

How Housing Underproduction and Escalating Housing Costs Offset Wage Gains and Employee Benefits: A Pocono Mountain Case Study

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In my position as CEO of Settlers Hospitality and Settlers Holdings, a boutique multi-concept hospitality group operating in the Poconos, I have seen first-hand the consequences related to the lack of affordable workforce housing in the region. Many of the current challenges in the workforce housing market can be traced back to events set

in motion by the COVID-19 pandemic, including shifts in remote work trends, altered migration patterns, changes in demand for housing in rural areas, and the concurrent growth in popularity of the short-term rental market, all of which have significantly impacted housing availability and affordability in the Pocono Mountains.



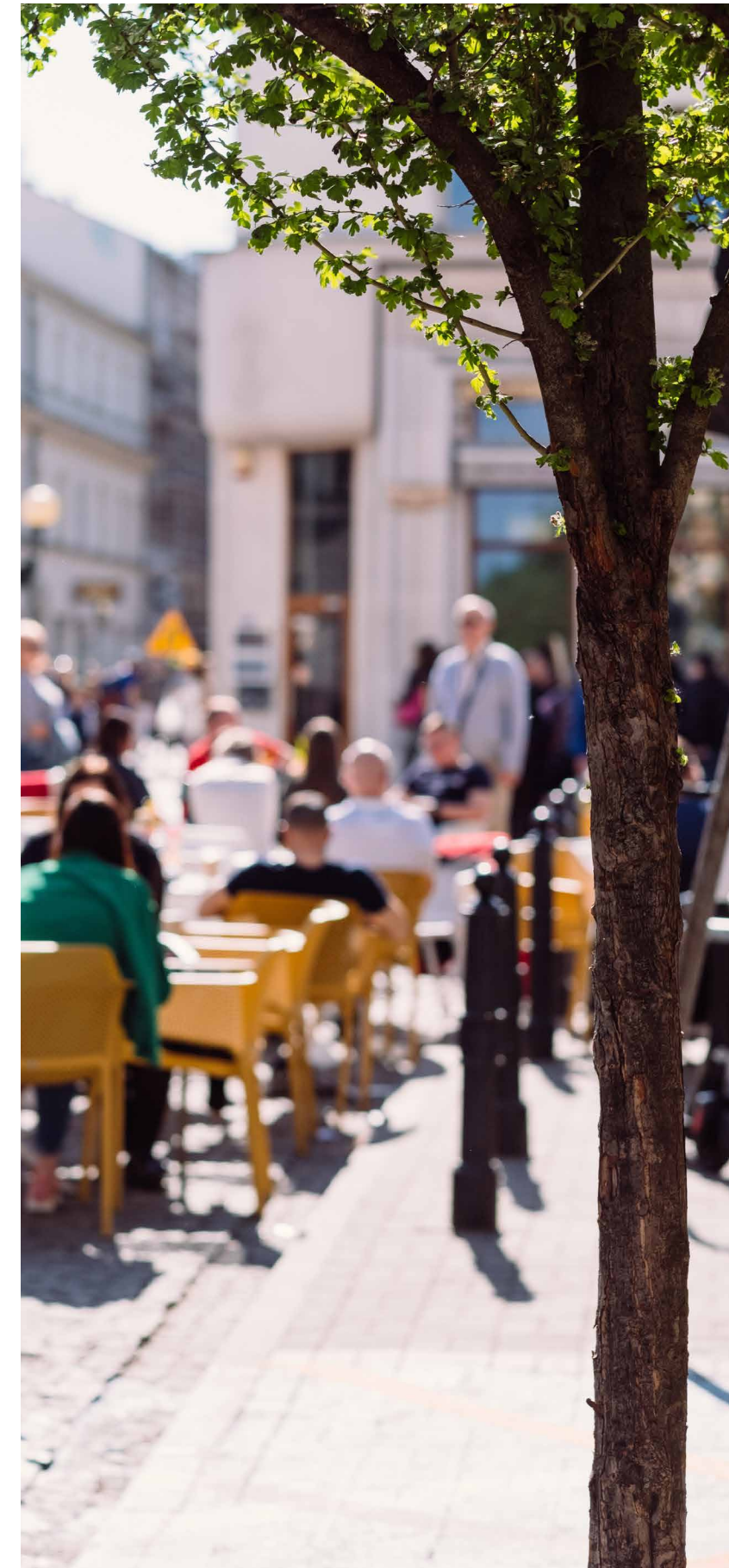
Background

During the COVID-19 pandemic, the hospitality industry grappled with a series of devastating challenges, including widespread closures during lockdowns that necessitated furloughs of the workforce. Between March 2020 and September 2020, nationwide data showed that there were over 32,000 permanent business closures in the restaurant and lodging sector (Yelp, 2020). Once allowed to reopen, surviving restaurants faced limitations on seating, adapting to outdoor dining, and maintaining social distancing measures, all of which placed pressure on both revenues and the ability to maintain staffing. The global supply chain crisis and a drastic increase in the cost of goods disrupted business, and the industry experienced a significant exodus of employees due to the “Great Resignation.”

The Pocono Mountains region, a rural destination known for outdoor recreation opportunities, is within a three-hour drive of two major metropolitan markets: New York City and Philadelphia, making it an appealing place for urban dwellers to buy a second or new permanent home, working from home or becoming extreme commuters. As a result, real estate values skyrocketed 28.4% year-over-year and brought the inventory of homes to an all-time low (Realtor.com). The dramatic rise in real estate value and competition for housing has been catastrophic for the workforce, which has been virtually shut out of the market.

Settlers Hospitality’s Response to Economic Change in the Region

Settlers Hospitality has grown its labor force by 40% over the last three years, becoming the largest staff in company history. We were the first company in the Pocono Mountains to raise its base wage to \$15 an hour. We also invested in our workforce by providing pay raises across the board to all staff, which increased payroll by 40%. Even with these wage increases, our employees struggle to make ends meet due to the rapidly rising cost of living, particularly the high cost of housing. In direct response, our company



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established Settlers Cares Foundation, a nonprofit dedicated to addressing critical needs among workers who experience unforeseen hardships like illness, injury, or disaster. We also introduced additional benefits and team building to keep morale high.

To address the housing crisis, Settlers Hospitality has secured nearly 50 housing units for seasonal and full-time staff. Currently, 10% of our workers reside in company-owned housing. The investment has put further pressure on our operating expenses while depleting capital. Coming out of the pandemic, our only option to cover increased expenditures was to raise consumer prices. But today's uncertain economic climate leaves consumers resistant to absorb further increases in hotel and restaurant pricing.

Workforce Housing in the Pocono Mountains

The median home value in the Pocono Mountains is estimated to be just over \$280,000 (Zillow), while the median per capita income is slightly less than \$30,000 annually (U.S. Census Bureau).

Increased population has stimulated business in the region, but the lack of affordable housing has created a dearth of available workers to staff the service industry. Previously, an entry-level position, such as a dishwasher, earned \$9 an hour. Settlers Hospitality's current hiring policy pays \$15 an hour for those jobs. However, wage earners now need to pay \$1,400 in monthly rent for a place that was \$800 monthly prior to 2020. Any salary increase is quickly absorbed by the cost of living, resulting in no net gains for the average worker.

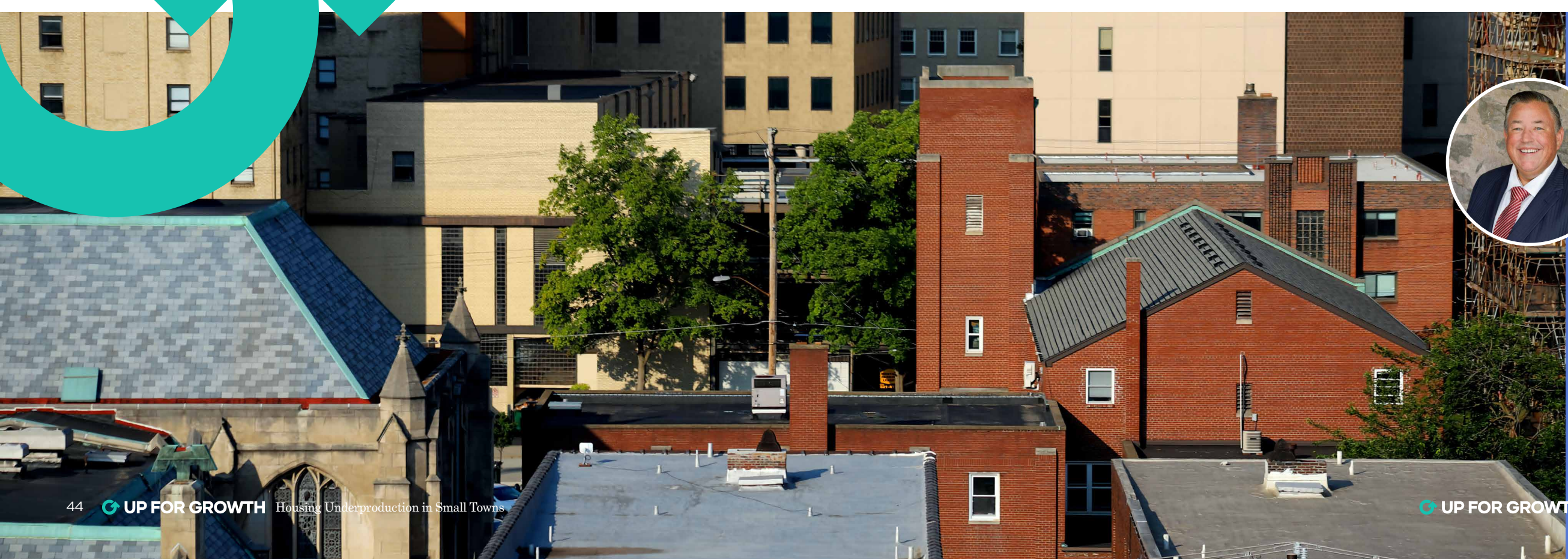
While it's clear the area needs additional workforce housing to accommodate demand, attempts at multifamily or multi-unit developments have been rendered unattractive by a lack of infrastructure, the highest interest rates in 21 years, and the high cost of building materials. Housing absolutely must be built, but it is unrealistic to think that quickly adding housing to the free market on its own is the solution to lower the cost of workforce housing.

Public Policy & Workforce Housing

While the demand for housing is increasing in the Pocono Mountains, the supply remains stagnant. People earning high and middle-high incomes can adequately navigate the free market, buying or renting homes where they can work remotely or commute to their jobs in New York City or Philadelphia. Families earning low wages might qualify for affordable housing programs, though homes are not always available. The hardest hit may well be middle-income earners, like those in the hospitality industry. They can neither afford to buy into private markets nor are they eligible for any current public/private programs to bridge the gap. Today, employees in the service industry in the Pocono Mountains are faced with the dilemma of changing vocations out of the sector or relocating outside the area and commuting to work. This brings added transportation expenses that many of them cannot afford, as many working-class individuals continue to have no discretionary income due to the high cost of living in their communities.

Conclusion

To resolve the housing crisis in the Pocono Mountains, current affordable housing programs need to be widened to include the working class or public/private partnership opportunities established with that segment in mind. Our long-term recommendation is for the government to invest in infrastructure that will address the shortage of affordable workforce housing. However, there is an immediate need for additional public/private partnerships that incentivize developers to undertake housing projects focused on the workforce. Tourism is the leading economy in the Pocono Mountains. A substantial workforce to support that industry is an invaluable resource. We seek a resolution that will enable our team to be able to live and play in the place where they work. Their current situation leaves them woefully caught between making too much money for government aid and not making enough to secure a good quality of life. We urgently need to work on this complex and recalcitrant problem to ensure more people make it central to their political goals.



AUTHOR BIO

Justin Genzlinger

Justin Genzlinger is the CEO of Settlers Hospitality and Settlers Holdings. He began his career in mortgage banking and finance at Arthur Andersen after he graduated from Lehigh University with a BS in Accounting. He worked with Fannie Mae and Freddie Mac and was a featured speaker at MBA National Conferences. Returning to his roots in the Pocono Mountains in 2015, he consolidated his family's businesses to form Settlers Hospitality and Settlers Holdings. He serves on the boards of organizations like HHA, PMVB, and PRLA, and in 2022, he founded Settlers Cares Foundation to aid hospitality workers in crisis.