

ARIZONA STATE UNIVERSITY

THE ECONOMIC AND SOCIAL IMPACTS OF HOUSING ARIZONA: PRELIMINARY REVIEW

STARDUST CENTER FOR AFFORDABLE
HOMES AND THE FAMILY

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ECONOMIC AND SOCIAL IMPACTS OF PERMANENT AFFORDABLE HOMES

STARDUST CENTER FOR AFFRODABLE HOMES AND THE FAMILY
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EXECUTIVE SUMMARY

Significant evidence shows that permanent, affordable, and geographically accessible housing provides numerous benefits both to individual families and to the broader community. These include:

- Economic Benefits
 - Short-term housing construction costs
 - Increased long-term tax base
 - Increased local consumer base
 - Improved work performance for employers
 - Improved skill development for employees
 - Increased household financial outlook
- Social Benefits
 - Improved educational performance
 - Reduce drop-out rates
 - Improved family health
 - Increased household stability

By developing affordable, permanent housing in Arizona, we would also be developing the foundation for many other activities. The individual families who receive the housing surely benefit directly. The state as a whole, however, also benefits through improved school and work performance, increased community stability, and more structured childhood and family development.

INTRODUCTION

Affordable homes can confer several benefits on both an individual and societal level, by improving education and childhood outcomes, stabilizing jobs, developing neighborhoods and communities, and in providing numerous economic benefits for both the individual families and their respective neighborhoods.

There have been great efforts put forth by researchers and academics to assess the impacts and benefits of affordable homes. We have gathered information from existing research and publications on the social and economic impacts and benefits of affordable homes, and have presented them relative to the current situation in the State of Arizona. The current statistical numbers and figures show the stressful situation our state finds itself in, and clearly mark the need for development of more affordable, sustainable and permanent housing, as a key component for achieving neighborhood stability and community development. This document lays out the terrain for future studies involving the ASU Stardust Center for Affordable Homes and the Family, and related government, industrial, and non-profit housing participants.

The information presented here is only a partial introduction to some of the findings of national research, as well as studies performed in other states. As such, certain disclaimers must be made. For example, most of these studies take only homeownership into account though it is important to address the benefits of all permanent affordable housing (i.e., including rental housing). The impacts of all affordable permanent housing have not been assessed, even though many of the benefits of homeownership (such as neighborhood stability, better children outcomes, and strengthening communities) could also be reasonably achieved with permanent rental housing.

It is also clear that the provision of permanent affordable homes and homeownership increase does not operate on its own to produce social and economic benefits; it has to be matched by efforts in improving the urban environment, investments in infrastructure and services, to enhance the quality of life within a neighborhood or community. In addition to being a necessary end in itself, housing is also the means for other critical goals in the State of Arizona:

- Educational attainment
- Sustained economic expansion
- Improved physical and mental health
- Community stability.

These goals assist all residents of the State regardless of their individual housing status.

SOCIETAL ECONOMIC IMPACTS

BENEFITS

The development of permanent affordable housing offers substantial economic benefits in the short and long terms; it generates and supports full time jobs, increases local economies; and secures a stable and productive workforce.

NAHB MODEL

The model used and developed by the National Association by Home Builders (NAHB), to assess the immediate economic impacts of affordable housing, divides these into three different phases: construction, construction ripple, and on-going impacts.

Phase I: According to the NAHB, the construction of 1,000 multifamily units creates 1,030 full time jobs in construction and related industries, generates \$33.5 million in wages, and \$17.8 million in combined federal, state and local taxes.

Phase II: According to the NAHB, the **wages earned by workers and profits earned by businesses during construction phase, are spent on local goods and services**, returning income back to the community in a multiplier effect. For example, a family spends 15% of their total income on food. According to the Consumer Expenditure Survey (CES), by the U.S. Bureau of Labor Statistics, when workers become consumers, they help support additional jobs in 16 other industries.

Phase III: The third phase measures the on-going economic benefits from providing affordable housing, the **increased purchasing power obtained by occupants from and increased saving capabilities due to their below market rents**, is also spent on local goods and service, supporting local jobs in diverse industries.

In addition to these, a fourth phase must be considered—that is, stable housing’s impact on worker productivity. Rohe, Zandt and McCarthy found that people satisfied with their homes and neighborhoods, perform better and are more productive at work¹. Factors such as commuting time, financial duress, and household stability shape an individual worker’s ability to maintain steady employment. Moreover, both small businesses and large employers rely on the productive quantity and quality of each of these workers. Stable housing for an entire workforce partially determines their performance, the expansion of individual firms, and the subsequent growth of the entire economy.

EXAMPLE

In April 2003, the Association of Oregon Community Development Organizations (AOCDO) conducted a study on the economic impact of affordable housing using the NAHB model. They

¹ The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research, 2001, Joint Center for Housing Studies of Harvard University

estimated the impacts of affordable housing development in the state from 1990 to 2002². For a total of 7,562 units developed, they found the following results:

A total state, federal and private investment of \$500,000,000 in Affordable multifamily housing development generated

- on **one time basis** (phase I and II):
\$393,578,153 in local wages and salaries
12,212 local jobs
- On a **on-going basis** (phase III)
\$24,199,301 in local wages and salaries
833 jobs

Producing a 25% return on the investment, on wages, salaries and taxes, 1/4 of the total investment.

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In the state of Arizona, nearly 197,400 families lack an affordable home - about 10.5% of all households in the state. This affordability gap, not only affects low income households, but causes an imbalance that develops when low income households occupy housing that would be normally available to households with higher income. In this case these higher income households are then forced towards higher priced housing. This extends the affordability gap to 25% of all households in the community³.

The 2000 census showed that 61% of homeowners and renters in Arizona spent more than 30% of their income on housing. More than 8% of Arizona households lived in overcrowded housing with substandard conditions.

The average hourly wage needed to pay for a two bedroom apartment in the Arizona metropolitan area is \$14.49. This is 281% of the minimum wage (\$5.15 per hour). A worker earning minimum wage must work 113 hours per week in order to afford this two-bedroom unit, to spend within the 30% range of his or her income for shelter.

Occupation	Average income	Hourly wage	Affordable home value	Affordable rent
Bank Teller	\$ 20,000.00	\$ 10.42	\$ 55,000	\$ 467
Dental Assistant	\$ 22,800.00	\$ 11.88	\$ 62,000	\$ 532
Police Officer	\$ 42,500.00	\$ 22.14	\$ 115,000	\$ 1,060
Teacher	\$ 35,900.00	\$ 18.70	\$ 97,000	\$ 900
Fire Fighter	\$ 40,500.00	\$ 21.09	\$ 110,000	\$ 1,000
Dental Hygienist	\$ 60,800.00	\$ 31.67	\$ 165,000	\$ 1,500
Registered nurse	\$ 44,600.00	\$ 23.23	\$ 121,000	\$ 1,100

² Economic Impact of Affordable Housing Development, The Association of Oregon Community Development Organizations, 2003

³ Arizona Affordable Housing Profile, 2002, Arizona Housing Commission, Arizona Department of Housing, pg. 35

The average hourly wage for a teacher is \$18.70, just barely falling within the 30% of the income range for shelter; other workers in different types of occupation, such as such as a bank teller or a dental assistant do not have access to affordable housing.

The current situation, affecting 25% of the households in the state, has negative impacts on individual and local economies. Most households forced to pay more that 30% of their wages for shelter will try to reduce other expenses, by sacrificing either health care, nutrition, or other services, driving them to live in substandard conditions. Affordable housing, helps increase and stabilize both household and local economies, while providing an immediate return on financial investment. Given that Arizona had the 2nd greatest rate of population increase in the country between 1960 and 2000, this need will hit crisis proportions in the longer term⁴.

⁴ U.S. Census Bureau, 2000

HOUSEHOLD ECONOMIC IMPACTS

The individual economic impacts of developing affordable housing can be seen from two different perspectives – that of renters and owners. Permanent affordable housing, such as permanent affordable rental or affordable homeownership, can increase household wealth due to savings from lower rental prices or lower mortgages. This would then contribute to the economic growth of the household, while providing greater opportunity to cover other expenses such as education, health care, nutrition, etc. A family that spends less than 30% of its income in housing has better possibilities of improving their quality of life and maintaining a healthy environment.

However, the most important benefits from access to and development of affordable housing come from homeownership.

According to the 2001 Survey of Consumer Finances (SCF), in Feb. 2003, home equity accounted for 21% of household net wealth, and on average, a homeowner holds 48% of his or her wealth in the form of home equity⁵ -- especially in low-income households.

Homeownership, can both, protect a household's wealth against inflation, and cultivate wealth in the shape of home equity or by the owner borrowing against the house to invest in business development, stocks, renovating the home to increase its value or on education⁴. On the other hand, a renter can suffer from inflation and unanticipated rents increases

On the down side, homeowners must cover for higher maintenance costs, or in the lack of maintenance, home value depreciation, and can be at risk of financial loss or the loss of their home. Therefore, in order to move into homeownership, families need to be prepared for the financial responsibilities and guided through the process of becoming successful homeowners.

Research on the individual economic impacts of homeownership evaluates homeownership as an investment tool for economic growth. Home prices usually increase at the rate of inflation --about 2%. However, appreciation on home values, is about four points greater, arguing in favor of homeownership as a tool for investment. When compared to stocks, from research conducted during 2002, it was found that the average stockholder earned \$23,000 while the average homeowner earned \$44,000 in home equity⁶. Further benefits of homeownership include tax deductions and financial leveraging.

For example, one study found that the net wealth gain for homeowners was 2.2 times that of renters over a 15 year period⁴. They also found after a period of 15 years, for every 1% increase in home equity, there was a 0.38% increase in net wealth. As such, homeownership is more important to lower-income and minority households in achieving household wealth, since these households usually do not have any other tool for wealth accumulation besides homeownership. Another study found that “each percentage point increase in the homeownership rate” within a neighborhood, would yield about \$1,600 increase in property values of a single-family, owner-occupied-home over a 10 year period.

Housing, especially homeownership, is therefore the most critical component of family wealth.

⁵ The importance of Housing To the Accumulation of Household Net Wealth, Joint Center for Housing Studies at Harvard University, Nov. 2003

⁶ Majamaa, L., Home Equity: The Cornerstone of Wealth, 2002

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Arizona is experiencing an explosive population growth with an increasing proportion of low income working families, many of whom are Hispanic. At the same time, the state currently lacks the understanding, commitment and infrastructure to ensure affordable homeownership or permanent residency, and the wide-range of benefits they provides.

Arizona's minorities are further behind Anglos in home ownership. Analysis of 2000 U.S. Census data shows that White non-Hispanics own their homes at a rate of one-third higher than the combined rate for Hispanics, Blacks, Native Americans, Asians and Pacific Islanders. The gap has widened since 1990, when Anglos' proportion of ownership overshadowed the minority rate by about one-fourth. Hispanics, Blacks, Native Americans, Asians and Pacific Islanders and other minorities, who now constitute 36% of the state's population, made only minuscule gains. For every 1,000 minority-occupied homes in the latest census, 546 were owned. That was an increase of only eight units per thousand since 1990. In Arizona, only 17.5% of Hispanic households owned a home compared to an 82% ownership rate for White households.

The Hispanic population accounts for 25.3% of the state population, it is the state's largest minority and it is increasing rapidly, with a Hispanic majority projected by 2007 in Phoenix and a Hispanic majority state wide is predicted over the next 30 years .

Most of the minority, 36% of Arizona's population, whose main tool for acquiring wealth in most cases is homeownership; find themselves without the possibility of owning a home, due to increasing housing prices and lack of available affordable homes. A further lack of resources for financial education aggravates the situation, placing them at risk when moving into homeownership, having to settle for housing costs higher than 30% of their income.

The lack of affordable homes places a hold on the future growth and development of 1/3 of Arizona's population, producing greater economic stress on the local economy.

Minorities pose a challenge for homeownership and permanent homes. Many minorities in low income households start out in poor, abandoned or distressed neighborhoods and are unlikely to move to a better quality neighborhood. By 2000, minorities constituted the majority of the population in 48 of the 100 largest cities in the U.S. These disadvantaged households tend to occupy the deteriorating core of the largest metropolitan areas abandoned by higher income families. The Joint Center For Housing Studies of Harvard University suggests that over the next 20 years, minorities will account for two-thirds of the homeownership increase in U.S. households. Increasing minority and low income homeownership and other types of permanent homes are tools for urban improvement.

SOCIAL IMPACTS

Permanent affordable homes could contribute to the health and stability of a society, through greater social involvement, and more desirable behaviors of both children and adults.

NEIGHBORHOOD STABILITY

Neighborhood stability refers to the average length of tenure among residents. The provision of permanent affordable homes can reduce mobility among residents, by providing them with safe, stable environments. Permanent affordable homes, especially homeownership, are thought to assist in the stabilization of property values, increase community maintenance, decrease crime rates, and increase in educational attainment⁷. Working families in permanent affordable homes find satisfaction in improving and maintaining their homes and surroundings. Better maintenance then contributes to improvement in the surroundings, making the area more attractive and increasing local property values.

It has been found that while renters maintain their residences for an average duration of 2.1 years, homeowners stay in a residence for an average period of 8.2 years⁸. When considering the provision of affordable homes, with the adequate services and quality of dwelling, for low income families, these would constitute their only possibilities for long term rental until they can move into homeownership.

Furthermore, a study by Galster and Quercia, which analyzed Census data for 100 largest metropolitan areas, indicates that when owner occupancy falls below 15%, social indicators such as unemployment, female headship rate, and poverty rate increase rapid and progressively⁹.

Due to their longer permanence within the community, homeowners and others in permanent homes are more likely to participate in local community and political activities. They have invested in their home and see participation in the community as a way to guard for their family, property and investment (Baum and Kingston 1984). Baum and Kingston suggest that families tending to stay in their homes longer come to identify with their homes more strongly. Neighborhood stability accounts for much of the fact that households with bigger stakes and investment will invest more in the community to maintain and protect their assets.

There is a relationship between crime rates and permanent affordable homes, but the most predominant factor in establishing crime rates is urban location and surrounding. Crime rates tend to be higher in distressed areas, metropolitan cores, suburbs, etc., the same places where low-income homeowners will live. Permanent affordable homes can play a positive role, by providing identity to an open or closed space, defining certain limits over property, and thereby reducing the crime rate for that particular property.

⁷ Rohe & Stewart, Home Ownership and Neighborhood stability, 1996

⁸ Hansen, Estimating the Income Elasticity Demand for Housing, 1998

⁹ Galster, Quercia & Cortez, Identifying Neighborhood Thresholds: An Empirical Investigation, 2000

FAMILY AND YOUTH STABILITY

Neighborhood stability and decreased family mobility have been suggested to have a direct impact on children behavior, working towards better school performance, lower drop-out rates, and lower teen parenthood rates. Therefore permanent affordable homes can be directly responsible for educational achievement in children, their stability, their development, and their future.

Boehm and Schottmann, showed that children of homeowners achieve higher levels of education and have greater wealth accumulation¹⁰.

Haurin (2000) suggests that greater investment in owned property leads to a better environment that supports cognitive and emotional development in a child. The increase in social capital results from a stable environment that helps children develop strong relationships with their parents while diminishing involvement in undesirable behavior.

Green and White, after conducting three different analyses on the data obtained from the Panel Study of Income Dynamics, report from their many studies **that children of homeowners were less likely to drop out of school or to have children as teen-agers, both common situations for low-income families.** Improvements in child development outcomes can be directly related with improvements in environment that also involve the community, neighborhood and school.

A study from the Joint Center for Housing Studies at Harvard University, using the National Longitudinal Survey of Youth, took a sample of children ages 5-8 in 1988. Most of the families selected were in the cycle when households transition from being renters to owners. **This research suggested that homeownership improves the index of cognitive stimulation and physical environment by 23%, and the index of emotional support by 13%, however, causality due to other social factors, such as family-home environment and surroundings, has to be considered as an important component.** The results showed that the impact of homeownership raises mathematical achievement by 9% when compared to renters with the same economic, demographic and social characteristics. It raises by 7% a child's reading achievement when compared to renters. Additionally, homeownership reduces the measure of child behavior problems by 1.7% when compared to renters with the same characteristics. As a whole, the results showed that being in a permanent home leads to a better quality home environment, improves by an average of 8% children achievements and reduces behavioral problems. Children with greater achievement, less behavioral problems and greater stability will result in higher educational attainment¹¹ Boehm and Schlottman (1999) showed that children of homeowners are more likely to be homeowners themselves.

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Teenage pregnancy rates in 2000 varied widely by state, with a maximum rate of 128 per 1,000 in Nevada. The highest state adolescent pregnancy rates after Nevada's were in Arizona, Mississippi, New Mexico and Texas. Georgia, Arizona, Tennessee, Colorado and Delaware had the highest

¹⁰ Boehm & Schlottmann, Housing and Wealth Accumulation: Intergenerational Impacts, 2002

¹¹ Joint Center for Housing Studies at Harvard University, Low-Income Homeownership Working Paper Series, The Impact of Homeownership on Child Outcomes

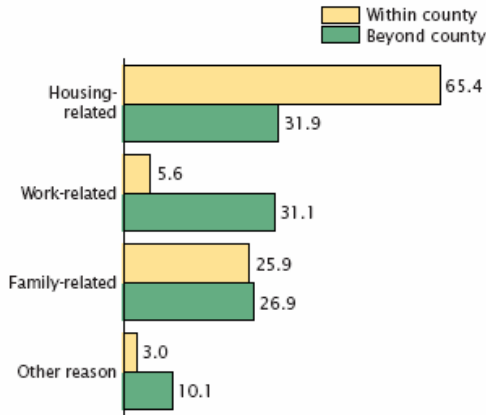
pregnancy rates among Hispanic women aged 15–19 (154–169 per 1,000)¹². Arizona is currently third in the nation for teen pregnancy.

On educational attainment, 19% of the Arizona population over 25 years of age, dropped out of school before graduation.

Percent of population 25 years and over	100.0
Less than 5th grade	2.4
5th to 8th grade	5.4
9th to 12th grade, no diploma	11.2
High school graduate (incl. equivalency)	24.3
Some college credit, less than 1 year	8.6
1 or more years of college, no degree	17.8
Associate degree	6.7
Bachelor's degree	15.2

Figure 3-3.
Reasons for Moving by Type of Move:
March 1999 - 2000

(Percent distribution of movers within the United States, aged 1 and older)



Source: U.S. Census Bureau, Current Population Survey, March 2000.

HOUSING TENURE		
Occupied housing units	1,901,327	100.0
Owner-occupied housing units	1,293,556	68.0
Renter-occupied housing units	607,771	32.0

In Arizona, 32% of all households are renters, which represent a 1/3 of the population, at risk of greater mobility. From the U.S. Census of 2002, it was determined that 65.4% of the households nation wide move within their counties, due to housing related issues.

By contributing to the development of permanent affordable homes, some of the most critical issues affecting the communities in Arizona can be addressed. Indeed housing, when accompanied with improved policies for education, health, employment, and economic growth, can enable those same policies

¹² http://www.guttmacher.org/pubs/state_pregnancy_trends.pdf