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The Economic Impact of Housing

Zenia Kotval and John Mullin

Home building generates substantial local economic activity, including income, jobs, and revenue for state and local governments. These far exceed the school costs-to-property-tax ratios. Furthermore, balanced growth, the availability of homes that match the character of the jobs, plays a significant role in attracting sustainable economic development.

For the purposes of this study, these factors were evaluated by means of a quantitative assessment of data from a Local Impact of Homebuilding model, as well as a qualitative assessment of literature and policy analyses. The conclusions reveal the considerable effect of housing on a local economy.

The economic impact of housing involves a multitude of factors, from the monetary effects of the construction process to the impact of personal incomes on the local economy. In addition, it takes into consideration the significance of housing cost and availability in business location decisions.

I. Measuring the Economic Impacts of the Housing Industry

Too often, the impacts of new homes in a community are assessed in simple terms of school costs and property tax revenues. Given that average annual school costs range from \$6,000 to \$8,000 per student, and property tax revenues, from an average home in Massachusetts, range between \$1,600 and \$2,500 per year, it is little wonder that new home construction is perceived as costing communities money. The purpose of this assessment is to show that the housing industry has several other direct and indirect impacts on a local economy. In order to estimate these, the National Association of Home Builders ran an econometric model to assess the actual local impact of homebuilding activity. What follows is an explanation of the model and a summary of the results.

The "Local Impact of Homebuilding" Model

Home building generates substantial local economic activity, including income, jobs, and revenue for state and local governments. The Local Impact of Homebuilding model from the National Association of Home Builders captures the effect of the construction activity itself, the impact that occurs when construction incomes are spent, and the impact of a home's new occupants paying taxes and spending their incomes. All three phases of the local impact model are based on input-output tables produced by the Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce.

The Local Economy

A local economy is an area within which people live, work, shop, and seek entertainment, regardless of political boundaries. The model produced for this study uses 62 industries that represent goods and services generally produced and purchased locally. These are based on the detailed six-digit standard industry classification (SIC) codes used by the BEA. Commodities in the SIC system are similar to the industrial classifications, except for construction, which has many commodities. Therefore, the local economy subset

consists of 62 industries (including the construction industry) and 90 commodities (61+29, as the construction industry has 29 commodities).

Input Requirements

The basic model produces results for an average local economy in the United States, but it can be customized for a specific area. As localities differ in complex and important ways, especially when it comes to taxes and fees, inputs for specific areas are required. For this study, basic input requirements fall into two categories: general market conditions and conditions specific to single family home construction.

General market conditions:

Local area where the construction takes place (We used three prototype areas: urban, suburban and rural communities in Massachusetts. See Figure 1.)

Proportion of total property taxes collected from residences, businesses, and agricultural property

Rate of local personal and/or business income tax

Conditions specific to single-family home construction:

Number of single-family homes to be analyzed

Average market price of a home

Average permit, impact, and other fees (including property transfer tax) paid to local governments per single-family home

Average property tax per dollar of market value for the new single-family homes (Total property tax on an average unit is acceptable as well.)

Data Limitations

As this study aims to assess the impact of housing on a statewide basis, there are limitations to the accuracy of local input data. Each community in Massachusetts has its own tax rate for residential development and calculates permit and other fees differently. The state shows wide variations in terms of land and housing costs. As such, one average figure for the entire state would be rather meaningless. Our study explored three iterations of the Local Impact of Homebuilding model to assess the statewide impact of 100 single family homes in a typical urban community, a typical suburban community, and a typical rural community.

Data Inputs

In order to provide data on prototypical urban, suburban and rural communities, we chose five communities in each of the three sectors, compiled actual data on each of these communities, and averaged the data (excluding outliers) for each sector. We chose the communities based on location, development potential, and socioeconomic factors.

The average value of land is estimated by buildable parcel, not by cost per acre. Zoning regulations allow higher densities in urban areas (two to three homes per acre) than in suburban areas (one to two homes per acre) and rural areas (often two acres per home). NAHB converted these to costs for "raw" land: land without infrastructure, clearing, or grading. Estimates were used for raw land value, as such land is difficult to find in urban or suburban communities. Raw land values for single-family homes in each type of area were estimated by NAHB's Housing Policy Department from data in their Builder Cost Survey (November 1995). Raw land costs in Massachusetts were estimated from the U.S. ratio of raw land to developable parcels, less fees. The same ratios were then applied to the buildable parcel values (less fees) in each category. (See Figure 2).

II. Evaluating Economic Impacts

Estimates of the statewide economic impacts of building 100 single family homes in urban, suburban, and rural Massachusetts locations are presented below. The inputs for the NAHB model were computed separately for each sector. The model also shows the effect on income and employment in 16 industries and the (non-federal) government sector, as well as detailed information about taxes and other types of state and local government revenue.

Homes Built in Urban Areas

The estimated one-year statewide impacts of building 100 single-family homes in urban locations within Massachusetts include over \$8.2 million in income for Massachusetts residents, \$993,000 in revenue for state and local governments, and 159 jobs generated in the state.

These are statewide impacts, representing income and jobs for residents of Massachusetts, and taxes (along with other sources of government revenue, such as permit fees) for the state government and all local jurisdictions that lie within the borders of Massachusetts. They are also one-year impacts that include both direct and indirect effects of the construction activity itself, and the impact of Massachusetts residents who earn money from the construction activity and spend at least a portion of their earnings within the state.

The additional, recurring impacts of building 100 single-family homes in urban locations within Massachusetts include over \$2.7 million in income for Massachusetts residents, \$969,000 in revenue for state and local governments, and 66 jobs in the state.

These are ongoing, annual statewide impacts that result from the new homes becoming occupied, and the occupants contributing to the Massachusetts economy by paying taxes and spending money in the state year after year.

Homes Built in Suburban Areas

The estimated one-year statewide impacts of building 100 single-family homes in suburban locations within Massachusetts include approximately \$11.9 million in income for Massachusetts residents, over \$1.4 million in revenue for state and local governments, and 230 jobs generated in the state.

The ongoing, annual statewide impacts of building 100 single-family homes in suburban

locations within Massachusetts include more than \$3.3 million in income for Massachusetts residents, nearly \$1.2 million in revenue for state and local governments, and 80 jobs in the state.

Homes Built in Rural Areas

The estimated one-year statewide impacts of building 100 single-family homes in rural locations within Massachusetts include over \$9.2 million in income for Massachusetts residents, just under \$1.1 million in revenue for state and local governments, and 217 jobs generated in the state.

The ongoing, annual, statewide impacts of building 100 single-family homes in rural locations within Massachusetts include more than \$2.7 million in income for Massachusetts residents, \$939,000 in revenue for state and local governments, and 79 jobs in the state.

III. The Significance of Available Housing as a Factor in Business Location Decisions

The significance of available housing can be studied in a number of ways. This study looks at the impacts in two related areas. The first considers the policy implications of the jobs-to-housing balance within any given region. Many urbanized regions across the country suffer from a geographic mismatch between the location of jobs and the availability of housing. There is little definitive literature on the remedies or even the need to seek solutions to this phenomenon. The second considers whether housing availability (or lack thereof) will have a significant impact on a business decision to locate in a community.

The Jobs-to-Housing Balance

The jobs-to-housing balance in a community is often expressed in the form of a ratio, which is the number of employees to the number of housing units. Perhaps a better measure of balance, however, is the match between the earnings of local workers and the cost of local housing. In other words: Do local jobs support the local housing market?

There are tangible benefits from achieving a balance. An obvious example is the effect on transportation: reduced traffic congestion, an increase in walking or biking, less need for parking, plus energy conservation and decreased emissions. Equally important are the implications for social equity. Providing affordable housing closer to job centers would expand residential and job opportunities for low-income people.

The problems associated with a jobs-to-housing imbalance, such as traffic congestion and pollution, transcend community boundaries and need to be addressed on an inter-jurisdictional basis. The jobs-to-housing balance is about increasing choices and opportunities for both employers and employees. Employers and businesses are starting to take a closer look at this issue when making location and expansion choices.

Housing as a Factor in Business Location Decisions

Traditional factors, such as location, costs and access to qualified labor, continue to play

an important role in business relocation. Increasingly, though, quality of life issues have emerged as a critical element in the site selection process. These issues include, among other things, good school systems, available affordable housing, opportunities for recreation, and low crime rates.

Employers are starting to be concerned with where their employees want to live and work. As such, site selection is increasingly revolving around the workforce and the optimal locations that will attract and retain the best and brightest workers. Technological advances have made it easier to determine the best locations for businesses. Private firms that specialize in relocation strategies, such as Fluor Daniel Consulting and PPH Fantus Consulting, often perform a quality-of-life appraisal as a part of the comprehensive analysis of any geographic site under consideration.

In 1994, when Area Development Magazine (a site-selection trade publication) asked its readers to rate the importance of housing availability in the site selection process, 75 percent said it was either "important" or "very important." Slightly more readers - 76.8 percent - said that an area's public school ratings were of top concern when they considered moving employees, particularly key management personnel, to a new location.

PPH Fantus Consulting lists the most critical site location needs of a typical business project as:

Large management/technical pool

Communications opportunities

Clerical talent pool at competitive costs

Commercial air services

Good transportation access

Office parks/space

High quality of life

Good housing mix (in terms of availability, affordability and type of housing)

Thus the availability and affordability of housing do impact the economic growth potential for a community. While rarely driving the site selection process, the quality-of-life factors offering the best "fit" to a relocating company often gain a competitive advantage for a particular community.

IV. In Conclusion

The commonwealth's housing industry provides jobs and incomes for residents and a tax base for communities. It brings in substantial direct revenue, aids balanced growth, and plays a significant role in attracting sustainable economic development to the state.

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