depends on income and prices. This is just a summary of some of the major economic relationships in REMI; in fact, the model contains thousands of variables and over sixty equations. It is dynamic with input and output variables ranging from historical time series to long run projections.

REMI Model Simulation