

Investing in Housing for Minnesota: Economic Benefits

Minnesota faces its most serious economic crisis in decades. Unemployment is up, and neighborhoods and communities are devastated by foreclosures and vacant properties. Homelessness is increasing along with the number of households doubled up to cover housing costs. Public action is desperately needed to reverse the downward economic spiral.

While vacant homes and the decline in housing affordability are consequences of this recession, production of affordable housing can be a key strategy for economic recovery. Recent analyses by Donjek, Inc. and the Minnesota Housing Finance Agency find that housing construction, both new construction and rehabilitation, is a powerful tool to stimulate the creation of jobs, economic activity, and public revenues.

FIX HOUSING, FIX THE ECONOMY

An investment of \$1 million in Minnesota Housing's Challenge Fund, plus the \$5.6 million in non-state resources leveraged by this investment, creates 40 new units of affordable housing.¹ This investment would also result in almost \$16 million in spending, \$8.8 million in wages, and about \$1.1 million in tax revenues over five years. Much of the economic activity would occur in the first year.

¹Assumes a Challenge investment of \$25,000 per unit on \$165,000 units.

MHP applied these analyses to investments of MHFA's Housing Challenge Fund, the state's primary investment tool for producing affordable housing in Minnesota, and an effective tool for leveraging federal and private capital. The state receives a significant return on investment through the Challenge Fund² in terms of jobs and taxes, and in creating better communities.

Generates Economic Activity and Spending

Investment in housing stimulates substantial economic activity, especially due to leveraging of non-state resources. In recent years a state dollar spent for housing construction through the Challenge Fund has attracted an additional five to six federal and private sector dollars. Each dollar spent on this new development generates another \$1.40 in economic activity in Minnesota over five years, \$0.90 of which comes in the first year. As a result, every state dollar expended through the Challenge Fund plus the \$5.60 leverages from other sources, supports \$16 in total economic activity over five years.

Creates Jobs

Housing investment results in substantial job creation as well. Every \$1 million of state investment in the Challenge Fund, plus the \$5.6 million it generates, results in 47 housing development jobs through direct spending in the first year. When indirect and induced economic activity is included, 93 jobs are created in that year. Over five years, the full investment generates \$8.8 million in wages.

Generates Tax Revenues

Housing investment in the Challenge Fund also generates a variety of public revenues through income, sales, property, and other taxes. A state investment of \$1 million, along with the \$5.6 million in leverage, brings more than \$470,000 in local and state revenue during the year of construction. Over a five year period, the full spending of \$6.6 million on new construction yields approximately \$374,000 in local and \$721,000 in state tax revenues. State revenues over five years represent 72% of state contribution through Challenge.

²Assumes a Challenge Fund investment of \$1 million in 40 units at \$25,000 per unit. This investment is assumed to leverage funding to produce units worth \$165,000, based on recent funding patterns for Challenge. Analysis includes economic impact over five years. Contact MHP for source materials and background research.

FUND HOUSING TO FIX THE ECONOMY

The Governor's proposed budget reduces the Housing Challenge Fund by \$23.5 million in comparison to the 2008-09 budget, a 69% reduction. If this funding were restored and recent leverage patterns continue, in five years the state would realize:

- 940 additional affordable homes,
- \$371 million pumped into the economy, and
- \$206 million in wages paid to Minnesotans.

Within five years, 72% of the state's investment would be repaid in state tax revenues.

Why Now?

25,000 construction jobs and 23,200 manufacturing jobs were lost in Minnesota from December, 2004 to December, 2008. With skilled workers in the construction trades and wood products industries idling, thousands of unemployed people could be put to work building or renovating homes. The state has a compelling fiscal and public interest in generating employment opportunities for these workers.

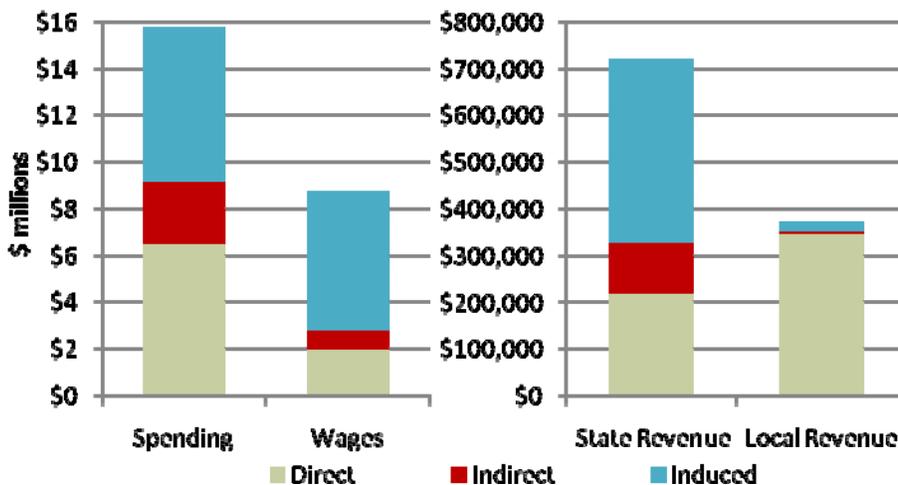
Beyond the economic benefits, there is ample justification for the state to invest in its housing programs. Affordable housing continues to be a pressing—and growing—need. By 2007, 1 in 8 Minnesota households was paying more than *half* their income for housing, indicating severe cost burden. In some areas of the state, homelessness has increased at a double digit rate in recent years. The rise in foreclosures and resulting numbers of vacant, wasting properties has significantly impacted the housing market and wrecked havoc on neighborhoods and communities.

Public and private developers of affordable housing have thousands of housing units in the queue for construction or rehabilitation. However, they lack funding to begin work on these projects and to leverage other resources. State investment in the Challenge Fund can jumpstart construction on these projects which can give the economy an important boost.

For more information and to view the referenced reports, please visit www.mhponline.org.

Sources: *Housing as a Lever for Economic Recovery*, Donjek Inc., Feb. 2009; *The Economic Impact of Minnesota's Housing Investment*, MHFA, Jan. 2009; *Housing Trends in Minnesota*, Minnesota Housing Partnership, Jan. 2009.

5-Year Economic Activity, Wages, and Taxes Generated per \$1 Million in Challenge Funds plus \$5.6 Million in Leveraged Funds Spent on Housing



Economic Impacts

Direct impact: Amount paid to workers employed in the building of housing units plus the value of products purchased.

Indirect impact: Business to business sales in materials for housing construction (e.g. sale of windows, timber, etc.).

Induced impact: Economic activity created by workers' spending of earnings.