

The Evidence Is In: Housing Pays for Itself

The Home Builders Association of Fort Wayne (HBA) recently unveiled a housing impact study for the Fort Wayne area that shows housing has a huge economic impact on our community. Elliot Eisenberg, PhD., Senior Economist from the National Association of Home Builders (NAHB) in Washington, D.C., presented the study to local media, government officials, community leaders and the members of the HBA at the May General Membership Meeting.

The NAHB study compares the benefits to the costs of all new home construction in Allen County in 2007 on all political jurisdictions in the Fort Wayne-Cheektowaga-Tonawanda, NY MSA. Eisenberg found that economic impact of homebuilding in Allen County is not only very large, but that single family construction and multifamily construction (not covered in this article) pay for themselves within the ninth year of construction because the ongoing economic benefits accumulate faster than the ongoing costs.

Eisenberg says, “The surplus, or net tax to local governments, accumulates fast enough so that, even if local government undertakes all capital investment before the homes are built, the surpluses can be used to pay of the debt entirely by the end of the ninth year.”

It is important to note that this capital excludes infrastructure paid for by developers and deeded over to the local governments including roads, turn lanes, sewers, retention ponds, curbs, sewer lift stations and parks.

Benefits to the Fort Wayne, IN MSA:

The one year local economic benefits of building 100 typical single family homes include:

- \$13.0 million in local income
- \$782,000 in taxes and other revenue for local governments, and
- 280 local jobs

These are one-year impacts that include both the direct in and indirect impact of construction activity itself, and the impact of local residents earning money from the construction activity and spending part of it within the local economy.

The same 100 homes also generate additional, annually recurring, local economic benefits including:

- \$2.9 million in local income
- \$621,000 in taxes and other revenue for local governments
- 69 local jobs

These are ongoing, annual benefits resulting from the new homes being occupied, and the occupants paying taxes and participating in the local economy year after year.

These numbers were reached assuming that a new single-family home built in Allen County:

- costs \$207,000

- is built on a lot costing an average of \$3,500 (purchase price the developer or builder pay for raw land)
- requires the builder and developer to pay \$2,500 in permit and other special fees.
- incur an average annual property tax payment of \$3,579

Costs to Local Government

The Census of Governments provides information on the amount local governments in the Fort Wayne area spend on various government functions. The results for each new single family house built in the Fort Wayne area are shown in Figure 1.

Figure 1

| | Single Family |
|--------------------------|---------------|
| Education | \$1,691 |
| Police Protection | \$295 |
| Fire Protection | \$258 |
| Corrections | \$160 |
| Streets and Highways | \$112 |
| Water Supply | \$153 |
| Sewerage | \$82 |
| Recreation and Culture | \$325 |
| Other General Government | \$952 |
| Electric Utilities | \$191 |
| Total | \$4,221 |

“Not surprisingly, local governments tend to spend more on education than any other single item,” Eisenberg says. “Even so, there are several factors in most parts of the country that tend to reduce education costs per housing unit.” A major one is simply the number of children present in the units. According to the American Housing Survey, there is only a little over one school-aged child for every two households in the United States; so education costs per housing unit are lower than costs per pupil, simply because there is on average, less than one pupil in each household.

In addition to current expenses, providing services to residents requires local governments to undertake capital investment for schools, other buildings, equipment and roads. The NAHB study estimates the size of these investments from a traditional economic model, where costs are a function of labor and capital. The results for each new single family home built in the Fort Wayne area are shown in Figure 2.

Figure 2

| Single Family | |
|--------------------|-----------------|
| Schools | \$7,834 |
| Hospitals | \$261 |
| Other Buildings | \$3,430 |
| Highways & streets | \$2,399 |
| Conserv. & devel. | \$103 |
| Sewer systems | \$1,772 |
| Water supply | \$2,759 |
| Other structures | \$1,231 |
| Equipment | \$172 |
| Total | \$19,961 |

Comparing Costs to Revenues

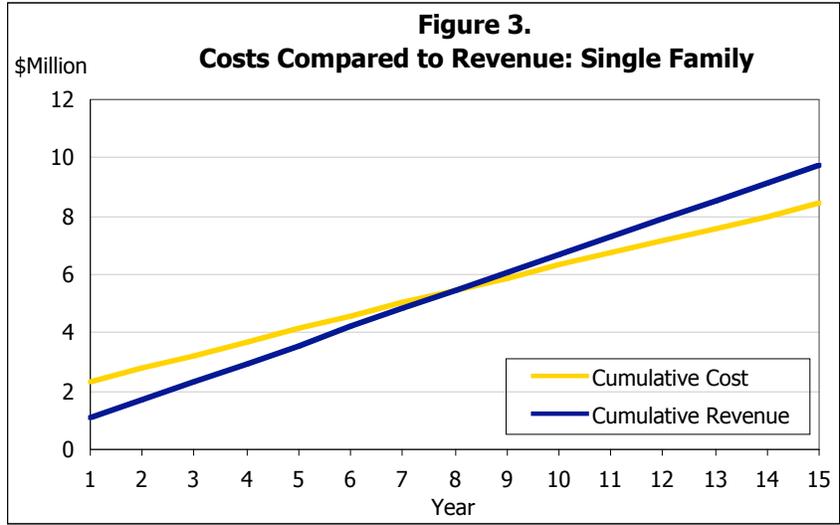
To summarize the results, in the first year, building 100 typical single family homes results in:

- An estimated \$1.1 million in tax and other revenue for local governments
- \$210,500 in current expenditures by local government to provide public services to the net new households at current levels
- \$2.0 million in capital investment for new structures and equipment undertaken by local governments

In each year after the first, the same 100 typical single-family homes create \$621,000 in tax and other revenue for local governments and \$421,000 in local governments expenditures needed to continue providing services at the current levels. The difference is a \$200,000 “operating surplus” that can be used to service or pay down the debt.

“It is important to point out that the operating surplus is the subsidy from new construction to existing construction,” Eisenberg says. “Without the large annual subsidy, property taxes would either be higher than they are, public services would be of lower quality than they are, or some combination of both.

After 15 years, every 100 single family homes built in 2007 will generate a cumulative \$9.78 million in revenue compared to only \$8.4 million in costs, including annual current expenses, capital investment, and interest on debt. (Figure 3)



*Article by Elliot F. Eisenberg, Ph.D., and Senior Economist for the NAHB. A complete report with more detail, the complete results for multifamily and technical explanation of the cost model is available in the report: *The Metro Impact of Home Building in Allen County, Indiana: Comparing Costs to Revenue for Local Government and its associated appendix*. Contact Maurine Holle at (260) 420-2020 or by email at maurine@hbafortwayne.com for a copy.*