Financing Affordable Rental Development

Jobs Created by New Construction and Rehabilitation

Construction and development are important job and economic generators for states and local communities. In carrying out its mission to help our fellow Floridians access housing that may not otherwise be accessible to them, Florida Housing Finance Corporation provides financing through a range of federal and state programs that provide important economic benefits for the state.

With regard to rental development, Florida Housing generally provides debt and equity financing to developers who leverage these resources with private and other public sector funding to develop new rental apartments or rehabilitate existing affordable units. Both rehabilitation and new construction provide important sources of direct and indirect economic benefit and jobs. Today, we see a variety of economic conditions impacting the ability of construction jobs to be a useful economic generator in Florida: on one hand, with the proliferation of unsold single family homes that are now available for rent, housing rents have been pushed down in many markets, leading to an oversupply of affordable rental housing and high vacancy rates in those rental markets with slow or no population growth (or new family formations) in these areas. On the other hand, in some locations, vacancy rates are low and there is a continued demand for new rental housing.

Florida Housing's proposed rules allocate federal Low Income Housing Tax Credits to both new construction and "preservation," which is generally defined as providing financing to new or current owners to recapitalize and rehabilitate existing affordable rental units that are 20+ years old to maintain and extend affordability and ensure that they are in good condition going forward.

A question has been raised about the ability of new construction and preservation financing to create jobs and whether one approach does a better job of this during a time when job creation is so critical to the state's economy. The information below summarizes what Florida Housing's research and analysis shows.

- **Florida Housing Finance Corporation prepared an evaluation for this paper of the economic and job impacts of the upcoming, proposed Low Income Housing Tax Credit cycle.** We carried out this analysis with assistance from the **Shimberg Center for Housing Studies** at the University of Florida, a nationally known housing data/research center, **and Dr. Alan Hodges,** an economist who runs the Economic Impact Analysis Program at the University of Florida. We used a commonly used econometric model called IMPLAN Version 3, with 2009 Florida state data, to estimate impacts from financing both new construction and preservation developments by inputting estimated Total Development Costs exclusive of property acquisition costs.

  Florida Housing analyzed the Low Income Housing Tax Credit transactions underwritten in late 2010[1] to get the average allocation, total development cost and other variables for both new construction and preservation (rehabilitation) transactions. Based on this information and the proposed 2011 rules, we estimated the number of new construction and preservation developments that will be funded in the 2011 cycle, how much each average award will be, the average total development costs and other variables. Then we worked with the Shimberg Center for Housing Studies and Dr. Hodges to estimate job creation and economic benefit from the projected totals of all new construction awards and, separately, all preservation

[1] Awarded through the "2009 Universal Application Cycle."

awards. The financial data Florida Housing provided for this purpose are summarized at the end of this document.

- ***FINDING:*** Each new construction development, on average, creates more jobs than each preservation development: 340 jobs per new construction property, versus 217 jobs per preservation property;
- However, when equal allocations to new construction and preservation are made, as proposed in the 2011 rules, more total jobs are created overall by the preservation transactions. This is because preservation developments require fewer Low Income Housing Tax Credits to complete, because the cost of preservation development is generally lower than new construction. This means that the state's Low Income Housing Tax Credit allocation goes further for these developments and more developments can be financed with the same amount of funding – an estimated 22 preservation developments versus 12 new construction developments, thus creating more overall Total Development Costs, and therefore creating more jobs overall: *Preservation – 4,772 jobs, versus new construction – 4,079 jobs.*

- **The IMPLAN economic impact assessment modeling system uses sophisticated econometric modeling to generate estimates.**[2] This and other nationally recognized models estimate the economic impacts of investments and/or changes in industry and forecast tax revenue and employment generation. They do this by estimating the goods and services from hundreds of industry sectors and the types and numbers of these business establishments in the study area (inputs) to produce each dollar of output for the sector in question. In our case, the study area is Florida, but these models can be used for smaller areas.

  For example, if the construction industry in Florida requires the use of concrete and it can be purchased from a manufacturer in Florida, the econometric model includes the impacts (e.g., jobs, income) from the concrete company, and there is greater economic benefit to Florida. If goods for that same industry must be purchased outside the study area, then the economic benefits are not included in the final estimate of economic impact for the study area. These models provide direct, indirect and induced projections for jobs, overall earnings, taxes generated and overall economic impact. That is, they are intended to project comprehensive economic benefit for the industry or funding in question for the specified study area.

- **Input-Output Models are created to estimate the entire impact of investing in an industry, including direct impacts like the jobs, taxes and fees to build a property; and ripple effects, also known as "indirect" and "induced" impacts:**
  - **Direct impacts** – related to the industry under study; for construction, this includes all spending by developers and those hired to build/rehabilitate a property, exclusive of property acquisition;
  - **Indirect impacts** – spending by suppliers of materials/services and others to keep up with business (including overhead);
  - **Induced impacts –** spending of earnings from both direct and indirect activities; for example a construction worker's purchases of groceries;

[2] IMPLAN is used by hundreds of universities and government agencies across the country to estimate the economic and fiscal impacts of investments and to forecast employment generation, among other things. There are three commonly used models nationally – RIMS II, IMPLAN and REMI. The Florida Legislative Office of Economic and Demographic Research has used all three, but currently uses the two latter models in its work.

- **Overall,** these models provide projections for jobs, earnings, taxes and total economic impact.

- **Other studies have been carried out by economists to measure the economic impact of housing development. The summary of findings below focuses just on jobs, although most of these studies also provide additional projections of comprehensive economic benefits.**

  - The **National Association of Home Builders** published an updated study in 2007 evaluating jobs, fees and taxes created by a typical new rental community financed by Low Income Housing Tax Credits.
    - ***FINDING:*** *Estimated state impact of funding a new 100-unit property–*
      - *One-year impact – 151 jobs*
      - *Recurring impact – 38 jobs*

  - A study was prepared in 2009 for **The Housing Alliance of Pennsylvania** estimating the economic benefit of state investment in affordable housing, looking at both new construction and rehabilitation.
    - ***FINDING:*** *Estimated impacts in Pennsylvania associated with each $10 million of expenditures for affordable housing–*
      - *New multifamily construction – 148 jobs*
      - *Remodel/rehabilitation (preservation) – 200 jobs*

  - A study was prepared in early 2010 for the **Federal Home Loan Bank of Atlanta** (FHLB) using 2007 IMPLAN data analyzing the economic value created by the construction and renovation of developments financed through that bank's Affordable Housing Program.
    - ***FINDING:*** *Impact per million dollars of total development cost resulting from the FHLB's Affordable Housing Program–*
      - *Rental new construction – 11.4 jobs*
      - *Rental rehabilitation (preservation) – 12.2 jobs*

  - A literature review of the role of affordable housing in creating jobs and stimulating local economic development was completed by the national **Center for Housing Policy** in January 2011. The review was generally broad, but noted the Pennsylvania study finding (above) related to the difference in new construction and rehabilitation this way:

    > The multiplier for remodeling/rehabilitation is higher than for new construction activities because in the former, a greater share of total funds is spent on local labor, whereas in the latter, more funds are spent on materials often produced outside of the jurisdiction. In other words, funds are more likely to "leak" to other communities when they are spent on new construction than when they are spent on rehabilitation. (Wardrip et al, 2011)

- **On the issue of job creation, Florida Housing has received comments from developers of both new construction and preservation. Some provided information on jobs created directly related to their specific developments (i.e., specific to the construction/development process). Others have made anecdotal statements about likely impacts to the economy.**

Florida Housing believes that many of these comments have merit. However, we know of no existing studies that individually measure the particular economic benefits outlined in these statements. The econometric models discussed above are set up to incorporate all or a number of these points. In summary, the comments are:

STAKEHOLDER COMMENTS

New Construction	Preservation
• **New construction** creates longer lasting construction/development jobs than **preservation** development, because new construction takes longer to complete than rehabilitation of an existing property. • **New construction** developments pay local impact and utility connection fees that support local government services, while **preservation** developments pay no impact or utility connection fees (because they already exist). • **New construction** creates additional permanent jobs, particularly for management and maintenance of the new development, while **preservation** developments already have management and maintenance workers employed. • **New construction** adds to the tax base of the local government, while **preservation** does not increase the tax base, because the existing apartments are already part of it. • Many of the materials purchased for **new construction** are produced here in Florida, thereby increasing indirect job creation in the state, e.g., concrete storm structures, concrete, road base, asphalt, concrete block, etc. But the majority of the materials purchased for **preservation** of existing units are produced outside of Florida, e.g., no concrete storm structures, minimal (if any) concrete block, no concrete foundations, no road base, minimal asphalt, etc. • If older affordable developments that are candidates for **preservation** instead convert to market rate properties, they may have enhanced local fee generation in local taxes.	• **Preservation** projects are more labor intensive than **new construction** projects. While new construction costs are typically 50% labor and 50% materials, preservation projects are closer to 25% materials and 75% labor. • **Preservation** developments pay sales taxes and building permit fees and pay them quickly, while new construction can take years to complete due to permitting and financing delays, sometimes due to neighborhood or environmental impact concerns; and because these preservation development starts faster than **new construction**, the impact to local revenue occurs more quickly. • The predevelopment stage of **preservation** developments requires more time than **new construction** for such activities as reviewing the historical operations of the property, including all service contracts, a 100% unit inspection, meetings with tenants and property staff, etc. • In **Preservation**, the amount of work that goes into a moderate-to-substantial rehabilitation project involves modernization of all/most major systems; new roofs; all new cabinets/countertops in bathrooms/kitchens; new insulation, flooring, security systems; disposal of existing materials; moving tenants belongings; and removal and/or abatement of lead/mold/asbestos as needed. • **Preservation** transactions stabilize neighborhoods and promote confidence in existing neighborhoods, spurring better investment and expansion by existing business. • **Developments being preserved** typically require asphalt for parking lots, concrete for additions, and ceramic tile for finishing; concrete is a small piece of the overall construction budget. • **Preservation** transactions stabilize rent levels, increase valuations of existing apartment buildings and valuations of existing neighborhoods, thereby increasing tax revenues.

- **There is a need for affordable new construction as well as preservation of existing affordable multifamily rental housing.**
  - The data show us there is currently a need for new affordable rental units in some markets in Florida.
  - However, in many counties or portions of counties in Florida (over half), existing affordable rental communities in Florida Housing's portfolio are experiencing low occupancy rates (in many cases, properties with only 85-89% of units occupied) because of "saturation." Because so much single family stock is currently on the market for sale, many owners have chosen to rent out their homes rather than try to find buyers in this market. These additional rental units are competing with market rate and affordable apartments, leading apartment owners to respond with lower rents and special offers. With an excess of rental housing available in many places, vacancies in Florida Housing's portfolio are higher than usual.
  - Florida Housing's objective is to carefully target any new rental construction to those areas of the state where there is a defined need for such housing. Our objective is to help avoid cannibalizing existing state financed rental developments and particularly that portion of developments in our Guarantee Program portfolio. <u>Note that negative pressure on the affordable rental transactions financed by Florida's Guarantee Fund may lead to a statutory call on State Housing Trust Fund resources to provide additional support to the Guarantee Fund.</u> These resources have been utilized in recent years by the Legislature and Governor to help balance Florida's budget.
  - On the Preservation side, there are over 400 rental properties throughout Florida that were originally financed with funding from U.S. Housing and Urban Development and U.S. Department of Agriculture's Rural Development programs and are now over twenty years old. Over 300 of these properties have substantial amounts of federal rental assistance as part of their overall financing package. The proposed Preservation resources will assist the state with two objectives:
    - To recapitalize and rehabilitate older properties which are falling into disrepair because of age: and
    - To enable the preservation of the federal rental assistance that enables these rental properties to serve our lowest income Floridians. The federal rental assistance provides support directly to these properties in exchange for serving elders, persons with disabilities and others with extremely low incomes who cannot afford to pay rents at levels that will support daily operations at a property. Preservation allows the federal rental assistance to remain on the property. Without this federal rental assistance, which is rarely provided in new construction developments today, it would be difficult to house these same families in newly constructed rental developments financed through today's typical Low Income Housing Tax Credit transaction structures.

References

Econosult Corporation. *Potential Economic and Fiscal Impacts of a Pennsylvania Housing Trust Fund*. Submitted to Elizabeth G. Hersh, The Housing Alliance of Pennsylvania. 24 April 2009.

The Hendrickson Company in conjunction with the Shimberg Center for Housing Studies, University of Florida. *Beyond Units: Economic Benefits of Federal Home Loan Bank of Atlanta's Affordable Housing Program*. January 2010.

National Association of Home Builders, Housing Policy Department. *The Local Economic Impact of a Typical Tax Credit Housing Project, Income, Jobs and Taxes Generated*. September 2007.

Wardrip, Keith, Laura Williams and Suzanne Hague, Center for Housing Policy. *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development, A Review of the Literature*. January 2011.

Projected Economic Impact of the 2011 Universal Application Cycle Comparing New Construction and Preservation — DRAFT February 15, 2011

	New Construction	Preservation	Notes:
Analysis of 2009 Universal Application Cycle (Awarded in February 2010)*			
Number of 9% LIHTC Transactions Analyzed	32	7	The data in this section are derived from final credit underwriting reports or other credit underwriting evaluations required of these developments before they may proceed.
Average 9% LIHTC Allocation†	$1,601,538	$901,656	
Average Total Development Cost (TDC)‡	$17,027,557	$9,265,819	
Average Number of Units	94.3	100.1	
Amount of TDC per $1 of LIHTC Awarded	$10.63	$10.28	
Amount of LIHTC Awarded per $1,000 of TDC	$94.06	$97.31	† LIHTC = Low Income Housing Tax Credit
Amount of LIHTC Awarded per Unit	$16,976	$9,004	‡ TDC represents all costs of the development, exclusive of land and buildings.
** This is the most recent application cycle.*			
Estimates for 2011 Universal Application Cycle			
Percent of Total LIHTC allocated to each Pool	50%	50%	– This represents how much of the $39,000,000 estimated 2011 Total LIHTCs is allocated to each Pool.
Amount of 9% LIHTC Allocation in each Pool	$19,500,000	$19,500,000	– This represents the *LIHTC Allocation per Pool* (New Construction Pool, Preservation Pool).
Number of Avg 9% LIHTC Allocations that Fit into each Pool	12.2	21.6	– The ***Average 9% LIHTC Allocation*** from 2009 is divided into the respective proposed 2011 LIHTC Pools.
How Many Applicants Estimated to Receive an Allocation	12	22	– The # of applications is determined by simply rounding the previous row.
Implied Average 9% LIHTC Allocation per Awardee	$1,625,000	$886,364	– The ***LIHTC Allocation per Pool*** is divided by # of applications in the respective Pool.
Corresponding Average TDC per Awardee	$17,280,000	$9,110,000	– Based on 2009 ***Avg TDC***, adjusted for ***Avg LIHTCs*** in 2011, relative to 2009, rounded to nearest $10,000.
Corresponding Average Number of Units per Awardee	96	98	– Based on 2009 ***Avg # of Units***, adjusted for ***Avg LIHTCs*** in 2011, relative to 2009.
Amount of TDC per $1 of LIHTC Awarded	$10.63	$10.28	These last three rows show that 2011 estimates are in line with the 2009 averages.
Amount of LIHTC Awarded per $1,000 of TDC	$94.04	$97.30	
Amount of LIHTC Awarded per Unit	$16,927	$9,045	
Economic Impact Estimates for 2011 Universal Application Cycle			
Cumulative LIHTC Allocations per LIHTC Pool	$19,500,000	$19,500,000	– # of 2011 Awardees times average 2011 LIHTC Allocation
Cumulative TDC per LIHTC Pool	$207,360,000	$200,420,000	– # of 2011 Awardees times average 2011 TDC
Cumulative Number of Units per LIHTC Pool	1,152	2,156	– # of 2011 Awardees times average 2011 units per awardee
Average Jobs Created per Development	340	217	– Total IMPLAN jobs (below) divided by # of 2011 awardees per LIHTC Pool
Average Economic Impact per Development	$43,670,690	$23,736,269	– Total IMPLAN Economic Impact (below) divided by # of 2011 awardees per LIHTC Pool
Average Impact on Earnings per Development	$15,218,410	$9,513,318	– Total IMPLAN Impact on Earnings (below) divided by # of 2011 awardees per LIHTC Pool
Total Jobs Created per LIHTC Pool	4,079	4,772	– IMPLAN Multiplier times TDC per LIHTC Pool
Total Economic Impact per LIHTC Pool	$524,048,279	$522,197,918	– IMPLAN Multiplier times TDC per LIHTC Pool
Total Impact on Earnings per LIHTC Pool	$182,620,915	$209,292,994	– IMPLAN Multiplier times TDC per LIHTC Pool

The figures presented within the box above were generated using IMPLAN v.3 multipliers and Florida state data, 2009.

WHAT DOES THIS TELL US?

The first set of three lines in the box above show that **an average new construction development provides more jobs than the average preservation development**, because each new construction deal has a higher total development cost.

New Construction Development - Average Job Creation	340	Jobs
Preservation Development -- Average Job Creation	217	Jobs

The second set of three lines in the box above show that the **preservation pool provides more jobs, given the proposed pool allocations**, because (a) each rehab transaction is smaller, (b) thus yielding more rehab awardees, and (c) although these developments on average have a smaller TDC per preservation development, more preservation deals gives a higher total TDC for the pool.

Preservation Developments (22 estimated)	4,772	Jobs
New Construction Developments (12 estimated)	4,079	Jobs
Total in 2011 Funding Cycle	8,851	Jobs

FHFC February 2011