The Economic Impact of Low Income Housing Tax Credit Development Along Transit Corridors in Metro Denver

Income, Jobs, and Taxes Generated

Prepared by the
Housing Policy Department

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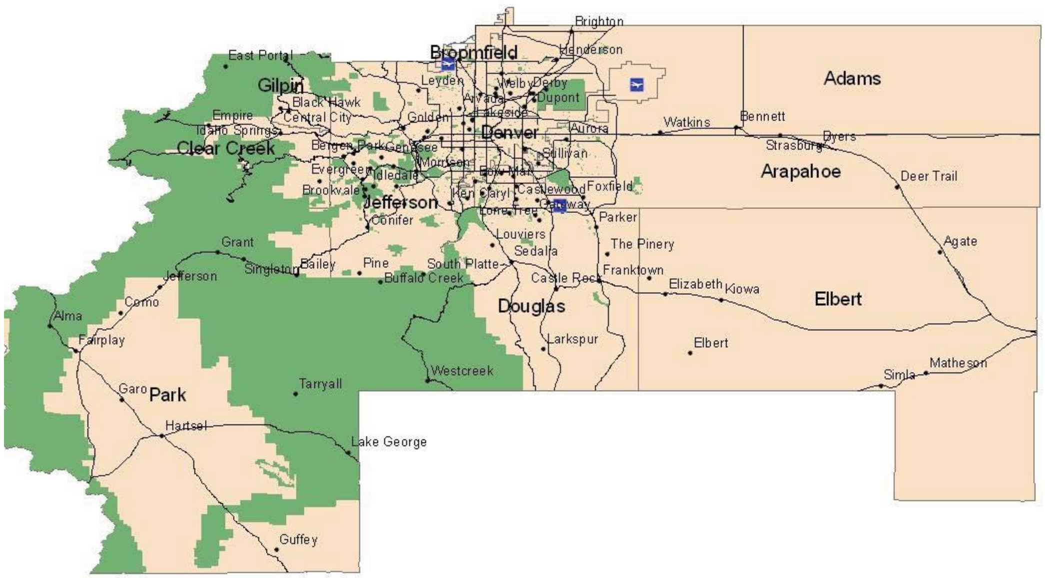
Executive Summary

Home building generates substantial local economic activity, including new income and jobs for residents, and additional revenue for local governments. The National Association of Home Builders has developed a model to estimate the economic benefits. The model captures the effect of the construction activity itself, the ripple impact that occurs when income earned from construction activity is spent and recycles in the local economy, and the ongoing impact that results from new homes becoming occupied by residents who pay taxes and buy locally produced goods and services. In order to fully appreciate the positive impact residential construction has on a community, it is important to include the ripple effects and the ongoing benefits. Since the NAHB model was initially developed in 1996, it has been used to estimate the impacts of construction in over 600 projects, local jurisdictions, metropolitan areas, non-metropolitan counties, and states across the country.

One version of the NAHB model is designed to estimate the economic benefits of construction that uses the Low-Income Housing Tax Credit (hereafter, housing tax credit, or simply tax credit) program. Created as part of the Tax Reform Act of 1986, this housing tax credit is currently the federal government's largest program for helping the private sector build affordable rental housing. Under the housing tax credit program, federal income tax credits are awarded by state Housing Finance Agencies to a development under the condition that the rents and incomes of its tenants are restricted. The credits are shared among the owners of a community, typically investors recruited by syndicators through limited partnership agreements. The investors receive the credits for ten years, provided the property continues to comply with the rent and income restrictions. Federal law requires that the rents and incomes remain restricted for 15 years, but all states have now adopted extended use requirements that keep these units in the affordable housing stock for a minimum of 30 years. According to information reported by the Colorado Housing and Finance Authority and printed in the 2008 FactBook published by the National Council of State Housing Agencies, all of the units financed with housing tax credits in Colorado that year had extended affordable use requirements of at least 30 years, and 95 percent of them had extended use requirements of 40 years.

This report presents estimates of the metro area impacts of new units built using the housing tax credit during the six-year period starting in 2004 and running through 2009, in the five-county area (Adams, Arapahoe, Denver, Douglas, and Jefferson) in the Denver metropolitan area. The comprehensive nature of the NAHB model requires that the local area over which the benefits are spread be large enough to include the places where construction workers live and spend their money, as well as the places where the new home occupants are likely to work, shop, and go for recreation. In practice, this usually means a Metropolitan Statistical Area (MSA), as defined by the U.S. Office of Management and Budget (OMB). Based on local commuting patterns, OMB has identified the Denver MSA as a metro area consisting of the five counties mentioned above, plus five others (Broomfield, Clear Creek, Elbert, Gilpin, and Park) in Colorado (see map on the following page).

Denver, Colorado MSA



The five-county area from which the sample of new tax credit construction is drawn contains almost 96 percent of the population in this MSA, or 2,263,108 of the total 2,357,404 people. The report presents estimates of the impacts of building 615 tax credit apartments, based on the average number of housing units built per year under the housing tax credit program in the five-county area from 2004 through 2009.

The Home Builders Association of Metro Denver (HBA) commissioned this study in partnership with local non-profit the Urban Land Conservancy to better understand the economic impact of affordable housing along transit corridors in the Denver metropolitan region. While significant research has been done on the affordability gap in this region, there has been little focus on the local income and local jobs created by the construction of affordable housing. With this knowledge, we can truly understand the local economic impact of housing tax credit construction.

Just as important as understanding the economic impact of tax credit development is understanding who builds and who lives in tax credit developments. By the calculation of the Urban Land Conservancy (ULC), a local Denver organization, upwards of 57% of housing tax credit development in the Denver MSA is done by for-profit developers, as opposed to non-profit or governmental entities.[1] Through data acquired from property managers of tax credit developments in the Denver MSA, the ULC discovered that nearly half of residents in tax credit developments work in the service industry while the majority of the remainder are spread across the education, medical, and local and state government fields. Thus, these developments ensure a place to live for the essential workers that keep the local economy working.

The NAHB model produces impacts on income and employment in 16 industries and local government, as well as detailed information about taxes and other types of local government revenue. Aggregate results are summarized below. Subsequent sections of the report show detail by industry and type of tax or fee revenue generated.

- The estimated one-year metro area impacts of building 615 tax credit apartments in the 10-county Denver MSA include
    - $57.6 million in local income,
    - $5.0 million in taxes and other revenue for local governments, and
    - 732 local jobs.

  These are local impacts, representing income and jobs for residents of the Denver MSA, and taxes (and other sources of revenue, including permit fees) for all local jurisdictions within the metro area. They are also one-year impacts that include both the direct and indirect impact of the construction activity itself, and the impact of local residents who earn money from the construction activity spending part of it within the local area. Local jobs are measured in full time equivalents—i.e., one reported job represents enough work to keep one worker employed full-time for a year, based on average hours worked per week by full-time employees in the industry.

- The additional, annually recurring impacts of building 615 tax credit apartments in the Denver MSA include
    - $16.7 million in local income,
    - $2.3 million in taxes and other revenue for local governments, and
    - 192 local jobs.

  These are ongoing, annual local impacts that result from the new tax credit apartments being occupied and the residents paying taxes and otherwise participating in the local economy year after year. The ongoing impacts also include the effect of increased property taxes, based on the difference between the value of raw land and the value of the completed housing project on a finished lot, assuming that raw land would be taxed at the same rate as the completed project.

Central to how the Denver MSA Real Estate community thinks about affordable housing is the $6.5 Billion, 119 mile, and 60 station expansion of Denver MSA's light rail system over the next 20 years. In order to better understand affordable housing in the context of transit, 92% of the apartments that made up the underlying data of the study were taken from developments within ½ mile of light rail or ¼ mile of rapid bus transit, otherwise known as "Transit-Oriented Development (TOD)." This focus on TOD affordable housing allows us to better understand the impact of TOD affordable housing on the local economy as well as make informed policy decisions regarding the positive economic impact tax credits have along transit corridors.

These impacts were calculated assuming that new tax credit apartments built in the Denver MSA from 2004 through 2009 have an average market value of $147,518; embody an average raw land value of $18,547; require the builder and developer to pay an average of $73 in permit fees per unit to local governments; and incur an average annual property tax of $280 per unit.

Special thanks to the Urban Land Conservancy for their work with the underlying data of this study, as well as to the Colorado Housing and Finance Authority and the City and County of Denver for providing vital data for this study. Important Information was also provided by the Burgwyn Company, the Colorado Coalition for the Homeless, the Denver Housing Authority, NEWSED CDC, and Shaw Construction.