

Special Report

Measuring the Economic Impact of Affordable Housing in Rhode Island

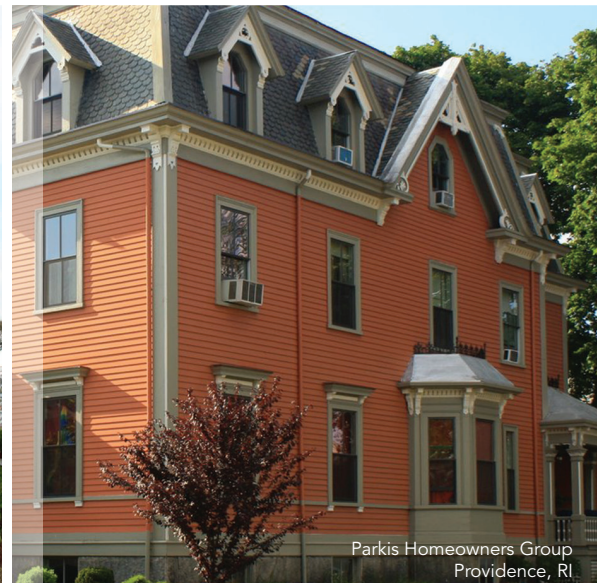
SPRING 2010



The Meadows
North Smithfield, RI



Sweetbriar
Barrington, RI



Parkis Homeowners Group
Providence, RI

Historically, the value and positive impact of affordable homes have been measured by the social benefits they provide—such as fostering stable and prosperous communities, providing shelter security to Rhode Island’s working families, stabilizing blighted neighborhoods, and preventing or mitigating chronic homelessness. General assumptions about the economic benefit these homes provide to the state have been made but not measured in Rhode Island.

In spring of 2010, HousingWorks RI commissioned an economic impact study of our state’s housing bond dollars and their deployment through the *Building Homes Rhode Island* program. **This Special Report highlights the results of the study and offers quantitative evidence that the building of affordable homes in Rhode Island is producing a high return on investment, despite our current economic climate.**

“The impact of affordable housing development has traditionally been described to private, philanthropic and public funders in terms of its social benefits to low-income households and communities, (1) stable communities, (2) the benefits to individuals’ quality of life by occupying safe, decent, and affordable housing, and (3) the benefits to other programs... However, these measures do not reflect many quantifiable economic outcomes... Very little analysis has been done using traditional business measures of investment return or other economic measures of affordable housing development’s impact.”

M. Rogers and J. Blatt,
*Economic Impact of
Affordable Housing Development*

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The Building Homes Rhode Island program



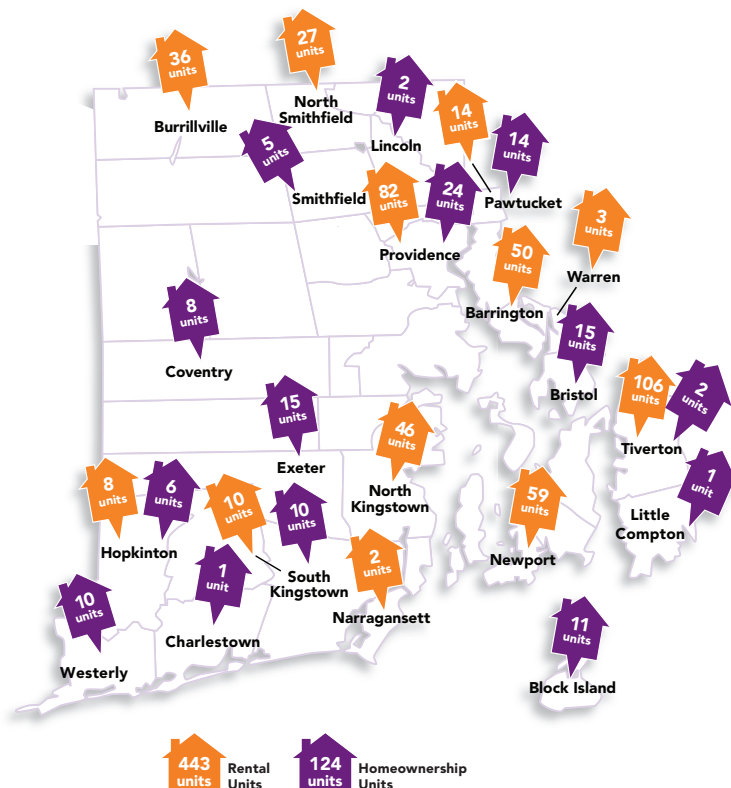
In 2006, 66 percent of Rhode Island voters approved a \$50 million housing bond to create affordable rental and ownership homes throughout the state. The bond received the support of a majority of voters in every city and town in the state. The bond funds are distributed through the Rhode Island Housing Resources Commission's *Building Homes Rhode Island* (BHRI) program. BHRI is helping hundreds of income-eligible families rent or buy a quality home in Rhode Island.

Funds for the program are distributed through a competitive process overseen by the Housing Resources Commission. The Commission has

created a BHRI Distribution Committee which includes representatives of private for-profit, non-profit and governmental organizations to review applications. The BHRI program operations are managed under an agreement with Rhode Island Housing. To date, \$37.5 million have been awarded, of which \$25 million have been deployed through nonprofit and private developers in the construction and rehabilitation of 40 developments, benefiting 567 working families in 21 communities throughout the state. The \$50 million of BHRI are expected to fund the creation of more than 1,000 affordable homes in Rhode Island.

By law, 80 percent of the homes funded through BHRI are for rentals and 20 percent for ownership. BHRI is responsible for building some of the first affordable homes in many suburban and rural communities in the Ocean State.

567 Affordable Homes Funded FY 2007 and 2008



During 2007 and 2008—years in which the first bond monies were awarded—residential construction supported by BHRI accounted for 31 percent of all building permit activity in Rhode Island. BHRI is set to expire in FY2011.

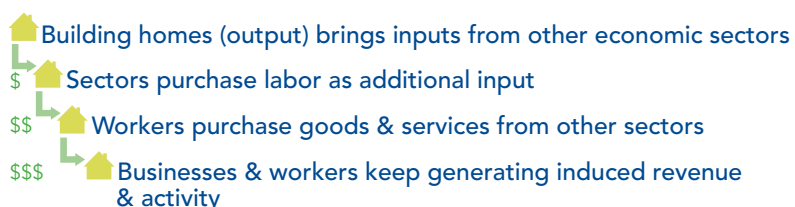
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Why an “economic impact” study?

Economic theory states that initial expenditures in a locality create a ripple, or *multiplier effect* throughout local, state, and national economies. But how do we measure such an economic “multiplier effect”? Fortunately, with the advent of complex computer-assisted tools, such as *input-output modeling*¹ software programs, and the help of economic data providers, detailed and wide-scale estimates of the returns of public investments are possible. These calculations are invaluable and necessary for informed policy and decision-making at state and local levels.

For several years, national studies and research have consistently proven that investments in housing bear a high multiplier effect for economies. Yet, in Rhode Island, the “multiplier effect” from the development of affordable homes has not been examined. This study—with thorough calculations, a solid econometric² model, software-assisted estimations, and data from 440 economic sectors in Rhode Island—demonstrates that coordinated investments in quality long-term affordable homes yield high economic returns on public investments. In economic terms, these homes exert a high “multiplier effect” on Rhode Island’s economy, even in today’s troubled economic climate.

Measuring Economic Ripple (“Multiplier Effect”) of Investments



Additional Economic Benefits of Affordable Homes

Compared to traditional, market-rate residential development, today’s affordable homes bear important additional economic benefits:

Affordable housing is important to our cities and towns: Housing that is affordable to the local workforce will retain and attract qualified labor, leverage federal and private dollars, and make local governments eligible for federal and private grants.

Affordability guidelines offer families stability from the start: Affordable housing programs ensure that residents do not spend more than 30% of their household income on housing costs, i.e., mortgage or rent, taxes, insurance, and utilities. These guidelines enable families to have dependable discretionary capital to contribute to local economies.

Higher construction standards and design parameters: Today’s affordable homes have high quality design and construction standards. They are attractive homes that improve the communities where they are built, creating a positive effect on the value of surrounding properties.³

Affordable homes house our critical workforce: Typically, people who qualify for an affordable home represent the professions that power our local economies, such as general office clerks, retail salespersons, customer service reps, nurses and medical technicians, and home health aides—some of the fastest growing occupations in our state today.

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In a Nutshell...

IMPLAN's input-output modeling estimated the economic "multiplier" resulting from BHRI investments (additional economic spending that ripples through our state economy):

Direct Effect:

Initial production stimulus and impact on the economy.

Indirect Effect:

Demand for inputs from directly affected industries (e.g. lumber, cement, architectural services).

Induced Effect:

Household change in spending due to additional employment caused by direct and indirect effects (e.g. workers will use wages to shop at the grocery store or buy local products).



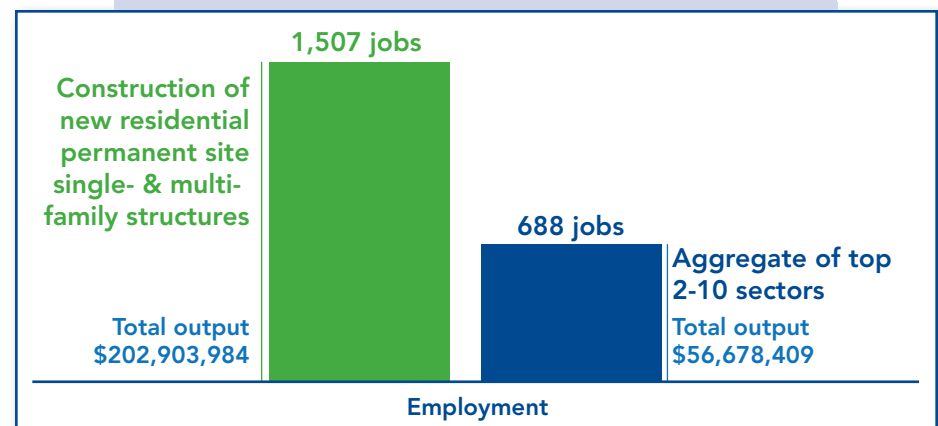
Study's methodology

The study commissioned by HousingWorks RI consisted of a statewide economic impact analysis and a governmental fiscal impact analysis. (For a detailed description of the methodology behind this study, please visit www.HousingWorksRI.org)

The study used the IMPLAN⁴ model for calculating BHRI's impact on Rhode Island's economy: jobs created, total labor income, economic value added, and the total economic activity generated by BHRI developments. IMPLAN also models the tax revenues accruing to the state from sales, income, and corporate taxes that arise from this increased economic activity. IMPLAN has become the industry standard for conducting economic impact analysis.⁵ It has been widely used by several industries and housing agencies around the country to estimate the economic impacts of investments on local and regional economies.

IMPLAN (IMPact analysis for PLANning) is an input-output impact modeling system.⁶ These systems focus on the interactions among sectors in the economy affected by investments and spending. Changing demand in a business sector—e.g. construction—causes the sector producing the goods (output) to purchase inputs from other sectors. These sectors, in turn, employ labor as an additional input. Workers use wages to purchase goods and services from other sectors of the economy. The initial expenditures create a ripple, or multiplier, effect through the economy. IMPLAN uses 440 economic sectors in Rhode Island as a basis for analysis. (See flow chart on page 3.)

Construction vs. Other Sectors



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The results

Rhode Island's Affordable Housing Sector: A Potent Stimulus to Our Economy

Our study illustrates how State investments in the development and rehabilitation of affordable homes have supported a substantial amount of jobs and economic activity throughout Rhode Island. For example, the economic impact analysis shows how, in its first two years, BHRI's initial \$25 million in bond funding has permeated our state economy multiplying **nearly 16 times** and generating **almost \$400 million of total economic activity**.⁷

BHRI Multipliers



Type	Definition	Multiplier
Development multiplier	Total development costs/BHRI funds	9.2
Labor income multiplier	Total Labor income effect/BHRI funds	6.0
Employment multiplier	BHRI funds/total development	\$8,170
Total output multiplier	Total output effect/BHRI funds	15.8

The study also reveals that the \$25 million of BHRI funds deployed to date have maintained or generated 3,060 jobs in the state, a great majority of which are full-time. This translates into one job per \$8,170 of bond funding deployed, and \$149.3 million in wages. It is estimated that 1,507 construction jobs were created. Based on these calculations and all other factors held constant, **we estimate that the entire \$50 million of bond monies will support more than 6,100 direct and indirect jobs throughout Rhode Island.**


Statewide Impact of Entire Bond | \$50 million:

Impact type	Employment	Labor income	Output
Direct effect	2,982	\$145,883,728	\$401,599,584
Indirect effect	854	\$40,239,428	\$109,444,720
Induced effect	2,824	\$112,469,866	\$276,696,770
TOTAL effect	6,120	\$298,593,022	\$787,741,072

\$25 million deployed to date:

BHRI units 567	Total housing units 944
Leveraged private & federal funding \$230.9 million	Leverage ratio 9.2:1
 Immediate impact 	

\$25 million

Total construction impact \$393.9 million	Total output multiplier 15.8 times
	
\$15.80 per \$1 of funding deployed	

Employment & Sector Activity Top ten sectors – Impact of \$25M on R.I.'s industries Excluding construction

Number of jobs created per sector

Food services & drinking places	115.7
Employment & payroll only (state & local govt., non-education)	94.2
Employment & payroll only (state & local govt., education)	88.6
Retail stores – food & beverage	80.4
Private hospitals	75
Real estate establishments	61.5
Offices of health practitioners	61.3
Retail stores – motor veh. parts	60.7
Retail stores – general merchandise	50.9

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"The importance of housing in the economy is well known. Analysts track building permits nationally and locally and report housing starts as an indicator of economic activity. New housing construction creates jobs and generates income, and a strong new housing market is seen as an indicator of public confidence and a robust economy. However, the local housing market also is an important factor in economic development. For example, the quality of homes and neighborhoods in a community serves as a visual measure of the local quality of life. The range of housing types strengthens the ability of local businesses to attract and retain new workers so that they can compete and expand in the changing economy."

D. Klacik,
*Affordable Housing: Key to
Economic Development*
Center for Urban Policy and
the Environment

The Fiscal Impact of BHRI

Using IMPLAN, it is estimated the State of Rhode Island is receiving various tax revenues, including income taxes, corporate taxes, and various fees and licenses, as a result of the increased economic activity from the BHRI program. These tax revenues also include sales taxes (non-profit developers report that they often do pay sales tax on the purchase of building materials). Other sales taxes are captured as the ripple effects of BHRI monies move through the state economy. The total estimate of tax income received by the State of Rhode Island ranges from approximately \$6.9 million to \$11.0 million, with the bottom end of the range reflecting an estimate of \$0 in sales tax revenue and the top end of the range reflecting an estimate of \$4.1 million (essentially the full capture of potential sales taxes from the new economic activity).⁸

Conclusion

The Building Homes Rhode Island program has been a success for Rhode Islanders in several ways. Not only do these attractive and well-constructed houses provide a quality home for someone to live in, but as evident from the study's findings, they also serve as a strong economic generator: based on the study's calculations and all other factors held constant, BHRI investments are estimated to leverage around \$460 million from private and federal supplementary sources and generate more than \$790 million in economic activity across the state.

Construction and real estate industries have consistently accounted for about one fifth of Rhode Island's Gross Domestic Product; and one in every 10 jobs in the Ocean State is in the construction and real estate industry.⁹ Indeed, BHRI has been a needed, strategic stimulus for the seriously affected homebuilding sector.

The economic impact is not limited to the homebuilding sector either. Residents of these affordable homes shop at local grocery stores, eat at local restaurants, and pay taxes to local governments. This report is but one part of an ever growing body of evidence illustrating how quality affordable homes directly contribute to vibrant local economies and create a more attractive business climate for communities. If Rhode Island is to revive its economy, state and local policymakers must invest in strategies that will ensure a long-term supply of homes that are affordable to our workforce.

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About the study's authors

Eric Hangen, AICP, is the President of I Squared Community Development Consulting, Inc., which provides nonprofit business and strategic planning, neighborhood revitalization planning, and housing finance consulting services to clients nationwide. As a Management Consultant with the Neighborhood Reinvestment Corporation, Eric helped nonprofit corporations across the country develop neighborhood revitalization, strategic, and business plans. Major projects include creating an urban reinvestment strategy that has guided over \$50 million of investments in Syracuse, NY, and directing the development of an innovative Home Equity Protection program that received national acclaim in *Forbes*, *The Economist*, and on NPR's "Marketplace."

Eric has a Master's in Public Policy from Harvard University and a Bachelor's in Environmental Studies from Brown University. He is a member of the American Institute of Certified Planners.

Jack Northrup, is the President of New England Market Research, Inc. of Middlebury, VT, a company that works with nonprofits, foundations, government agencies and private companies conducting primary research and statistical analyses. Clients have included the Annie E. Casey Foundation, Habitat for Humanity, the Aspen Institute, the U.S. Department of the Treasury's CDFI Fund, NeighborWorks® America, the American Physicians Assistant's Association, the Association for Energy Affordability, the cities of New Orleans, Oakland, New York, Atlanta, Indianapolis and Providence, RI. He has co-authored several publications including case studies for the FB Heron Foundation on mission-related portfolio investing, portfolio investing for community development for the Responsible Endowment Coalition and insurance company community philanthropy for AltruShare Securities. He has taught at the University of Vermont and at the Graduate School of Business at Southern New Hampshire University.

Besides nonprofit work, Jack has performed data mining and primary research for Genworth Financial, Fleet Bank and Littleton (NH) Savings Bank, several television networks and movie studios, and other corporations and entrepreneurs.

Jack holds a BS and MS from New Hampshire College and an MBA from Dartmouth College.



References & Endnotes

- ¹ IMPLAN is one such modeling system—which focuses on the interactions among the sectors in a given economy that are affected by spending and quantifies the economic effects and returns of investments (read more about *input-output modeling* below on endnote 4).
- ² In economics, *econometrics* combines economic theory with statistics to analyze and test economic relationships, in the case of this study, among different economic sectors and industries.
- ³ 'Don't Put It Here!': Does Affordable Housing Cause Nearby Property Values to Decline? Center for Housing Policy, 2006.
- ⁴ For more information about IMPLAN, visit www.implan.com.
- ⁵ Minnesota Housing Finance Agency. *The Economic Impact of Minnesota Housing's Investments*, 2009.
- ⁶ In economics, an input-output (I/O) model uses a matrix representation of an economy (either national or regional) to measure or predict (to "model") the effect of changes in one industry on others due to a particular investment. In short, an I/O analysis depicts inter-industry relations in an economy; it shows how the output of one industry is an input to other industries.
- ⁷ Total economic activity includes employment, labor income, economic value added, and induced output at the state level.
- ⁸ For detailed information about state tax revenues visit www.HousingWorksRI.org to download the complete pdf of the study.
- ⁹ Federal Reserve Bank of Boston.

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Background

HousingWorks RI is a coalition of nearly 140 organizations working to ensure that all Rhode Islanders have a quality, affordable home—an essential component of our state's economy. Our members include banks, builders, chambers of commerce, colleges, community-based agencies and advocates, faith groups, manufacturers, preservationists, realtors, municipal officials and unions...and that's just a small sample.

HousingWorks RI identifies best practices, conducts research, and analyzes data to support policy recommendations, public education strategies, and communication initiatives. HousingWorks RI works to educate stakeholders and build consensus around the connection between housing and economic development.

Our funders:



Newport Heights Phase IV
Newport, RI

"By almost any measure, affordable housing development offers a very good return on dollars invested. The pure economic impact of developing housing that is affordable to low-income [people] is substantial... It is immediate because construction begins almost immediately. It is on-going because of the 50 to 99 year commitments to affordability that developers and owners make."

M. Rogers and J. Blatt,
*Economic Impact of Affordable
Housing Development*