

The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development

Evidence in Brief[†]

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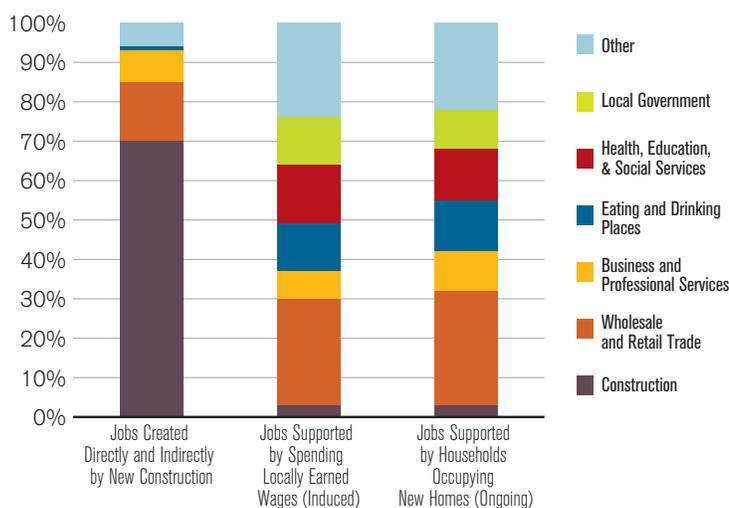
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The primary goal of affordable housing is to lower the monthly housing costs for low- and moderate-income families. But research shows that affordable housing development also drives local economic growth. This fact sheet summarizes the different ways in which affordable housing[§] can contribute to rising employment and economic recovery.

Building Affordable Housing Creates Jobs and Spending Both During Construction and After the Homes are Occupied

It stands to reason that building or rehabilitating affordable housing creates jobs in the construction field. Less obvious is that this activity ripples through the economy, supporting businesses that supply the construction trade as well as retailers, health services, and restaurants where newly employed workers spend their pay. The National Association of Home Builders estimates that building 100 new Low-Income Housing Tax Credit units for families can lead to the creation of more than 120 jobs during the construction phase. Furthermore, once the paint is dry and the homes are occupied, new residents continue to support roughly 30 jobs in a wide array of industries.¹ Figure 1 illustrates the types of jobs created and supported during construction and after occupancy. These employment effects are on-par with building comparable market-rate units.

FIGURE 1. Types of Jobs Created During and After the Construction of a 100-Unit Family LIHTC Property



Source: National Association of Home Builders. 2010. *The Local Economic Impact of Typical Housing Tax Credit Developments*. Washington, DC: Author.

[†]This fact sheet summarizes the conclusions of a detailed research review by the Center for Housing Policy titled "The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature." Released by the Center for Housing Policy in January 2011, this review is available at www.nhc.org/Housing-and-Economic-Development-Report-2011.html.

[§]Affordable housing takes many different forms, and this review uses the term broadly to encompass all housing developed at levels affordable to low- and moderate-income households. Most of the programs explored in this fact sheet (e.g., the Low-Income Housing Tax Credit Program, down payment assistance programs, community land trusts, public housing, etc.) use a subsidy to bring housing costs down to below-market rates and in-line with what low- and moderate-income households can afford. However, this fact sheet also considers the impacts of programs and policies that reduce housing-related expenses (such as energy and transportation costs) or that provide sound, unsubsidized mortgage products to low- and moderate-income households.

The Development of Affordable Housing Can Help Attract Both New Employers and a Skilled Workforce

Many employers have reported that a lack of affordable housing makes it more difficult — and thus more costly — to recruit and retain employees. In a national survey of more than 300 companies, 55 percent of the companies with more than 100 employees acknowledge an insufficient level of affordable housing in their proximity, and two-thirds of these respondents believe that the shortage is negatively affecting their ability to hold onto qualified employees.² Surveys also suggest that the availability of affordable housing plays a role in where businesses decide to build, relocate, or expand their operations.³ From an employer's perspective, a lack of affordable housing can put a local economy at a competitive disadvantage.

Population and employment trends suggest that many employees feel the same way. During the run-up in home prices in the early part of the 2000s, 23 of the 35 highest-cost metro areas lost domestic population, while most moderately priced housing markets grew in size.⁴ Preliminary research has also linked unaffordable housing

to slower employment growth.⁵ This research suggests that mobile workers with choices might move away from areas with the highest housing costs in order to pursue opportunities in more affordable locales.

Investing in Affordable Homes Increases Revenues for States and Localities

When affordable homes are built or rehabbed, the funds flowing to cities and states can be considerable. Revenues can take the form of fees for permitting, zoning, and utilities, or they can reflect sales, income, or property taxes generated by the construction-related economic activity. The National Association of Home Builders estimates that 100 Low-Income Housing Tax Credit units occupied by families generate roughly \$827,000 in local revenue immediately, with more than half coming from permit/impact fees and utility user fees.⁶

Additionally, research has shown that a new affordable housing development is more likely to have a neutral or positive impact on property values than a negative impact.⁷ In situations where the impact is positive (e.g., a nicely designed development replaces a vacant lot or a dilapidated building), higher property values can translate into higher property tax revenues for local governments.

Homebuyers Who Participate in an Affordable Homeownership Program Appear Less Likely to Experience Foreclosure Than Those Who Do Not, Which Can Reduce Government Spending

Recent research suggests that efforts to create affordable and sustainable homeownership opportunities for low- and moderate-income households can lower participants' risk of delinquency and foreclosure. Some effective programs provide zero-interest loans for down payment and closing cost assistance; others lower the cost of the home to a level affordable to working families; still others simply provide sound underwriting for prime loans in typically underserved areas. Illustrating the effectiveness of such efforts, one study finds that among low- and moderate-income borrowers, those who received subprime loans were three to five times more likely to default on their mortgage than those who received prime loans through an affordable lending program.⁸ Additionally, a review of a program in Massachusetts that offers low-interest loans to help with down payment costs concludes that low- and moderate-income participants are only about half as likely to be in foreclosure as other borrowers in the state with prime, fixed-rate loans (0.75 percent compared to 1.39 percent).⁹



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As long as the combined costs of housing and transportation remain affordable, both working families and local economies can reap the benefits as families have more to spend on local goods.

When they do occur, foreclosures force local governments to absorb many direct costs, including costs for boarding the property and coordinating trash removal; court and legal expenses; increased police and social services for the affected neighborhoods; and, potentially, demolition of severely distressed properties. Local governments may also see property taxes, utility revenues and other taxes and fees decline. Municipal costs for a single foreclosure can easily total in the thousands of dollars and exceed \$30,000 in extreme cases.¹⁰ And in addition to these direct costs, foreclosure activity can lower nearby property values, which, in turn, can have a significant impact on government revenues.

Affordable homeownership programs, therefore, represent a smart, fiscally sound mechanism for promoting housing and neighborhood stability.

When Housing and Associated Costs Such as Transportation and Utilities Are Affordable, Families Have More Income to Spend on Local Goods and Services

Affordable rent and mortgage payments can significantly increase the residual income that households have at their disposal after meeting necessary housing costs — by five hundred dollars or more per month in some cases.¹¹ Research shows that low- and moderate-income households are more likely than others to spend (rather than to save) this money to fulfill basic, but otherwise unmet, household needs such as food, clothing, healthcare, and transportation.¹² Local businesses stand to gain from the

increased buying power made possible by the availability of affordable housing.

Working families can also enjoy lower monthly costs if their home is in a dense, mixed-use community with access to public transit or job centers. One study shows that among working families earning between \$20,000 and \$35,000 (in 2000 dollars), those in central cities spend a significantly smaller share of their income on housing and transportation costs (54 percent) than do those living at greater distances from employment centers (70 percent).¹³ A similar trend holds for households with incomes between \$35,000 and \$50,000. As long as the combined costs of housing and transportation remain affordable, both working families and local economies can reap the benefits as families have more to spend on local goods.

The same concept applies to homes that are energy-efficient. Energy-efficient homes reduce the use of fossil fuels and lower monthly utility costs in the process. The United States Department of Energy estimates that the federal Weatherization Assistance Program helps low-income families reduce utility costs by an average of \$437 per year.¹⁴ Similar to an affordable rent or mortgage, reduced utility costs free up funds in a family's budget, allowing them to purchase more goods from local businesses.

Additionally, many builders of energy-efficient homes try to buy materials from local suppliers in order to reduce greenhouse gas emissions associated with transporting materials over long distances.¹⁵ This maximizes the ripple effect of new construction or rehabilitation for local establishments and minimizes the loss of economic activity to other businesses.

As the research affiliate of the National Housing Conference (NHC), the Center for Housing Policy specializes in developing solutions through research. In partnership with NHC and its members, the Center works to broaden understanding of the nation's housing challenges and to examine the impact of policies and programs developed to address these needs. Combining research and practical, real-world expertise, the Center helps to develop effective policy solutions at the national, state and local levels that increase the availability of affordable homes.

INSIGHTS from Housing Policy Research

The Insights series summarizes research on key housing policy topics in a format designed to be accessible to a wide range of readers.

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Resources

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⁷Center for Housing Policy. 2009. *"Don't Put it Here!" Does Affordable Housing Cause Nearby Property Values to Decline?* Washington, DC: Author.

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¹⁵U.S. Green Building Council. 2008, January. *LEED for Homes Rating System*. Washington, DC: Author.

