

Issue Brief



Housing: An Economic Engine to Jumpstart Rhode Island's Economy

These are hard economic times. According to recent testimony by economists from Global Insight and Moody's Economy.com, the United States economy continues to contract and Rhode Island appears to be one of the first states in recession.¹

The impact is felt at every level. Households are under considerable pressure, facing rising costs of gas, food, and energy. Rates of household debt, as well as the number of families delinquent and defaulting on their mortgage payments, indicate that families haven't experienced this level of stress since the early 1990s.² And the state economy is suffering, with revenues far below previous projections and an estimated \$440 million budget shortfall in 2009. Economists do not expect the Ocean State's economy to see signs of recovery until mid-2009 with only tepid growth forecast for several years thereafter.

Housing & the Economy: Inextricably Linked

The housing market has had an enormous, undeniable, and perhaps unprecedented impact on the country's current economic climate. While the rising cost of meeting basic needs like housing, food and heat thwart families' ability to save and spend on other goods or services, it is

the housing market decline that has reduced consumer confidence and left families unsure of their future economic security and less willing to make large purchase decisions. This is not surprising, given the inextricable link between housing and the economy.

The development of 100 single family homes results in an estimated first year benefit of \$16 million in income for local businesses and \$1.8 million in taxes and other revenue fees for local government.

Over the past eight years, as the demand for housing has outdistanced supply, Rhode Island's red-hot housing market has put an affordable home out of reach for more and more Rhode Islanders. However, this supply-versus-demand imbalance has also stimulated a significant increase in construction activity.

- From December 2002 to June 2007, the overall construction sector in Rhode Island expanded by 26.9% and added

5,200 jobs, creating a significant engine of economic growth for the state.³

- The home building industry segment alone of the construction sector amounted to almost 6% of the Gross State Product in Rhode Island at the beginning of that five year period.⁴
- The National Association of Home Builders (NAHB) estimates that the construction of 100 single-family homes generates the equivalent of 284 full-time jobs in construction and other industries in the first year alone, while construction of 100 multifamily homes creates 133 such jobs.⁵

The benefits of housing development are not limited to job creation; it has a ripple effect on the local economy. Housing development generates taxes and other revenues,

such as permit fees, and construction activity can generate income for local businesses. New residents contribute to local tax rolls and become customers of local businesses. For example, in the first 12 months after purchasing a newly-built home, owners spend an average of \$6,500 on furnishings, decorating, and improvements.⁶ The development of 100 single family homes results in an estimated first year benefit of \$16 million in income for local businesses and \$1.8 million in taxes and other revenue fees for local government. The creation of 100 multifamily homes creates \$7 million in local income and \$710,000 in taxes and other revenue.⁷ This added income results from the impact of construction activity as well as the ripple effects of having construction workers and new residents spending money in the community.

The Neighborhood Opportunities Program (NOP), Rhode Island's main program for the construction of supportive housing, has created 1,012 homes since its establishment in 2001. In addition to being affordable for Rhode Island workers and families, those new homes have generated approximately 1,772 well-paying jobs for Rhode Islanders, over \$96 million in local income, and \$10.3 million in taxes and other revenue in the first year alone. All this for a state investment of less than \$40 million.

A Changing Market Leads to a Crashing Economy

Now the combination of increasingly unaffordable housing prices, rising fuel and commodity prices, relatively stagnant income growth, and an explosion of exotic mortgage products has brought the housing market in Rhode Island and across the country to a grinding halt.

In Rhode Island, changes in the housing market have had a disproportionate impact on economic activity. Sales are down substantially. The number of building permits declined 173% from the first quarter of 2006 to the first quarter of 2008 and the ripple effects are being felt throughout Rhode Island's economy. In June 2007, Rhode Island's construction sector was responsible for over 12% of unemployment insurance claims, even though the sector represents only 5% of the state's jobs.⁸

Prices have also declined, but not substantially. In 2007, the median sales price of a single family home declined

by more than 3%, the first such decline since 1996. Still, the decline has barely dented the run-up in value that occurred over the last seven years: even taking into consideration the dip in prices over the past year, the median price of a single-family home in Rhode Island more than doubled from 2000-2007.⁹

The State of the Nation's Housing 2007 report by the Joint Center for Housing Studies of Harvard University put the impact of housing on the economy and the change in the market very succinctly: "The about-face in housing markets put an end to the big lift that the economy had enjoyed since the 2001 recession. The drop in home building was so drastic that it shaved more than a full percentage point off national economic growth in the latter half of 2006. As a result, residential fixed investment went from being a significant contributor to growth to a major drag on the economy."¹⁰

Housing as an Economic Solution

If Rhode Island is going to escape these difficult economic times and secure a stronger future, housing undoubtedly needs to be part of the solution, especially housing in mixed use, pedestrian friendly, energy efficient neighborhoods.

The value of housing development as an economic driver has not been overlooked at the federal level. An economic stimulus package being considered by Congress contains housing-related provisions, including \$4 billion to purchase and rehabilitate foreclosed properties and a \$7,000 tax credit for homebuyers who purchase a foreclosed home.

In contrast, Rhode Island cut housing programs in FY2008 by more than \$31 million, including a \$5 million cut to the state's Neighborhood Opportunities Program and a \$26 million required payment by Rhode Island Housing to the state's General Fund. Given the strong link between the health of the housing market and that of the state's economy, now is not the time to cut. Now is the time to invest in housing as a way to jumpstart the local economy and stabilize families and neighborhoods. Any housing cuts will just extend our recession and budget deficits.

Footnotes: 1. Testimony by Global Insight and Moody's Economy.com, 4/28/2008 to Rhode Island's revenue estimators. 2. *ibid* 3. Rhode Island Department of Labor and Training, 2007 Employment Trends and Workforce Issues, pg 12. 4. "Housing's Contribution to Gross State Product," Housing Economics Online, National Association of Home Builders, Natalie Siniavskaja, 9/6/2005, pg 2. 5. "The Local Impact of Home Building in a Typical Metropolitan Area, Income, Jobs, and Taxes Generated," National Association of Home Builders, 10/2005, pg 2-3. 6. "Housing's Economic Impact," Rhode Island Builders Association, 2006. 7. "The Local Impact of Home Building in a Typical Metropolitan Area, Income, Jobs, and Taxes Generated," National Association of Home Builders, 10/2005, pg 2-3. 8. Comparison of RI Unemployment Insurance Claimants and Total Jobs, Rhode Island Department of Labor, 6/2007, Employment Trends and Workforce Issues, pg 19. 9. www.riliving.com 10. The State of the Nation's Housing 2007, 6/2007, Joint Center for Housing Studies of Harvard University, pg 5.

Your Housing Bond Dollars at Work: Tiverton's Bourne Mill



Rhode Islanders understand the connection between affordable homes, vibrant communities, and a strong economy. In 2006, voters overwhelmingly approved a \$50 million bond issue to create affordable apartments and starter homes. To date, the Rhode Island Housing Resources Commission, the state agency charged with the distribution of the bond funds, has distributed \$12.5 million in investments to assist in the development of 353 affordable houses and apartments in 19 cities and towns. The investments have been made through the Building Homes Rhode Island program.

The Bourne Mill in Tiverton is one such site. With the help of \$2,510,000 in bond funds, the Armory Revival Company is converting this former textile mill into 166 apartments, 66 of which will be affordable. This revitalization effort will also incorporate waterfront commercial space. For Tiverton, this project has meant:

- 235 direct temporary construction jobs (over 18 months)
- 300 indirect construction period jobs (over 18 months)
- 35 permanent jobs



- \$14 million per year in resident income
- \$4.6 million per year in resident expenditures
- An increase of over \$390,000 in local tax income, from \$13,200 to \$407,000 after rehabilitation



Building Homes Rhode Island is a program of

the state's Housing Resources Commission (HRC). The program was created to distribute funds from the \$50 million bond issue approved overwhelmingly by voters in 2006. The funds are distributed to eligible developers by the HRC in order to assist in the development of affordable homeownership and rental properties.

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Housing Investment Important to Small Businesses



Albert Valliere, Jr. knows first-hand the positive effect affordable housing development has on the economy. In fact, he calls it an "economic juggernaut."

Al is the President of Nation Wide Construction in Woonsocket; he oversees more than 30 employees and he's keeping them busy — 80% of his business is in revitalizing communities in Rhode Island by developing workforce housing.

"We have our own staff in the field plus subcontractors, electricians, plumbers, and painters. It could add up to 50 people or more on a job at one time," Valliere said, "and

there are other contractors in the state that are similar to Nation Wide, we all build workforce housing as part of our portfolio. If you add it all up there could be 300 workers out there on any given day doing only affordable housing development. Losing our ability to work because of cuts to the state's investment in affordable housing or because of the economic downturn is bound to have a big impact."

Building suppliers feel the effect of a disinvestment in affordable housing or an economic downturn as well. "It's all one big system," says Ted Angell, owner of L. Sweet Lumber Company in Providence, "We definitely go as the housing market goes. And not only lumber companies like ours, but other building material suppliers such as plumbing suppliers and electrical suppliers."