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ARTICLE SERIES:

Positive Impacts: Affordable Housing Leads to Economic Stability For Family & Community

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Executive Summary:

While the recent economic recession of 2009 is still present in the rear view mirror, not lost are the lessons learned with newly enhanced regulatory standards being placed on lending institutions and more cautious homeowners seeking to arm themselves with financial literacy as more affordable housing projects and programs become available nationwide. Multiple studies from organizations including: the Center for Responsible Lending, the Annie E Casey Foundation and The Harvard Joint Center for Housing Studies can now correlate the irrefutable the social and economic impacts that affordable home ownership has on the economic stability and progress of families but also the wide ranging benefits to local and regional communities that subsidize affordable housing programs.

Key Findings:

- *According to the US Department of Housing (DOH) and Urban Development, the majority of the nation's cost-burdened households (7.5 million) are low-income, making them vulnerable to a wide variety of negative impacts caused by housing insecurity. High-cost housing leaves low-income families with little money left over, forcing them to make difficult budget trade-offs that can lead to serious negative consequences.*
- *DOH also sites 18.4 million low-income households pay more than 50 percent of their income on housing, and face difficult trade-offs with regard to other essential needs, such as food, clothing, transportation and health care.*
- *The Harvard Joint Center for Housing Studies found that in 2011, an average low-income family with children spent $1,400 a month on all expenses, including housing and discretionary spending. Families that devote over half of their spending on housing are left, on average, with only $565 to cover all other monthly living expenses.*
- *Researchers have found that when families do not have enough income left over to cover the rest of their household budget, children experience poorer health outcomes, lower levels of engagement in school, and emotional/mental health problems. Families are also less likely to be able to afford the food they need for a healthy, active life, often characterized as "food insecurity".*
- *Studies demonstrate that low- and moderate-income homeowners who purchase homes they can afford have a lower likelihood of mortgage delinquency and foreclosure than market rate borrowers with subprime and even prime mortgage products.*

According to a 2013 report from The Center for Housing Policy, before the recent collapse in the housing market in 2008-2009, homeownership was highly regarded as the path to economic stability, financial security and generational wealth for American families. For many, owning a single family home was a symbol of the American dream, and a symbol of personal achievement. From 2000 to 2006, there was an unprecedented acceleration in home prices as the housing boom expanded homeownership across the country. At the same time, many lenders began providing high interest loans ("subprime loans") to borrowers who had poor or no credit. Increasingly, these loans and other predatory lending practices made

it easier for low-income families to own their own homes that would normally not qualify under standard loan underwriting criteria. A proverbial “bubble” was forming within an under-regulated lending landscape and the “great recession” was born.

In 2007, as the US economy began to contract, home prices began to fall precipitously as well. Families who had taken out loans they could not afford, often times at the advice of lending institutions themselves struggled to make mortgage payments during a period of rapidly increasing job losses. With little to no liquidity and unable to sell or refinance homes that had lost significant value, families were forced into foreclosure.

According to The Center for Responsible Lending, the organization estimates that; “from January 2007 to the end of 2009, there were 2.5 million foreclosures in the United States. This has had a devastating impact on family and neighborhood wealth, especially for minority communities. Many of the higher cost subprime loans made in the few years before the start of the foreclosure crisis were made to black and Latino borrowers who could have qualified for lower-cost prime loans. Since the recession began, nearly 8 percent of both blacks and Latinos have lost their homes to foreclosures compared to 4.5 percent of whites. The effects of foreclosure also impact the wealth of minority communities overall.” According to the Center for Responsible Lending, between 2009 and 2012, up to $177 billion of personal equity was evaporated from black and Latino communities, respectively, due to both a loss in wealth from foreclosed homes and as a result of property value depreciation.

As a result, the lack of affordable housing led to exorbitantly higher rent burdens, tenant overcrowding situations, substandard housing and housing insecurity for many American families, exacerbating poor outcomes for those in economically distressed communities. Living in a distressed neighborhood further intensified the effects of family poverty on individual educational achievement, economic prospects, health and other measures of well being.

Affordable Home Ownership Promotes Positive Economic Outcomes

As the economy continues to improve and correct itself, so too are the enhanced regulatory standards and scrutiny being placed on lending institutions. These actions have also spawned a more cautious and skeptical borrower. While the recession of 2009 is still present in the rear view mirror, not lost are the lessons learned with borrowers seeking to arm themselves with more financial literacy and knowledge. Borrowers expect transparency, proper disclosure and accountability from their banks, and lenders are addressing this directly as they seek to re-brand ill perceptions within the communities they serve. With an emphasis on educating the public on the merits of responsible home ownership and risk-managed savings plans, we now find a smarter home buyer, asking more questions and exploring more alternative financial providers.

According to a 2013 Annie E. Casey Foundation report, “It’s hard to deny the many benefits of homeownership: Benefits include: individual asset accumulation - primarily through home price appreciation and the forced savings of monthly payments, which leads to the pay down of the principal balance on a mortgage, which in turn leads to other opportunities for building wealth for current and future generations (e.g., education, small businesses, etc.); enhanced satisfaction with one’s housing and neighborhood; stronger neighborhood ties and civic participation; positive outcomes for children, including higher educational attainment, reduction in deviant behavior, and increase in future homeownership rates; improvements in individual housing quality; and stronger neighborhoods.”

Multiple studies demonstrate that low- and moderate-income homeowners who purchase homes they can afford have a lower likelihood of mortgage delinquency and foreclosure than market rate borrowers with subprime and even prime mortgage products. Given the substantial costs that local governments incur for each foreclosure, programs whether subsidized or unsubsidized that create opportunities for sustainable homeownership represent a smart, fiscally responsible platform for promoting housing stability.

According to a 2010 Housing and Urban Development Report by Kaplan Immergluck, Sommers and Smith, "The reduced foreclosure risk of affordable and sustainable homeownership programs. Research into the housing market downturn has consistently demonstrated the high rate of foreclosure associated with subprime loans made during the housing boom in the early 2000s. By contrast, low and moderate income borrowers participating in both subsidized and unsubsidized programs designed to help them succeed over the long-term are substantially less likely than similar subprime borrowers to experience problems with their mortgages".

Impact on Children

According to the 2013 Enterprise report, *"Impact of Affordable Housing on Families and Communities: A Review of the Evidence Base,"* "…affordable housing also helps increase the discretionary income that low-income families have available to meet important family needs or save for the future." The Harvard Joint Center for Housing Studies compared low-income families with children living in affordable housing to their severely cost-burdened peers, and found that the affordably housed group had nearly twice the amount left over to spend on necessities. In 2011, those affordably housed families spent nearly five times as much on health care, a third more on food, and twice as much on retirement savings.

A report from Enterprise also cites; "stable, affordable housing improves educational outcomes for vulnerable children. Access to quality, affordable housing helps create a stable environment for children by reducing frequent family moves and avoiding the negative impact of moving on educational achievement. Affordable housing can serve as a platform for supplementary education programs, helping vulnerable children better access educational resources. It could be used as a base for after-school programs, or as a neighborhood anchor for broader community development plans, including new or improved schools."

Impact on Health

The Center for Housing Policy recently reviewed the growing body of research on the various ways in which the production, rehabilitation or other provisions of affordable housing may lead directly to improved health outcomes. Researchers and practitioners have long understood there is a connection between housing and health. It is broadly acknowledged, for example, that efforts to minimize children's exposure to lead paint in the home have greatly reduced the incidence of lead poisoning and associated physical and cognitive health problems.

The Center also cites that, "affordable housing may improve health outcomes by freeing up family resources for nutritious food and health care expenditures. Families paying excessive amounts of their income for housing often have insufficient funds remaining to meet other essential needs, including food, medical insurance and health care. These tradeoffs threaten the health of their children. Several studies have found that children in low-income families that do not receive housing subsidies are more likely to suffer from iron deficiencies, malnutrition and underdevelopment than children in similar families receiving housing assistance."

Other studies have found a correlation between the general affordability of housing and the health of children, particularly older children, suggesting the positive health impacts of housing affordability may accumulate over time. By helping increase the amount of residual income available to families for food, health care and other essential expenses, affordable housing can improve children's well-being.

Homeownership may contribute to health improvements by fostering greater self-esteem, increased residential stability and an increased sense of security and control over one's physical environment. Studies consistently show that homeowners achieve better physical and mental health outcomes than renters, including fewer longstanding illnesses, lower blood pressure and lower levels of depression and alcohol abuse. One possible explanation for this phenomenon is that homeowners experience higher levels of self-esteem, which may be related to improved health.

Additional research suggests that homeowners are more likely to live in higher-quality housing and have more freedom to adapt their surroundings to their needs, reducing stress and leading to greater levels of satisfaction. Homeowners also move much less frequently than renters and thus enjoy the benefits associated with stability discussed above. Programs and policies that help families afford and sustain homeownership may extend the apparent benefits of ownership to families at a broader range of income levels. To the extent that homeownership's benefits are related to increased stability, affordable programs that improve the stability of families' living arrangements may offer similar benefits.

Impact on Regional Economic Competitiveness

Affordable housing can affect an employer's ability to attract and retain employees and can thus have implications for regional economic competitiveness. In surveys, many executives of the business community report that a lack of affordable housing makes it more difficult to recruit and retain employees. Surveys also indicate that the business community recognizes the importance of affordable housing when making location decisions, and demographic trends suggest that given the alternative, mobile individuals will abandon areas with the highest housing costs for opportunity-rich regions with lower housing costs. In addition, to the extent that an affordable housing shortage forces workers to "drive 'til they qualify," a region may be faced with congested roads, which can reduce economic competitiveness. The issue of road congestion and lack of affordable housing is an on-going concern in Boulder County and being partially addressed by the robust Interstate 36 highway expansion.

Harris Interactive recently conducted a national survey of more than 300 companies - more than half (55 percent) of the largest companies (with more than 100 employees) acknowledge an insufficient level of affordable housing in their proximity. Two-thirds of these respondents believe that the shortage "is having a negative impact on retaining qualified entry-level and mid-level employees" and well more than half attribute some level of employee turnover to the resulting long commutes, states an Urban Land Institute 2007 survey.

Impact on Local Employment

In 2010, research led by Chakrabarti and Zhang analyzed housing and employment trends and showed that an increase in the ratio of housing prices to income can slow the rate of employment growth in a regional economy. Using data for California cities between 1993 and 2004, the authors estimated that a "one-unit increase in this ratio can reduce employment growth by up to two percent in a two-year period. (In other words, a city in which the median-priced home sells for three times the median household income could expect two percent slower employment growth over two years than a city in which the median price is only double the median income.) These findings hold up when they apply a similar analysis to US metropolitan areas between 1980 and 2000."

Due to data constraints, these findings should be viewed as suggestive rather than conclusive, but they are consistent with other studies linking high housing costs to out-migration. Given that a skilled labor force is important to nearly 87 percent of company executives when choosing a site for a new facility — ranking sixth out of 35 factors (according to Researcher, Gambale, 2009), a locality must offer an appropriate level of affordable housing if it wants to attract skilled workers, and, in turn, new and expanding businesses.

Impact on Communities, State and Local Governments

According to researchers, Rebecca Cohen and Keith Wardrip; "As cities and counties across the country try to bring their revenues and expenditures in-line and prioritize how to spend scarce resources, policymakers and planners should understand the benefits of well-designed affordable housing programs such as Habitat for Humanity.

When affordable homes are built or rehabbed, the funds flowing to cities and states can be considerable. Revenues can take the form of fees for permitting, zoning, and utilities, or they can reflect sales, income, or property taxes generated by construction-related economic activity. The National Association of Home

Builders (NAHB) estimates that 100-units of affordable housing for families generates the same amount of one-time revenue for jurisdictions as does a comparable market-rate property — roughly $827,000, on average, with more than half coming from permit/impact fees and utility user fees, according to the NAHB.

Additionally, research findings summarized in a report by the Center for Housing Policy show that the impact of a new affordable housing development on nearby property values is more likely to be neutral or positive than negative. As the CHP report notes, the quality of the properties' design, management, and maintenance are important factors. Moreover, when affordable housing replaces a vacant lot or a dilapidated building, local governments will benefit from increased property tax revenues.

With an improving national economy, more research is being commissioned to study and correlate the benefits that robust affordable housing programs have on participating families. As local economies continue to understanding the profound and positive impacts that affordable homeownership has on the financial and social stability of participating families, so too are the cascading benefits being realized of the overall foundational strength of local and regional economies.