

**Economic and Community Impact of Affordable Housing Investment**  
*A Report for the City of Greensboro*

*April 2016*

*prepared by the*



## **INTRODUCTION**

At the request of the City of Greensboro and the Community Foundation of Greater Greensboro the North Carolina Housing Coalition (Coalition) has prepared this report on the potential economic impacts of affordable housing investment. Cities around North Carolina are growing and experiencing increased affordable housing pressure. For cities to grow gracefully for all of their residents, growth plans must incorporate affordable housing. As federal and state housing resources have contracted over the last decade, those local affordable housing plans are only effective if they include a local source of funding. The City of Greensboro has an opportunity to take a leading role among North Carolina cities as it considers an affordable housing bond. The Coalition looks forward to partnering with Greensboro in their effort to ensure every one of their residents has a decent, affordable home.

## **A REVIEW OF GREENSBORO HOUSING NEED<sup>1</sup>**

### Greensboro Housing Stock

The City of Greensboro has 126,557 housing units. Over the last 5 years the cities vacancy rate<sup>2</sup> has fallen from 11.8% to 10.5% even as 4,433 units of housing have been added to the citywide stock during that time. Of the 113,232 households who occupy those units *40,729 are cost-burdened.*<sup>3</sup>

**38%**  
of Greensboro households are cost-burdened

### Greensboro Homeowners

51.8% (58,706) of Greensboro households own their home. The median income of Greensboro homeowners is \$60,827. 24% (14,089) of Greensboro homeowners are cost-burdened.

### Greensboro Renters

48.2% (54,526) of Greensboro households rent their home. The median income of Greensboro renters is \$27,867. 49% of Greensboro renters are cost-burdened.

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<sup>1</sup> Data comes from the 2014 American Community Survey 5-year projection data.

<sup>2</sup> A vacancy is defined as a dwelling unit that has been unoccupied for not less than nine consecutive months.

<sup>3</sup> Cost burdened is defined as paying 30% or more of monthly household income on housing costs.

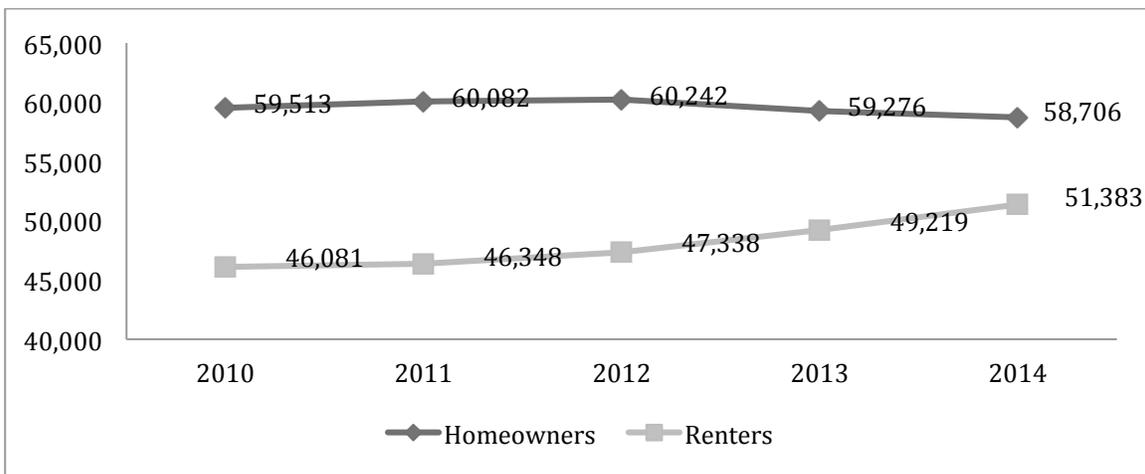
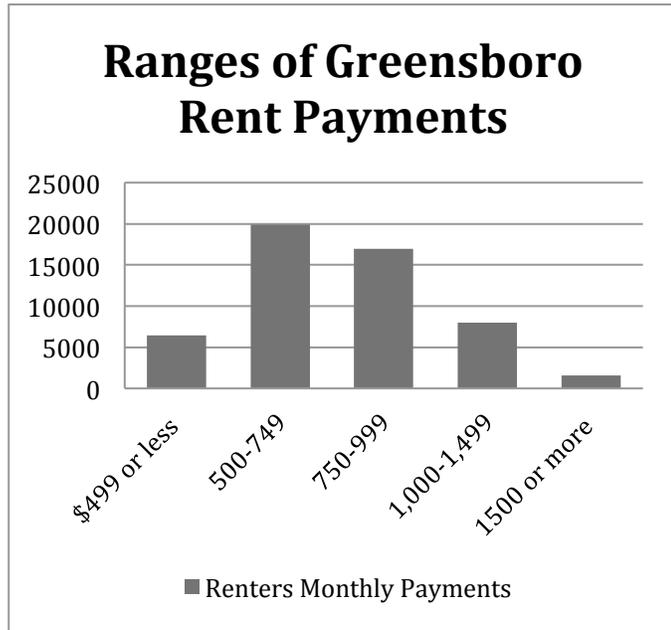
\$41,518  
Greensboro Area Median Income (AMI)

\$27,867  
Greensboro Rental AMI

\$60,827  
Greensboro Homeowner AMI

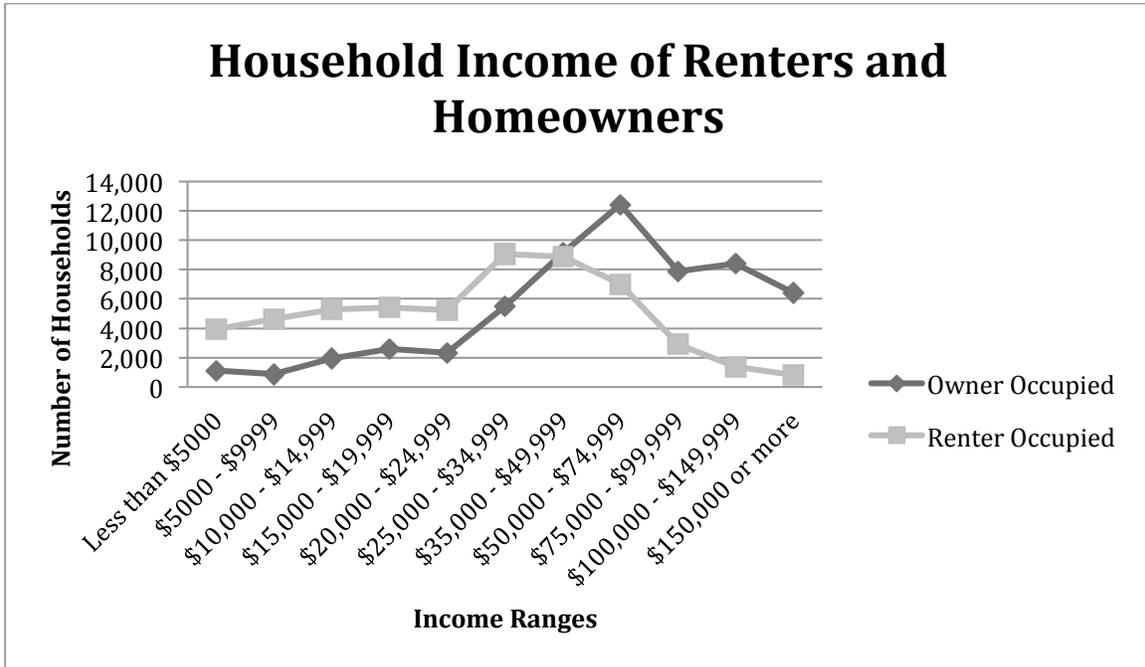
The median monthly housing cost for both owner-occupied and rented units in the City of Greensboro is \$844. This is affordable at an annual salary of \$33,760, which is within the range of the citywide AMI of \$41,518.

However, the Gross Median Rent for the City of Greensboro is \$751. This is affordable at an annual salary of \$30,040, which is unaffordable at Greensboro renter's AMI of \$27,867. This level of unaffordability puts pressure on family budgets that often have very little room for error.



The number of renter households has trended up over the last 5 years as the number of homeowners has stayed relatively steady. This trend is significant because renters make up the majority of cost-burdened households in Greensboro.

As we examine the proportion of renters to homeowners in each income bracket, it is evident that once households near Greensboro’s AMI of \$41,518 the number of homeowners overtake renters at a striking rate.



## **ECONOMIC AND SOCIAL IMPACTS OF AFFORDABLE HOUSING INVESTMENT**

It is crucial that the City of Greensboro continue to make affordable housing investments for the 40,729 households who are cost-burdened. In addition to a number of social benefits, affordable housing positively impacts local economic spending and employment, serves as a revenue source for local government and stabilizes local communities.<sup>4</sup> The following report will:

- Use the economic impact of an average Greensboro LIHTC development as a case study for understanding impact of other types of affordable housing;
- Survey research on the impact of different types of affordable housing investments;
- Survey the literature of research on the impact of affordable housing on property values;
- Survey research on other social outcomes related to affordable housing.

## **A CASE STUDY: AN AVERAGE GREENSBORO LIHTC DEVELOPMENT**

The economic impact of any investment the City of Greensboro makes in affordable housing, particularly new construction, can be measured as the sum of direct,

<sup>4</sup> For a recent review of the national literature on the connection between affordable housing development and the economy, see (Wardrip, Williams and Hague 2011)

indirect and induced effects.<sup>5</sup> Economic models are most accurate when many variables are known. For the purposes of this report, we will calculate some of the statewide economic impact of the average size of Greensboro’s 44 previous Low Income Housing Tax Credit (LIHTC)<sup>6</sup> developments using statewide data in the Regional Input-Output Modeling System (RIMS II). We will then reference research from other states to develop a sense of what other types of investment might yield.

Over the life of the LIHTC program, Greensboro has seen 44 projects that have built 5,295 units of affordable housing.<sup>7</sup> The average value of a LIHTC property in Greensboro is \$3,907,000.<sup>8</sup>

		<b>80</b>	
			North Carolina jobs
		<b>\$422,800</b>	
			state tax revenue
<b>1</b>	=	<b>\$24,712</b>	
average Greensboro development			local property taxes
		<b>\$2,874,600</b>	
			labor earnings

**ECONOMIC IMPACT OF OTHER AFFORDABLE HOUSING INVESTMENT**

***Single-Family Construction*** – In the above calculation, every \$1 of an average LIHTC property’s value generates \$0.74 of labor earnings. A report on the proposed Pennsylvania housing trust fund sets that number at \$0.69 for multifamily development, \$0.62 for single-family development. Single-family housing investments yield similar rates of return.

***Rehabilitation and Repair*** - In addition to new construction, the Pennsylvania report sets the multiplier at \$1.28 for rehabilitation projects. The higher number for rehabilitation is a result of “leakage.” While larger construction projects may end up

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<sup>5</sup> For a more detailed discussion of issues related to economic and fiscal impact analysis, see (Morgan 2010)

<sup>6</sup> The Low Income Housing Tax Credit was introduced in 1986 as part of a tax reform package. It was the balance to an increase in the Mortgage Interest Deduction and other policies designed to promote homeownership. The LIHTC was designed to ensure a steady supply of affordable, rental housing.

<sup>7</sup> Numbers from the NC Housing Finance Agency.

<sup>8</sup> There is a lot of variability in the value of LIHTC projects in Greensboro ranging from several hundred thousand up to \$15 million. This average is given to provide a sense of what type of economic impact one might see. To get a more accurate number, precise details must be known about a particular development.

employing people or using materials from other regions, rehabilitation projects are more likely to use local labor and materials. (Econsult Corporation 2009)

**Homeownership** - Homeownership programs are central companions to any investment in rental, as it is an investment in a family's future stability. It is crucial to understand that the primary way that low- and moderate-income families build wealth is through homeownership. (Herbert, McCue and Sanchez-Moyano 2013) While there is some concern about affordable homeownership in the aftermath of the foreclosure crisis and Great Recession, it is important to note that families who participated in affordable homeownership programs were three to five times less likely to default on their mortgages. (Ding, et al. 2010)

Utah's \$6.2 million in down payment assistance is counted by as additional income, which when spent in Utah, translates into roughly \$2.4 million in earnings and 95 jobs supported. (Wood 2004)

**Foreclosure Prevention and Education** – In addition to more affordable monthly mortgage payments, homeownership programs often required some level of homebuyer/financial education. This has shown to significantly decrease the risk of foreclosure. (Quercia and Cowan 2008) Foreclosure costs can vary, but one study suggests the foreclosure costs to a municipality range from negligible to as much as \$34,000 for each foreclosure. (Apgar and Duda 2005)<sup>9</sup>

In addition to the municipal costs, foreclosed properties “exert downward pressure on home prices, further exacerbating problems in the housing market and the broader economy.” (United States Department of Housing and Urban Development 2010)

### INCREASED SPENDING POWER

Any investment that makes housing more affordable for the Greensboro households who are cost-burdened in turn creates more room in a family's budget for other purchases in the local economy. This is true of investments that produce affordable rents, affordable mortgage payments, or energy efficiency investment that reduces utility costs.<sup>10</sup> Because the family budgets of low-income families are often tight, cost savings are often turned into immediate economic activity. (Bivens and Edwards 2010)

For an apartment with Greensboro's median gross rent to be made affordable to a household with the Greensboro renter AMI, it would free up an extra \$181 each month.

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<sup>9</sup> The authors identify 26 separate direct costs incurred by municipalities in foreclosure proceedings.

<sup>10</sup> Low-income families who participate in the federal Weatherization Assistance Program reduce their energy costs by an average of \$437 per year (U.S. Department of Energy 2010)

## LEVERAGE AND FLEXIBILITY

The power of a local, public investment in affordable housing lies in two things – its ability to leverage other investments and its flexibility to meet specific and changing needs.

**Leverage** - In the above example of an average LIHTC development, the economic impact is measured from the value of the development. Local investments in housing are most powerful when they leverage investments already being made by non-profits, local business and state and federal resources. The NC Housing Finance Agency estimates that:

		108	
		households are assisted	
For every			
<b>\$1 million</b>	=	<b>\$5,169,000</b>	in affordable housing real estate value is
the Housing Trust Fund		generated	
spends			
		<b>\$455,000</b>	in state and local revenue is generated

**Flexibility** - On a statewide level, the NC Housing Trust Fund is the state's most flexible source of funding for housing, and supports a wide variety of housing programs across the continuum of need. Many federal streams of money are very specifically targeted and have a limited range of services they can provide. Local, public investment allows a municipality the flexibility to supplement and enhance other streams of money or invest in an unmet need.

## OTHER IMPACTS

### ECONOMIC DEVELOPMENT

A lack of affordable housing is a barrier for companies to recruit and retain employees. A national survey of more than 300 companies revealed that larger companies are concerned that a lack of affordable housing has a negative impact on their ability to retain qualified employees, particularly if there were long commutes involved. (Harris Interactive 2007)

In another survey of company 62% of executives charged with location selection for new facilities cited the availability and cost of housing as important. These concerns fell only behind low crime rates and healthcare facilities on the list of concerns. (Gambale 2009)

## PROPERTY VALUES

The effect that affordable housing has on the property values of surrounding homes depends upon a number of conditions including, but not limited to the site, the surrounding neighborhood and the size and type of the development. While there is no definitive answer to this question, studies have continuously linked affordable housing development with either no impact or positive impact on surrounding property values. (Wardrip, Williams and Hague 2011)

A review of 21 different studies (Ahrentzen 2008) on the effect of affordable housing on property values came away with 4 synthesized findings:

- Affordable housing development that **replaces depressed conditions**<sup>11</sup> as part of a neighborhood revitalization effort has positive impacts;
- **Larger affordable housing development results in a rise in value** up to a point. Some studies suggest a threshold at which an overconcentration of units results in stagnant or declining values;
- Affordable housing works best when it is imbedded within **higher-value, low-poverty neighborhoods**; and
- The impact of affordable housing on property values is directly related to **good management**.

## EFFECTS ON HEALTH CARE

A recent study of the linkage between affordable housing and Medicaid costs showed savings of 12% from the previous year after moving in. (Saul, et al. 2016)

## EFFECTS ON EDUCATION

Stable and affordable housing also lays the foundation for successful education outcomes in children. Kindergarten children exposed to poor housing conditions scored 15% lower on tests than peers in better housing. (Coulton, et al. 2016)

Other studies have shown that increased performance in school is linked in large part to the quality of a home environment.(Dupere, et al. 2010)

There is also some correlation between housing instability and areas of the state with large numbers of free and reduced lunch. (Antoszyk 2016)

## CONCLUSIONS

Investing in affordable housing is crucial not only for the 40,729 Greensboro households that are cost-burdened, but also for the health and vitality of the local

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<sup>11</sup> Vacant properties, abandoned properties or other blighted conditions.

economy. Strategic investments along several points of the housing continuum offer not only economic returns, but crucial social returns as well. Greensboro has the opportunity to be a leader in the state on making those types of far-sighted investments. The Coalition looks forward to partnering with you in that effort.

## APPENDIX

### DATA

#### **City of Greensboro Owners vs Renters Income Ranges**

<b>Salary Range</b>	<b>Owners</b>	<b>Renters</b>
Less than \$5000	1,115.41	3,925.87
\$5000 - \$9,999	880.59	4,634.71
\$10,000 - \$14,999	1,937.30	5,289.02
\$15,000 - \$19,999	2,583.06	5,398.07
\$20,000 - \$24,999	2,348.24	5,234.50
\$25,000 - \$34,999	5,518.36	9,051.32
\$35,000 - \$49,999	9,158.14	8,887.74
\$50,000 - \$74,999	12,445.67	7,033.85
\$75,000 - \$99,999	7,866.60	2,889.88
\$100,000 - \$149,999	8,394.96	1,363.15

*Source:* American Community Survey (ACS) 2014 5-year projection data

#### **City of Greensboro Owners vs. Renters Change Over Time**

<b>Year</b>	<b>Owners</b>	<b>Renters</b>
2010	59,613	46,081
2011	60,082	46,348
2012	60,242	47,338
2013	59,276	49,219
<b>2014</b>	<b>58,706</b>	<b>51,383</b>

*Source:* American Community Survey (ACS) 2010-2014 5-year projection data

### City of Greensboro Housing Units With Mortgages

Mortgage Ranges	# of Homeowners
< \$300	130
\$300 - \$499	831
\$500 - \$699	2,738
\$700 - \$999	8,917
\$1,000 - \$1,499	16,669
\$1,500 - \$1,999	7,308
\$2,000 >	6,420

*Source:* American Community Survey (ACS) 2014 5-year projection data

### City of Greensboro Housing Units Paying Rent

Rent Ranges	# of Renters
< \$499	6454
\$500 - \$749	19,907
\$750 - \$999	16,958
\$1,000 - \$1,499	8,004
\$1,500 >	1,596

*Source:* American Community Survey (ACS) 2014 5-year projection data

### City of Greensboro AMI Ranges

% AMI	Annual Salary
30%	\$12,455
50%	\$20,759
80%	\$33,214
100%	\$41,518
120%	\$49,821
140%	\$58,125

*Source:* American Community Survey (ACS) 2014 5-year projection data

## RIMS II

RIMS II was created by the U.S. Bureau of Economic Analysis and provides industry specific multipliers to estimate economic impact. RIMS II is the system used by North Carolina state agencies such as the NC Housing Finance Agency to calculate the economic impact of affordable housing investment. For more information on this system and its multipliers, visit [www.bea.gov/regional/rims](http://www.bea.gov/regional/rims).

## NORTH CAROLINA HOUSING COALITION

Created in 1988, the North Carolina Housing Coalition is a private, non-profit membership organization working to expand access to decent, affordable housing for low- and moderate-income North Carolinians. The NCHC mission is to lead movements and dialogues that, ultimately, will ensure every North Carolinian has a home and is able to live with opportunity and dignity. NCHC builds partnerships among its members and stakeholders to improve affordable housing, with a focus on the following activities: serving as a clearinghouse for data, research and informed housing practices; advocating and developing policy; and providing technical assistance and outreach. For more information visit: [www.nchousing.org](http://www.nchousing.org)

### Author

Samuel Gunter – Samuel is the Director of Policy and Advocacy. Samuel is a graduate of The University of Texas at Austin (B.A.) and Duke Divinity School (M.Div). He previously served with Habitat for Humanity of Wake County and currently sits on the board of Habitat for Humanity of North Carolina and the Advocacy Committee of Habitat for Humanity International. He has also served churches in North Carolina and Texas.

### Contributor

Tyran Hill – Tyran is a native of Lexington, NC and a graduate of North Carolina A&T State University (BSW) and Case Western Reserve University Mandel School (MSSA and CML). He brings experience in direct practice social work, affordable housing advocacy and community and economic development.

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