Virginia Coalition of Housing and Economic Development Researchers

Addressing the Impact of Housing for Virginia's Economy

A REPORT FOR VIRGINIA'S HOUSING POLICY ADVISORY COUNCIL| NOVEMBER 2017

Appendix Report 6: Housing and Economic Opportunity-

a Review of the Literature

Virginia Center for Housing Research

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Children, Individuals, and Families

Housing affordability, stability, quality, tenure and location have been shown to impact child development and opportunities for individuals and households. Housing has been established as the foundation for family well-being (Bratt, 2002). Housing unaffordability is often the reason individuals and families experience instability in housing, accept sub-standard housing, or sacrifice other important needs like child enrichment, medical attention, or food. Strained finances and substandard or unstable housing may lead to negative economic consequences for both individuals and households.

Cohen and Wardrip (2011) found that low-income families occupying substandard homes moved more often than middle- and high-income families, often due to problems associated with high housing costs and changes in income. Further, forced displacement such as eviction, foreclosure, or building condemnation often results in subsequent unforced mobility because households have no choice but substandard and/or temporary housing (Desmons, Gershenson, & Kiviat, 2015). Substandard housing can result in psychological damage, which causes stress and low self-esteem, and can hinder family self-sufficiency (Mueller & Tighe, 2007). Parental depression can negatively impact the lives of children directly through stress as well (U.S. Department of Housing and Urban Development, 2014).

Children in families with housing instability or substandard housing experience health, behavioral, and developmental consequences. Unaffordable housing contributes to children's poor attendance and performance in school (Anderson et al., 2003). For example, Gagne and Ferrer (2006) find that major home repair requirements and short length of residence have negative effects on children's math scores. Newman and Holupka (2013) find that families who are not cost burdened are more likely to spend a portion of their income on child enrichment, which impacts children's cognitive achievement. Further, the greater the housing cost burden, the less money households are likely to spend on child enrichment.

The location, tenure, and type of housing can impact a household's economic opportunities as well. For example, Kleit (2002) found evidence that households living in areas with more income diversity have more diverse job-search networks. White and Saegert (1997) showed evidence that co-op ownership of low-income housing is associated with increased skills and self-confidence, as well as wider job networks among tenants. A number of studies have shown that homeownership provides considerable access to opportunity. The simplest connection between homeownership and opportunity is the ability to build wealth and use home equity. Homeowners can elect to borrow against the equity they have built on their home through a home equity line of credit (HELOC). Home equity lines can act as a financial buffer against unexpected expenses, smooth consumption over time, or allow households to invest in education, job training, or a small business (MetLife Mature Market Institute & National Council On Aging, 2009; Roe, Van Zandt, & McCarthy, 2002).

Workforce and Businesses

Although high housing prices often reflect local amenities and economic opportunities in the area (Ratcliffe, 2015), new research suggests that high prices and a lack of affordable options may constrain economic growth. Saks (2008) argues that when the supply of affordable housing is restricted, often by land use controls, the pattern of labor migration will change, resulting in lower employment growth (Chakrabarti & Zhang, 2015). Indeed, housing costs are among the top five factors affecting where households choose to live and work (Wardrip, Williams, & Hague, 2011). Chakrabarti and Zhang (2015) find evidence that unaffordable housing has a significant and negative impact on local employment growth in their study of California cities. In turn, slowed, stalled, or negative employment growth can negatively impact businesses and/or communities.

Jonas, While, and Gibbs (2010) suggest that workforce housing, along with other major infrastructure, is a common problem for regions that are growth "hotspots." Workforce housing[1] supports successful economic development, as businesses may have trouble attracting or retaining workers without nearby affordable housing options, or convenient and affordable transportation. This imbalance between jobs and housing can impede economic development by making it difficult for businesses to recruit and retain employees (Morrison & Monk, 2006). The Joint Center for Housing Studies and Center for Workforce Preparation (2005) report an example: Citistorage, Inc. in Brooklyn, NY noticed that over the last 20 years, many of their employees have had to move farther and farther away from work to find housing they can afford. Consequently, Citistorage, Inc. has been forced to reduce their working hours to offset longer commuting times. Employee retention has financial impacts for businesses, as frequent employee turnover is expensive. "Organizations invest a lot in their employees in terms of induction and training, developing, maintaining and retaining them in their organization," (Ongori, 2007). Costs associated with replacing employees include the search and recruitment of substitutes, selecting between candidates, orientation of the substitute, and job training (Ongori, 2007).

[1] Workforce housing is generally described as the housing that is affordable to households earning less than 120% of area median income (Cohen & Wardrip, 2011).

When a community lacks sufficient affordable housing for the community's essential, low-income workers, these workers either accept substandard housing or commute from longer distances. These commutes result in increased congestion. Sturtevant and Chapman (2013) conclude that "Without an adequate supply of housing [for workers], there will be untenable strains on the region's transportation and transit networks, and an erosion of the region's economic base."

Community and Local Economic & Fiscal Impacts

Job Creation and Local Economic Growth

Building new housing (affordable or market-rate) has lasting impacts on the local economy in which it is built. During construction, it sustains jobs for the construction workers, supervisors and suppliers. For example, the National Association of Home Builders (2010) has estimated that building 100 new Low Income Housing Tax Credit (LIHTC) developments creates about 80 jobs from the construction, and 42 jobs in the surrounding community from construction workers spending their wages locally. After the construction is complete, roughly 30 long-term jobs are created in the community as a result of the added consumer demand from the new residents (National Association of Home Builders, 2010). In Virginia, the construction of a new 80-unit LIHTC apartment complex in Virginia Beach called Crescent Square sustained 129 new jobs and $6 million in earnings during construction, and created 10 long-term jobs with an estimated $406,955 in annual earnings (Jones, McCoy, & Agee, 2016).

Low-income households are more likely to spend extra money on basic needs, in comparison to higher income households that are more likely to save additional income. Moving from substandard housing to quality, affordable housing frees up some income for low-income households, which allows them to spend more on non-housing related goods and services such as food, clothing, and health services (Econsult Corporation, 2007). Substandard housing also presents disproportionate costs due to maintenance and utilities. Non-housing money spent locally significantly boosts the local economy. Similarly, energy efficiency in low income homes is beneficial to the economy when extra energy cost savings are spent locally (Wardrip et al., 2011).

Property Values and Tax Revenue

Quality housing has the ability to lift a community's visual appeal and define an urban area's character. For example, Baltimore is identified by its unique and historic row-houses. These houses set Baltimore apart from other cities and give the city's residents a sense of connectedness (Hutchison, 2009). New housing can also impact a "sense of place" in a neighborhood (Billig, 2005). For example, Deng (2011) found that disadvantaged neighborhoods that received new LIHTC properties experienced more positive neighborhood changes over time than similar neighborhoods with no new development. Renovating or replacing dilapidated housing with LIHTC housing also raises the value of homes in the surrounding neighborhoods. Increases in value eventually translate to higher property tax revenue for state and local governments (Gambo, Idowu, & Anyakora, 2012; Wardrip et al., 2011). Ellen, Schill, Schwartz, and Voicu (2003) found that New York City's Ten-Year Capital Plan for Housing, which supported housing production in some of the city's most distressed neighborhoods, "generated substantial positive spillovers and contributed to neighborhood revitalization"(p. 82).

Alternatively, foreclosures, vacancy, and deteriorating housing have negative impacts on communities. Foreclosures can be very damaging to surrounding homes, neighborhoods, and the local government, since they can decrease property values and increase insurance costs for neighbors (Kingsley, Smith, & Price, 2009; Leonard & Murdoch, 2009). Reducing the risk of foreclosure increases neighborhood quality and stability, which increases property values and local government revenue (Wardrip et al., 2011). Similarly, vacancies tend to reduce property values of surrounding homes, as they lack occupants to make essential repairs and maintenance. Local governments benefit from reduced vacancy when it results in increased home values, and in turn, increased property taxes.

Further, when aging or dilapidated structures are replaced with higher density development, local governments benefit from additional sales taxes produced by the added consumer demand of new residents. In addition to sales taxes from increased consumer demand, local governments receive corporate taxes on builders' profits, income taxes paid by workers, real estate taxes, general sales taxes, as well as any fees paid for permitting, zoning, inspections, and utilities during construction (Gambo et al., 2012; Wardrip et al., 2011). Local governments collect fees and taxes from the sale of a home as well, which amount to about 1.25% of the sale price. For instance, a local government would receive approximately $5,000 from the sale of one $400,000 house. These taxes and fees are the primary source of income for most localities (Higgins, 2001). New developments can reduce the cost and precipitate the repair of ailing infrastructure as well.

Additional Housing-related Costs to the Public

Opponents of increased housing, and especially increased housing density, often use the argument that additional housing requires significant municipal costs for education and housing-related expenses. However, a study by Nakosteen et al. (2003) found little correlation between increased per-capita costs for municipal services and increased population from new housing development. The study suggests that fiscal impact models used by cities and towns are systematically overestimating the costs of growth (Nakosteen et al., 2003), while existing costs of municipal services are becoming more expensive, regardless of population growth.

Health care costs associated with substandard housing have been cited in the billions of dollars in the US annually (U.S. Department of Housing and Urban Development, 2014). Direct medical costs associated with substandard housing conditions include those for doctor visits, medications, and inpatient medical treatment, including medication, facilities and supplies. Indirect, non-medical costs include lost school days, loss of productivity, costs of home and auto modifications (for physical impairments), developmental services (for cognitive impairments), lost parental and lifetime wages, and premature death (Chenoweth, Estes, & Lee, 2009). Further, these costs have negative social and economic impacts for the localities and the nation as a whole (Mueller & Tighe, 2007).

Pre- and post-natal homelessness has been linked to many negative health consequences for children, and high healthcare costs which can burden society. "Children who experienced pre-natal homelessness...but were housed after birth were 20 percent more likely to have been hospitalized since birth" (Sandel et al., 2016). Children who experienced homelessness before and after birth were 41 percent more likely to have been hospitalized since birth (Sandel et al., 2016). A large share of the health care costs attributable to hospitalization of pre- and post-natal homeless children are paid by publically funded health insurance (Sandel et al., 2016).

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