

## AFFORDABLE HOUSING AND ECONOMIC DEVELOPMENT

---

### I. Housing and the Economy

#### A. Overview

The role of housing construction and maintenance as an economic driver is fairly well understood and recognized. Construction activity is economic activity - goods and materials are produced, sold and purchased and jobs are created - and the largest portion of most people's personal consumption is related to housing.

The National Association of Home Builders (NAHB) estimates that for every 100 single family homes built in a "typical U.S. metropolitan area" \$16 million in local income and \$1.8 million in taxes and other revenue for local governments are generated and 284 local jobs are created<sup>1</sup>. These are "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."<sup>2</sup> These same 100 units will also generate \$3.2 million in local income, \$648,000 in taxes and other revenue for local governments, and 63 local jobs annually.

NAHB also estimates that "the one-year local impacts" of building 100 multifamily units in the "typical U.S. metropolitan area include, \$7 million in local income, \$710,000 in taxes and other revenue for local governments, and 133 local jobs"<sup>3</sup> (one year impacts). These same 100 units will also generate "\$3.2 million in local income, \$461,000 in taxes and other revenue for local governments, and 52 local jobs."<sup>4</sup>

As illustrated above, housing contributes to economic output in two ways: 1) New construction, remodeling and real estate transaction fees; and 2) personal consumption of housing related goods and services (e.g. furniture, appliances, house cleaning, lawn care, etc).

Home building and housing services account for approximately 15.24% of Connecticut's gross domestic product<sup>5</sup> - about \$31 billion annually.

At fifteen percent of the state's economy, it is clear that housing is an important economic driver. However equally important is the role housing plays as a facilitator of economic growth.

Above all else, to operate, businesses need people. Even the most automated factories have workers. And workers need a place to live. This simple, but often

---

<sup>1</sup> [The Local Impact of Home Building in a Typical Metropolitan Area Income, Jobs, and Taxes Generated, National Association of Home Builders, October 2005](#)

<sup>2</sup> IBID

<sup>3</sup> IBID

<sup>4</sup> IBID

<sup>5</sup> [Housing's Contribution to Gross State Product: In-Depth Analysis, National Association of Home Builders September 6, 2005, Natalia Siniavskaia Ph.D.](#)

overlooked relationship was not lost on Samuel Colt. Colt, who understood that affordable, quality housing was an absolute necessity in attracting skilled workers, “built a community surrounding the [Colt] factory that included housing, gardens, and a social hall and library.”<sup>6</sup>

Times have, of course, changed. In Colts’ day, it was in the best interest of businesses to safeguard their large fixed investments (factories) and maintain their skilled workforce by investing in workforce housing. In today’s global economy however, businesses are highly mobile, fixed investments aren’t so fixed anymore, so instead of investing in housing for their workers businesses go to where workforce housing is readily available. Mobility is not just true for businesses. Today’s workforce is equally mobile. Advances in communications technology (the internet, email, cell phones, etc.) and the availability, diversity and relatively low cost of transportation have made it possible for long-distance relationships to be maintained in a highly personal and near “real-time” way.

This new mobility does not change the fact that available and affordable housing is an absolute necessity for economic growth. What changes is “who” needs to make the investment. The reality is that neither businesses nor workers have to make the investment because either can relocate to where the housing is both available and affordable.

## **B. Housing as a Facilitator of Economic Growth**

As stated above, the relationship between the availability and affordability of housing and economic growth is fairly simple. In order for businesses to grow, they need skilled workers.

Basic economic theory tells us that the quantity demanded rises as prices fall and that the quantity supplied rises as prices rise. When the quantity supplied exceeds the quantity demanded, prices tend to fall and conversely, when the quantity demanded exceeds the quantity supplied, prices tend to rise.

Further the willingness of a producer to produce a good diminishes as the price the market is willing to pay for that good approaches the cost of producing and selling that good.

## **C. Affordability and Employment Growth**

Section 8-39a of the Connecticut General Statutes (CGS) defines "Affordable Housing" as housing for which persons and families pay thirty per cent or less of their annual income, where such income is less than or equal to the area median income for the municipality in which such housing is located, as determined by the United States Department of Housing and Urban Development.

In practical terms this means that for renters, rent plus utilities and any common charges paid by the tenant should not exceed 30% of their gross income and for homeowners, mortgage payments (principal and interest), plus property taxes

---

<sup>6</sup> Coltsville Special Resource Study, U.S. Department of the Interior, National Park Service, [www.coltsvillestudy.org](http://www.coltsvillestudy.org), September 20, 2005

due, private mortgage insurance (PMI), homeowners insurance, and utilities should not exceed 30% of their gross income.

The federal government, through the U.S. Department of Housing and Urban Development (HUD), the U.S. Census Bureau and the Rural Housing Service (RHS), also considers annual housing costs (including utility payments) to be "affordable" if they do not exceed 30% of a family's annual income.

Affordability is also relative, not only to what a household can afford but to what it can get for its money: "value". Generally speaking, households will seek to maximize "value" and obtain the most housing they can afford. Therefore according to the aforementioned definitions, housing can be affordable or unaffordable at any level of income.

The term "affordable housing" has most often been associated with "public", "subsidized" housing for those with incomes at or below 80% (low income), 50% (very low income) or 30% (extremely low income) of a given area's median income (AMI)/median family income (MFI) - housing the private sector (aka the "market") is unable or unwilling to produce without some form of subsidy.

More and more, housing the market is unable or unwilling to produce, without some form of subsidy, is including housing that traditionally has been for those with incomes between 80% and 120% (and up to 140-150% in high cost areas) of AMI/MFI.

If housing that is affordable to households with incomes between 80% and 120% is not being produced, then the availability of existing housing in that price range diminishes. In keeping with the economic laws of supply and demand, scarcity increases the prices.

This brings us to the situation facing Connecticut today. Housing prices and rents have increased faster than wages, and the overall supply of housing units has not increased sufficiently to meet the need, especially for those households with income at or below 120% of AMI/MFI.

These trends have great economic consequences for the state's economy and its prospects for future economic growth.

In their paper entitled "Sustaining the Mass Economy: Housing Costs, Population Dynamics, and Employment,"<sup>7</sup> Barry Bluestone, et al, show that there is a clear and significant statistical link between housing costs and net migration and employment growth. Based on this finding they conclude that, "...to support employment growth and reduce out-migration, particularly of young workers, we need to find ways to increase the supply of housing so as to reduce the rate of price and rent appreciation."<sup>8</sup>

Another effect of high housing costs is that workers are forced to seek housing in lower cost areas - causing them to live further and further from their places of employment. This leads to longer commute times. Rising fuel costs and limited

---

<sup>7</sup> [Sustaining the Mass Economy: Housing Costs, Population Dynamics, and Employment](#), Barry Bluestone, et al, Northeastern University, prepared for the Boston Federal Reserve/Rappaport Institute for Greater Boston Conference on *Housing and the Economy in Greater Boston: Trends, Impacts and Potential Responses*, May 22, 2006.

<sup>8</sup> IBID

mass transit options may make commuting difficult or even impossible and/or erode any costs savings that accrue from relocating.

In their paper entitled “The Effects of Housing Prices, Wages and Commuting Time on Joint Residential and Job Location Choices,”<sup>9</sup> authors So, Orazem, and Otto show that “housing choices of where to live and work involve trade-offs between wages, commuting time and living costs”<sup>10</sup> and that the probability of choosing the commuting option is negatively related to the commuting distance [and commuting time], with the probability going to zero when the one-way commute approaches one hour.”<sup>11</sup> Factors such as the childcare needs and the level of education of an individual serve to shorten the one-hour tolerance. Childcare needs can make commuting more costly and onerous because “coordinating childcare and job responsibilities is complicated when they are located 30 minutes apart,<sup>12</sup>” and the level of one’s education is both correlated to the value one puts on the time spent commuting<sup>13</sup> and is “positively related to the ease of obtaining information on job openings across labor markets.<sup>14</sup>” This strongly suggests that the young skilled workers that Connecticut is desperate to attract and retain are highly discouraged by long commutes.

Another aspect of workers relocating from higher cost to lower cost areas is that, as noted by the Washington State, Housing Partnership<sup>15</sup>, the spillover of housing demand from high income, job-rich areas to more affordable areas,<sup>16</sup> causes a ripple effect, “because those affordable areas are tied to their own job base, [and] the rising prices caused by spillover demand push workers in a previously affordable area out, and they, in turn spill over to the next most affordable area.”<sup>17</sup>

Housing costs in Connecticut are high and have increased sharply over the past several years in great part because the supply of existing housing is constrained. As noted, scarcity increases prices. High housing costs encourage out-migration and discourage in-migration. High housing costs lengthen commutation distances and commutation time, which in turn puts upward pressure on wages and further encourages out-migration. As Bluestone states “...if we are to support employment growth and reduce out-migration, particularly of young workers, we need to find ways to increase the supply of housing so as to reduce the rate of price and rent appreciation.”<sup>18</sup> Increasing the supply of housing clearly appears to be a major part of the solving both Connecticut’s housing cost and employment growth problems.

If the answer is just building more housing units, why aren’t they being built? If the demand for more housing truly exists wouldn’t the market be reacting to fill the need? As stated earlier, the willingness of a producer to produce a good

---

<sup>9</sup> [The Effects of Housing Prices, Wages and Commuting Time on Joint Residential and Job Location Choices](#), So, Orazem and Otto, American Journal of Agricultural Economics 83(4), November 2001

<sup>10</sup> IBID

<sup>11</sup> IBID

<sup>12</sup> IBID

<sup>13</sup> IBID

<sup>14</sup> IBID

<sup>15</sup> [Jobs and Housing: “Can’t Have One Without the . . . Other”](#), The Housing Partnership in association with the Washington Association of Realtors, December, 2005

<sup>16</sup> IBID

<sup>17</sup> IBID

<sup>18</sup> [Sustaining the Mass Economy: Housing Costs, Population Dynamics, and Employment](#), Barry Bluestone, et al, Northeastern University, prepared for the Boston Federal Reserve/Rappaport Institute for Greater Boston Conference on *Housing and the Economy in Greater Boston: Trends, Impacts and Potential Responses*, May 22, 2006

diminishes as the price the market is willing to pay for that good approaches the cost of producing and selling that good. The cost of producing a unit of housing in Connecticut is high. The largest fixed cost for a housing producer is the cost of land, which in Connecticut is very expensive. The same size building lot can accommodate numerous types and sizes of housing. Producers will naturally put their resources toward those endeavors which provide the greatest return. Therefore, after making a sizable investment in a plot of land, a market driven producer of housing will seek to maximize their return by producing the size and type of housing that a) will have the highest profit margin and b) can be produced the fastest (because time is money). The Washington State Housing Partnership notes that homebuilders “still operate from the rule of thumb that the final price of a house should be between three and four times the price of the finished building lot.”<sup>19</sup>

#### **D. Affordable Housing and Wages**

One issue often raised when discussing the affordability of housing in Connecticut is the concept of a “living wage.” The fact that Connecticut is, relative to many other states, an expensive state in which to live is indisputable. Connecticut is at the end of the energy pipeline and has little indigenous power generation – making energy in Connecticut more expensive than in other states. Demand for housing far exceeds supply – driving up the cost of housing across the board. To address the issue of housing affordability, some have called for the institution of a standard wage equivalent to the level of compensation needed to ensure residents pay no more than 30% of their earnings on housing. Though the goal of this effort is laudable as a solution to the affordability issue, it is not so “cut and dry” because it does not get to the root of the problem, but merely attempts to address one of the consequences of the actual problem.

Since 1999, the state has published a self-sufficiency standard known as a “living wage.” A self-sufficiency standard varies by household composition and geographic location. Therefore, the amount of money a family needs to be economically self-sufficient depends on family size and composition, the age of family dependents and where the family lives. For example, according to the most recent OPM/OWC report, “The Self-Sufficiency Standard For Connecticut” (written pursuant to C.G.S. Section 4-66e), a single adult in Hartford with no children needs to earn \$7.00 per hour to meet basic needs whereas an adult with a pre-school child will need to earn \$15 per hour. With two children, that single adult would need to earn \$21 per hour. In a two adult household with two children, each adult would need to earn \$11.25 per hour. In Stamford, the hourly wages for the aforementioned households range from \$10.91 per hour to \$29 per hour for a single wage earner and \$15.18 per hour for dual wage earners with two pre-school children. The calculation of a living wage doesn’t end with determining what a family’s expenses are. Connecticut and the federal government provide significant subsidies to low and moderate-income families that lower the wage required to meet the family’s economic needs. The bottom line is that promulgating a single wage standard can be misleading and the application of a policy such as this could exacerbate the problems it seeks to remedy.

---

<sup>19</sup> [Jobs and Housing: “Can’t Have One Without the . . . Other”](#), The Housing Partnership in association with the Washington Association of Realtors, December, 2005

## **E. Meeting the Challenge of Affordable Housing and Economic Growth in Connecticut**

There is no question a critical lack of quality affordable housing exists in Connecticut. Equally, it cannot be disputed this lack of quality affordable housing has a negative effect on the state's economy and is constraining job creation. It is our contention, however, that the affordability problem is more one of critical disequilibria between supply and demand than the individual's economic ability to afford housing. The former directly influences/dictates the latter and as such the approach to remedying the affordability problem should be rooted in expanding the supply of quality affordable housing in Connecticut and not in overt manipulation of wage rates and/or the labor market. This "philosophy" is reflected in the state's 2005-09 Consolidated Plan for Housing and Community Development and 2005-09 State Long-Range Housing Plan. As stated above, nurturing economic growth requires a comprehensive and holistic approach. The affordability of housing is but one of several interconnected factors that form the foundation from which economic growth can occur. Other factors include transportation and education systems, healthcare access, energy, and the preservation and support of the state's culture and arts assets.