



The Economic Impact of Minnesota Housing's Investments

Introduction

Minnesota Housing's mission is to finance and advance affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities. Using bond sale proceeds, agency resources, and appropriated funds, the agency offers a wide range of housing-related assistance, including:

- Mortgages with below-market interest rates,
- Entry cost assistance for homebuyers(e.g. down payment assistance),
- Education, counseling, and training for homebuyers and homeowners,
- Rental assistance payments,
- Federal housing tax credits, permanent financing, and deferred loans for the development of affordable rental housing,
- Deferred and low-interest loans for the rehabilitation and improvement of existing owner-occupied homes and multifamily rental housing,
- Asset management funds/loans and operating subsidies for owners of affordable rental housing, and
- Assistance for building the capacity of housing nonprofit organizations.

While these programs provide many social benefits, such as fostering strong communities, allowing Minnesotans with low and moderate incomes to become homeowners and build wealth, stabilizing neighborhoods, and reducing long-term homelessness, they also stimulate economic activity. For example, buildings are constructed or renovated, construction materials are purchased, workers are hired, paychecks are spent on goods and services and taxed, and homeowners and renters have lower housing costs, which allow them to spend more on other necessities.

During the summer of 2008, Minnesota Housing hired two graduate student interns to estimate the economic benefit of the agency's activities. Using specialized software and data from IMPLAN (the industry standard for conducting economic impact analysis), the output, employment, and tax revenue impacts of Minnesota Housing's spending were assessed. The analysis focused on three types of agency activities: (1) construction of new housing, (2) rehabilitation of existing housing, and (3) rental assistance. The analysis excluded one of Minnesota Housing's primary activities – providing low-interest mortgages for the purchase of existing homes.

Analysis Background

The IMPLAN analysis is an input-output assessment. It examines an agency's spending and computes the resulting economic benefits, which are broken into three categories:

- Output – the value of goods and services produced in Minnesota as a result of Minnesota Housing's spending (measured as gross sales),
- Employment – the number of Minnesota jobs supported by Minnesota Housing's spending, and
- Tax revenues – state and local tax and fee revenues generated in Minnesota as a result of economic activity stimulated by Minnesota Housing's spending (excludes federal taxes).

The analysis also involves three types of effects.

- Direct effects are the output, employment, and tax revenues directly generated by the Minnesota Housing's spending. For example, builders hire construction workers and purchase building materials.
- Indirect effects are the output, employment, and tax revenues generated as the inputs to the housing industry (lumber, dry wall, windows, shingles, pipes, fixtures etc.) are produced.
- Induced effects are the output, employment, and tax revenues generated as the people who gained employment and income (including profits) as a result of the direct and indirect effects spend their income on goods and services.

The model not only captures the direct work of constructing and renovating housing in Minnesota but also the indirect effects as housing construction stimulates economic activity in related Minnesota industries, such as wood products. Furthermore, it also includes spending by the people who gained employment and profits because of this economic activity.

To estimate the economic activity generated by Minnesota Housing's spending, three different levels of spending were assessed:

- Minnesota Housing funds by themselves,
- Minnesota Housing funds plus funds spent by private institutions and individuals who partnered with Minnesota Housing on projects, and
- Minnesota Housing funds plus private funds plus funds spent by other public entities on the projects.

The first level of spending captures the funds spent directly by Minnesota Housing, while the latter two categories capture the additional funds leveraged to supplement Minnesota Housing's funding. All the funds apply to program expenditures during a two year period (May 16, 2006 to May 15, 2008). A two year period was chosen to smooth out annual spending fluctuations.

Analysis Results

Tables 1 through 3 show the economic impact generated by each level of funding, and Table 4 summarizes the overall economic impact.

**Table 1: Output and Employment Impacts:
Minnesota Housing Funds Only – Two Years of Investments**

	Minnesota Housing			Total
	Direct	Indirect	Induced	
Output	\$260,613,434	\$107,535,517	\$128,032,502	\$496,181,453
Employment	1,750	802	1,139	3,692
NOTE: Output figures are expressed in 2008 dollars.				

**Table 2: Output and Employment Impacts:
Minnesota Housing plus Private Funds – Two Years of Investments**

	Minnesota Housing + Private			Total
	Direct	Indirect	Induced	
Output	\$603,973,811	\$241,412,516	\$305,331,723	\$1,150,718,050
Employment	4,279	1,797	2,707	8,783
NOTE: Output figures are expressed in 2008 dollars.				

**Table 3: Output and Employment Impacts:
Minnesota Housing, Private, & Public – Two Years of Investments**

	Minnesota Housing + Private + Public			Total
	Direct	Indirect	Induced	
Output	\$731,737,123	\$291,283,792	\$371,483,698	\$1,394,504,613
Employment	5,220	2,172	3,291	10,683
NOTE: Output figures are expressed in 2008 dollars.				

**Table 4: Total Economic Impact of Specified Minnesota Housing Programs –
Two Years of Investments**

	Minnesota Housing Only	Minnesota Housing + Private	Minnesota Housing + Private + Public
Output	\$496,181,451	\$1,150,718,041	\$1,394,504,611
Employment	3,692	8,783	10,683
Tax Revenue	\$22,867,566	\$51,700,526	\$62,481,279
NOTE: Output and revenue figures are expressed in 2008 dollars.			

For example, Table 1 shows that Minnesota Housing spent \$261 million on housing construction, rehabilitation, and rental assistance between May 16, 2006 and May 15, 2008. As this spending made its way through the economy, it resulted in about \$496 million in total output. Each dollar of Minnesota Housing spending (direct output) generated about 90 cents of indirect and induced output. The ratio of total output to initial spending (1.90) is the output multiplier. In addition, Minnesota Housing's spending (\$261 million) initially supported about 1,750 jobs, while the total output generated from Minnesota Housing spending (\$496 million) supported 3,692 jobs.¹ Tables 2 and 3 present the same analysis when Minnesota Housing funding is combined with the private and other public investments in the same projects.

Key Findings

State investments in housing stimulate a substantial amount of economy activity and job creation.

As mentioned above, the overall output multiplier for Minnesota Housing's spending is about 1.9. Each dollar of spending stimulates almost another dollar of economic output. Furthermore, these investments support numerous jobs. For example, each \$1 million of spending by Minnesota Housing and its partners on new multifamily construction would support 8.33 jobs in that industry. It would also support 2.91 Minnesota jobs in industries that provide housing construction materials (such as wood products) and 4.84 jobs as Minnesotans who gained employment and profits from this economic activity spent their income. In total, about 16 Minnesota jobs would be supported for each \$1 million spent. Alternatively, if Minnesota Housing spent an additional \$1 million on housing rehabilitation, about 15 jobs would be supported. On average, \$1 million of spending by Minnesota Housing supports about 14 jobs. Minnesota Housing's overall job support rate is slightly less than the rate for housing construction and rehabilitation because some of the agency's funding is spent in areas that support fewer jobs, such as real estate services and rental assistance.

Over the last three years, the residential construction industry has lost substantially more jobs than any another sector in Minnesota.

As Table 5 shows, between the second quarter of 2005 and the second quarter of 2008, the number of employees in Minnesota's residential construction industry dropped by 27.8 percent (or 16,607 employees). The largest decline in all the other industries was only 2.7 percent. Additional investments in housing would help put many of these Minnesotans back to work. For example, if Minnesota Housing and its partners were to annually spend an additional \$200 million on multifamily housing construction (\$36 million from Minnesota Housing and \$164 million from its partners, which represents an average leverage ratio for multifamily construction), about 1,660 jobs would be supported in the residential construction industry and another 1,550 in related industries and the general economy. In total about 3,200 Minnesota jobs would be supported by this investment.

¹ The spending figures apply to a two year period. In a given year, the spending/output figures averaged about half the specified level; thus, in a given year, the number of job supported by the output would be about half the two-year specified level.

Table 5, Change in Minnesota Employment, 2nd Quarter 2005 to 2nd Quarter 2008

	Net Change in Number of Employees	Percentage Change
Agriculture, Forestry, Fishing & Hunting	820	4.6%
Mining	321	6.1%
Construction	-17,833	-12.9%
Residential Construction	-16,607	-27.8%
Non-Residential Construction	-1,227	-1.6%
Manufacturing	-9,128	-2.6%
Utilities	639	4.8%
Wholesale Trade	2,588	2.0%
Retail Trade	-4,399	-1.5%
Transportation and Warehousing	-2,346	-2.3%
Information	-1,680	-2.7%
Finance and Insurance	-1,499	-1.1%
Real Estate and Rental and Leasing	-943	-2.4%
Professional and Technical Services	11,849	9.8%
Management of Companies	8,978	14.4%
Administrative and Waste Services	4,695	3.8%
Educational Services	11,421	5.4%
Health Care and Social Assistance	39,481	10.7%
Other Services, Ex. Public Admin	232	0.3%
Public Administration	5,761	4.8%
Total, All Industries	54,211	2.0%

NOTES: Data excludes proprietors and the self-employed.

SOURCE: Minnesota Housing Analysis of data from the Department of Employment and Economic Development's Quarterly Census of Employment and Wages;
<http://www.deed.state.mn.us/lmi/tools/qcew/default.aspx>.

State housing investments help leverage additional investments. While Minnesota Housing directly invested \$261 million on the selected housing projects and efforts (see Table 1), other public and private sector entities invested an additional \$471 million on the same projects for a total direct investment of \$732 million (See Table 3). As Table 3 shows, when the \$732 million direct investment is combined with the indirect and induced impacts, the total output generated from these investments is nearly \$1.4 billion.

Minnesota needs additional housing investments.

- The foreclosure crisis is destabilizing neighborhoods as foreclosed homes become abandoned and blighted. Concentrations of abandoned and blighted homes drive down the value of all homes in a neighborhood and impose a financial strain on all residents. For example, in North Minneapolis (which has been hit very hard by the foreclosure crisis), the value of homes not involved in the foreclosure process has dropped dramatically in the last year. According to the Minneapolis Area Association of Realtors, the median sale price in North Minneapolis of homes sold

through a traditional process (which excludes foreclosed homes and short sales) dropped by 44.4 percent between 2007 and 2008.²

Foreclosed and abandoned homes need to be acquired, rehabilitated, and resold to stabilize the neighborhoods and housing prices. According to the Mortgage Bankers Association, Minnesota has the 12th highest foreclosure rate in the country.³ According to preliminary figures from HousingLink, 26,265 sheriff's sales occurred in Minnesota in 2008.

- Investment in the construction and preservation of affordable rental housing is needed. Currently, the rental market is quite tight, which puts upward pressure on rents and financial strain on households. A 5 percent vacancy rate characterizes a healthy rental market. However, since the middle of 2006, the vacancy rate in the Twin Cities area has been below 5 percent and is currently 4.1 percent. In the last two years, average monthly rents have risen from \$867 to \$922.⁴ Rising rents puts financial strain on low and moderate income families. According to data from the American Community Survey, 60 percent of Minnesota renting households with an annual income below \$50,000 paid 30 percent or more of their income on housing in 2007.⁵ Spending more than 30 percent of income on housing is considered a financial burden.
- According to the Wilder Foundation's 2006 statewide survey, at least 9,200 people are homeless in Minnesota each night.⁶ The Wilder Foundation also estimates that roughly 4,000 of these individuals are long-term homeless because they have been homeless at least one year or homeless at least four times in the past three years.⁷ As a partner in the state's Business Plan on Ending Long-Term Homeless, Minnesota Housing is working to create supportive housing opportunities for 4,000 long-term homeless households by 2010. Minnesota Housing funds the development, rehabilitation, acquisition or preservation of supportive housing and provides operating subsidies and rental assistance.
- Minnesota has a large disparity in homeownership rates between white, non-Hispanic households (79 percent) and community of color households (46 percent). Homeownership provides stable housing and allows families to build wealth.⁸

² Minneapolis Area Association of Realtors, *Foreclosures and Short Sales in the Twin Cities Housing Market – Area 305: Minneapolis, North* (Q4 2008 Update); <http://www.mplsrealtor.com/downloads/market/Lender-Mediated/Areas/North.pdf>.

³ This is based on the percentage of loans in foreclosure at the end of the third quarter of 2008. Mortgage Bankers Association, *National Delinquency Survey* (September 30, 2008).

⁴ GVA Marquette Advisors, *Apartment Trends, Twin Cities Metro Area* (Third Quarter 2003 through Third Quarter 2008).

⁵ Minnesota Housing analysis of the U.S. Census Bureau's 2007 *American Community Survey*.

⁶ Wilder Research, *Homeless in Minnesota 2006: At a Glance – Highlights from the Statewide Survey* (St. Paul, April 2007), p. 1.

⁷ Wilder Research, *Long Term Homeless Among Individuals and Families in Minnesota in 2006* (St. Paul, September 2007), p. 3.

⁸ Minneapolis Federal Reserve Bank analysis of data from the American Community Survey, 2007.