

In this issue we will revisit the affordable housing shortfall in Minnesota highlighting the work of Twin Cities Habitat for Humanity. “Habitat” helps families achieve and maintain home ownership in the core cities and inner-ring suburbs of the Twin Cities. The purchaser of a “Habitat” home benefits from the “sweat equity” donated by volunteers as well as from favorable first and second mortgage arrangements provided by the organization. Therefore, the impact and leverage achieved by the investor in “Habitat” are very high.

The original investment by the public sector in a “Habitat” home is more than recovered by the end of the second year. Thereafter, the return is nearly 40 % annually to the State of Minnesota and its taxpayers. The philanthropic investor in a “Habitat Home” will achieve breakeven in the seventh year after construction and thereafter earn a return to the community that exceeds 12% for the life of the home.

WHAT’S THE PROBLEM?

- By 2010 Minnesota will face an estimated shortage of 32,800 affordable housing units. In the Twin Cities Metropolitan Area an estimated 22,000 households will lack affordable housing.
- Over 171,000 low income Twin Cities Metropolitan Area households are currently paying more than they can afford (30% of their income) for housing.
- When families have to pay more than 30% of their income for housing the family is stressed financially and moves frequently seeking affordable rent which in turn impacts school performance, job performance, child care costs and transportation logistics. Substandard housing impacts family health, results in overcrowding and often increases the chances of criminal justice system involvement.
- The median home price in Minnesota grew by nearly 32% from 2000 to September of 2005 (adjusted for inflation). At the same time there was a slight decline in the median family income. The average cost of rent in Minnesota increased 6% while renter’s income declined by 15% over the same period.
- There was a 37% increase in the number of Minnesota children in shelters from 1995 to 2005. The number of Minnesotans who were either homeless, doubled up with friends or relatives, or in other temporary unstable housing increased by 250% between 1991 and 2003.

HOW DOES “TWIN CITIES HABITAT FOR HUMANITY” HELP?

- Homes are built and sold to families earning between 30% and 50% of the area median income at well below market prices. The average Habitat family income is \$27,500. Purchasing families pay no more than 30% of their income annually.
- A typical Habitat family has 4 members headed by a single parent or with both parents working. They move frequently between market based rental and publicly subsidized housing and occupy overcrowded living spaces.
- Habitat homes include single-family homes, twin homes and multi-family homes. The average cost to build a Twin Cities Habitat home is approximately \$180,000. The typical Habitat home is 1,400 square feet with three bedrooms.
- Between 50-60 families move into Habitat homes each year. By March 2007, 650 families have purchased Habitat homes in the Twin Cities. By 2010 the number should rise to 820 units!
- Twin Cities Habitat for Humanity trains and engages over 20,000 volunteers each year. On any given day during peak construction periods over 270 volunteers are working on a single home.
- Habitat home buyers are working families including bank tellers, clergy members, retail clerks, security guards, tailors, food service workers, truck drivers, nurse’s aids, taxi drivers, teacher’s aids, factory workers, groundskeepers, custodians, housekeepers, medical technicians and parking attendants.
- Habitat homebuyers must complete 300-500 hours of sweat equity and attend 11 homebuyer classes including: money management, home safety, home maintenance and the requirements for being a good neighbor.
- Mortgage assistance to Habitat homeowners is generous with a no interest first mortgage provided on the construction cost of \$180,000. A no interest no principal payment second mortgage is also provided on the difference between construction cost and market value of \$220,000. This is forgiven after 30 years.
- In response to the growing number of mortgage payment delinquencies in the Twin Cities Habitat counsels homeowners with respect to delinquent payments on mortgages. In depth counseling is provided to 110 clients annually with phone counseling to an additional 500 clients.

Upon completing her “sweat equity” hours, Teri said, “I always felt like I had accomplished something; building a home and new relationships.” And she adds, “A Habitat house provides a stable environment for my son, and I helped build it!”

WHO BENEFITS?

- **Purchasing families benefit from taking a significant step on the road to safety and self-sufficiency. The enhanced self image and stability of being a “home owner” positively impacts the performance of each family member.**
- **Ultimately the Minnesota taxpayers and philanthropic investors benefit from programs that offer the high probability that social service support costs will decline and personal incomes and tax receipts will rise.**

WHAT’S THE RETURN ON INVESTMENT?

Conservative projections show a shortfall of 33,000 units of affordable housing for the state and 22,000 for the metropolitan area by the year 2,010. The demographic profile for our future workforce needs show the state facing a significant shortage of skilled and semi-skilled workers over the next two decades. Therefore, to attract and hold a qualified workforce requires that attractive and safe affordable housing be available. This will require the construction of both rental and owner occupied affordable housing. Both will be in high demand as renters become home owners replaced by new immigrants to the state who become renters.

Therefore the addition of each new unit of affordable housing will almost always bring with it a new or upgraded worker who was a previous renter. This in turn frees up a rental unit for a new worker. The point is that the demand for both workers and housing is such that each new unit of housing benefits from the economic contribution of the new family. This benefit takes the form of more tax revenue to the state and lower social service costs as families gain stability, avoid expensive emergency room care and other social service costs.

It costs about \$180,000 on average to build a “Habitat” home. The state invests \$22,140 or 12.2% of the total. Home sales generate \$82,440 of the cost or 45.8% of the total. Philanthropy accounts for \$72,000 of the cost or 40.0% with other costs totaling \$3,400 or 1.9%.

- **The state recovers its initial investment of \$22,140 in the first year after construction (\$22,140 less taxes received related to construction of \$14,294 and the annual tax and “stability benefit” of the owner of \$8,700). Thereafter the state receives a 39.3% ROI annually ($\$8,700 / \$22,140$) after having recovered all of its initial investment.**
- **The philanthropic investor will achieve breakeven for the community in the seventh year after construction (\$72,000 less taxes related to construction of \$14,294 and the annual tax and stability benefit of \$8,700 annually for seven years or less an additional \$60,900). Thereafter philanthropic investors provide an economic return of 12.1% annually to the community ($\$8,700 / \$72,000$) on their investment.**

CALCULATING THE RETURN ON INVESTMENT

Facts & Assumptions:

The cost to build a “Habitat” home is \$180,000

The average market value is \$220,000

The buyer’s annual income is on average \$27,500

Annual real estate taxes are estimated at 1% of market value

The buyer’s annual federal and state taxes are estimated at \$1,000

The buyer is expected to pay \$500 in sales taxes annually

The employer will likely pay annual payroll taxes of \$2,000

Stable housing will save government an estimated \$3,000 annually in social service, emergency medical and criminal justice system expense.

Return to the State of Minnesota after Completion of Construction.

Sales Tax (6.5% on 40% of the construction cost)	\$4,680
Income Tax Paid by contractors and workers (7.05% of 60% of the construction cost)	7,614
Mortgage Registry Tax (.0023% of the debt)	500
Deed Tax paid when deed recorded (.0033% of the value)	<u>500</u>
Total First Year Return to the State	\$14,294

Economic Contribution by the New Owner*

Annual Real Estate at 1% of \$220,000 market value	\$2,200
Federal & State Income Taxes paid by owner annually	1,000
Payroll Taxes paid annually by buyer’s employer	2,000
Sales Taxes paid annually by owner	500
Stability Benefit of home ownership at 30% of income with no interest versus rental at nearly 50% of annual income	<u>3,000</u>
Total Annual Contribution by Owner	\$ 8,700

*Tax data as presented by the State Legislative Auditors report of 2000.

Stability benefit derived from studies dealing with homelessness and the high cost of medical and social service support for highly mobile low income families.

The purpose of “An Investment letter for Minnesota Philanthropists” is to demonstrate how return on investment calculations can be applied to the public and private investments we make in our non-profit organizations. An accounting system does not exist in the non-profit world comparable to that in the for-profit world and therefore assumptions must be made in the absence of definitive longitudinal studies. The assumptions made above are thought to be conservative.

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