New Model Illustrates Economic Impact of LIHTC Development

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In September 2007, the National Association of Home Builders (NAHB) released a report that included a new model created to illustrate the local economic impact of a typical low-income housing tax credit (LIHTC) housing development. The model has been well received and has already been used by various organizations, including universities, state housing authorities and developers.

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NAHB began initial development of a model to analyze the impact of multifamily residential development on the local economy in 1996, at the request of local housing agencies and other local affiliations in California, Florida, Iowa, New York, Texas and Wisconsin. Hence, data for the report has been gathered specifically from these six states.

In 2002, NAHB developed a new version of the model, applying the techniques used to gather data on multifamily residential development, specifically to LIHTC development. The new model was a response to the resistance from the community that local governments typically face when attempting to introduce LIHTC development into the neighborhood. The model created by the NAHB demonstrates that tax credit development does not weaken the local economy, and moreover, augments it by creating jobs, wages, and additional revenue for local governments.

The model demonstrates the one-year local impacts and annually recurring impacts of building 100 multifamily units in a typical LIHTC project. The average size of 100 units was chosen as a convenient round number on which to base the model. After analyzing 21 LIHTC projects with 100 units each, NAHB economists discovered that, in a typical LIHTC project, the primary impacted region receives $7.3 million in local income and $783,000 in taxes and local revenue and 151 local jobs were created.

The model breaks down the benefits of LIHTC development into three phases: the direct and indirect impact of construction activity; the multiplier effect of wages being spent on goods and services in the local area; and the ongoing, annual impact that results from units being occupied by tenants that pay taxes and participate in the local economy. NAHB's Housing Policy Department prepared a report of the economic model generated from their findings, called "The Local Economic Impact of a Typical Tax Credit Housing Project." The statistics, methodology and various conclusions referenced in this article are drawn from that report.

The report says that in the first phase, the three industries most positively impacted are the local industries involved in home building: construction, business and professional services, and wholesale and retail trade. The report also indicates that construction industry gains an average of $3,471,000 in local income and provides an average of 79 local jobs with an average salary of $39,000. In this first phase, NAHB reports that the government generates the most tax revenue from residential permit and impact fees. The other tax revenue generators are general sales taxes and utilities.

The second phase demonstrates the manner in which the project contributes to the local economy through patronizing local restaurants, services, etc. during the construction process and through employing local residents who continue to contribute to the local economy by spending their earned wages, long after the project is completed. NAHB's research shows that as local owners benefit from the workers' patronage, they also channel their increased income back into other local

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goods and services. The model suggests that it is the continuous recycling of income within the local sphere that results in a permanent increase in the level of economic activity. In the second phase NAHB reports that local governments benefit the most, through the tax revenue from the project, made up primarily by business property taxes, utilities and general sales taxes. Wholesale and retail trade and business and professional services continue to be among the top sectors affected. Real estate also increases as vacant units are being occupied in the completed project.

The third phase is defined by the way tenants interact with the local economy, both through spending income and paying taxes. The report suggests that the industries that garner the most local income are the same in the third as in the second phase. However, in the third phase, real estate plays a more significant role.

Total One-Year Impact: Sum of Phase I and Phase II

Local Income	Local Business Owners' Income	Local Wages and Salaries	Local Taxes*	Local Jobs Supported
$7,301,000	$1,692,000	$5,609,000	$783,000	151

Phase III: Ongoing, Annual Effect that Occurs When New Homes are Occupied

	Local Business Owners' Income	Local Wages and Salaries	Local Taxes*	Local Jobs Supported
Local Income				
$2,225,000	$950,000	$1,274,000	$372,000	38

**The term local taxes is used as a shorthand for local government revenue from all sources: taxes, fees, fines, revenue from government-owned enterprises, etc.*

(Source: NAHB, The Local Economic IMPACT of a Typical Tax Credit Housing Project)

Using the NAHB model, the Shimburg Center for Affordable Housing at the University of Florida concluded that "real estate taxes that are paid year after year are the most obvious long-term economic benefit to the community." While the first and second phases are measured as one-time effects, the third phase is measured as an ongoing, annual effect. NAHB contends that this result demonstrates the steady contribution that multifamily development provides the local economy simply by keeping units occupied.

According to the report, new multifamily development not only attracts tenants from out of town, it deters displacement and outward migration by providing more and better options for housing. As such, it seems that local governments have much to gain from maintaining and strengthening the tenant population, which increases the amount of residential property, business property, and utility taxes that are being paid each year.

The model relies on federal census data where it is feasible. In addition the model displays the impact of LIHTC development on only 16 industries. However, it picks out the ones that are most notably affected, perhaps highlighting the fact that a useful model should maintain an element of simplicity in order to reduce the amount of outlying factors and the amount of work it takes to obtain data. NAHB economists reported that in order to obtain the data for their model, information often had to be solicited through local market studies because such detailed information could not be obtained from censuses or regional organizations.

NAHB says that its original model was easily adapted to measure LIHTC development because both market rate and LIHTC multifamily development make similar contributions to the local economy. This finding may be a positive development in convincing communities that LIHTC development does indeed strengthen the local economy. On the other hand, given the perceived social risks historically associated with LIHTC development, communities still may not encourage new LIHTC development when market-rate development would bring similar economic benefits to the area. However, in most markets, there is no choice at the local level between a market-rate and an LIHTC development as both will be developed if there is adequate demand. Developers proposing LIHTC apartments generally are unwilling or unable to change their plans to make the development market-rate because of the specific financial structure that allows LIHTC development in small markets.

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NAHB's report suggests that the model's third phase illustrates a concrete benefit that distinguishes LIHTC housing from market-rate multifamily development. According to the report, a typical household spends about three-fifths of its income on goods and services provided by the local economy. Data on spending tendencies from the Consumer Expenditure survey show that households with a lower income tend to spend an even higher percentage of their incomes on local necessities. Therefore, although the typical market rate property brings in more tax revenue and tenants with higher incomes, low-income housing offsets this advantage somewhat by attracting tenants who tend to invest a larger percentage of their income in the local economy. According to the model, after units in an LIHTC development are occupied, the local area will benefit from a gain of $2,225,000 and 38 jobs a year.

NAHB's model can be a useful tool to demonstrate the positive impacts of LIHTC development reach beyond the direct benefits to tenants and developers. To date it has been applied to more than 450 metropolitan areas, non-metropolitan counties, and states across the country.