

THE ECONOMIC IMPACT OF HABITAT FOR HUMANITY IN TENNESSEE

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August 2011



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This research was made possible by the generous cooperation of several individuals with Habitat for Humanity in Tennessee. We especially thank Colleen Dudley, Executive Director, for coordinating the survey of Habitat affiliates in Tennessee, the many affiliate staff who graciously provided the necessary survey data, and Gary Drinnen of the Loudon County Habitat for Humanity for valuable assistance throughout the project.

“Habitat's business is really appreciated during this down economy and because it helps the community.”

Michael Cooper, Lowe's

Introduction

The first Habitat for Humanity in Tennessee was established in 1977 with the creation of the nation's second Habitat affiliate, Appalachia Habitat for Humanity, in upper east Tennessee. Over the past 34 years, Habitat for Humanity has grown to 51 affiliates and currently serves 63 counties across the state. The volunteer tradition of Tennessee has served Habitat well. Affiliates around the state build more than 200 homes annually (twice that in the average state) and in 2010 the 3,000th complete home was celebrated. The official mission of Habitat for Humanity is to build and sell safe, decent affordable housing with families in need, but as this report will demonstrate, Habitat has an even larger economic and social impact on the communities within which it operates.

Any community with a Habitat for Humanity chapter can see the very real impact this organization has on affordable housing stock and the lives of program participants. However, in addition to the physical and emotional effects Habitat has on a community, there is also a substantial economic impact that reaches across individual neighborhoods and entire regions. Habitat represents not only a worthy charitable endeavor; it is also a multi-million dollar enterprise with real impacts on our state economy. While it is easy to recognize the immediate impact of a new house being built, the more extensive menu of economic benefits is not as easily grasped. Each hand, nail, and two-by-four that is put to work by Habitat creates ripple effects throughout the local and the statewide economies.

“New construction is way down and it is hard to make a living in the world right now. Rainbow has always appreciated Habitat's business. Because we work with Habitat at a reduced price, Habitat's referrals to us are what help the most.”

*Cindy Stephens,
Rainbow Gutters*

This report, produced by the University of Tennessee Center for Business and Economic Research in partnership with Habitat for Humanity in Tennessee, presents a detailed analysis of the broad economic impact of Habitat on the state of Tennessee annually. Specifically, we estimate two primary versions of the economic impact:

1. the number of full-time equivalent jobs supported, and
2. earnings generated for state residents.

The report is organized in five parts. First, we briefly explain the methodology used in evaluating the quantitative impacts regarding income and employment. We then describe our estimates of Habitat's quantitative economic impact in terms of jobs and earnings. Finally, we discuss the more qualitative elements of Habitat's overall economic impact before concluding.

"If we had not gotten the contract with Loudon County Habitat for Humanity in December 2010, I would have been out of business. This work kept me and my 3 employees from being unemployed."

*Tim Lee,
Lee Utility Construction*

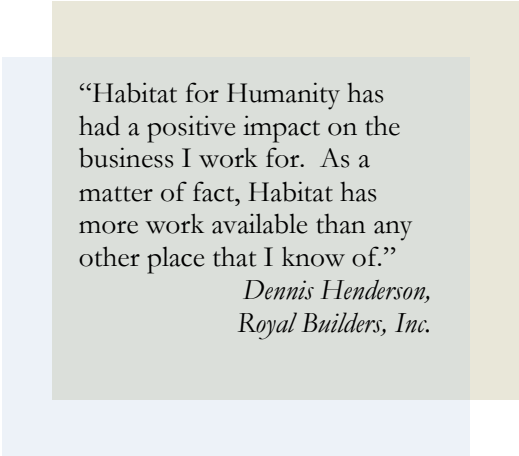
Methodology

To facilitate our quantitative impact analysis, CBER staff worked with Habitat for Humanity in Tennessee to gather important data from the various affiliates for the past fiscal year. The key data points included total payroll, total number of employees, total construction expenses, and any other non-payroll expenses incurred by Tennessee Habitat affiliates. With this information, the economic impact stemming from Habitat's employment and expenditures was estimated using the Regional Input-Output Modeling System (RIMS II) for the state of Tennessee. RIMS II, originally developed by the U.S. Department of

Commerce, is a widely accepted method for measuring regional economic impacts and serves as the primary analysis tool in this report. Given that Habitat is a multi-faceted organization operating as a homebuilder, social services agency and retail store operator, the data are broken down by sector to provide a more comprehensive analysis.

The RIMS II multipliers quantify the ripple effect of Habitat spending throughout the economy. The ripple effect takes shape when the incomes of Habitat employees are spent and re-spent within the local economy. For example, Habitat employees spend part of their earnings locally on goods and services like housing, clothing and food. In turn, the business owners collecting these payments use part of their earnings to pay employees, and the cycle continues. As the process repeats itself, portions of the income leak out of the local economy through taxes, out-of-state spending, and savings. This leakage has a diminishing effect on additional local income through each successive round of spending. A similar pattern emerges for employment, as every Habitat job generates indirect employment effects through suppliers, contractors, sub-contractors, and other partners, and then through additional indirect channels as with the spending discussion above.¹

Given Habitat for Humanity’s diverse portfolio of operations, data on employment and spending were broken down into three separate categories: construction, retail, and all other. Each component of the Habitat business model impacts the local economy differently and this is reflected in the analysis. Using the RIMS II multipliers for each of these categories (rather than a more aggregate multiplier) provides more accurate and discernable data.²



“Habitat for Humanity has had a positive impact on the business I work for. As a matter of fact, Habitat has more work available than any other place that I know of.”
*Dennis Henderson,
Royal Builders, Inc.*

¹ Additional details regarding our estimation methodology are available upon request.
² For “all other,” we use multipliers for the social services sector.

Employment Impacts

Table 1 shows the total effect of Habitat for Humanity in Tennessee’s payroll and employment.³ A total of 386 jobs are directly supported by Habitat statewide; in turn 455 indirect jobs are sustained by the economic activity produced by Habitat’s employees. The total jobs impact from Habitat payroll spending is thus 841 jobs. The non-payroll component included in Table 1 outlines the impact from Habitat’s non-payroll spending on everything from office supplies to construction materials. In 2010, \$22.2 million was spent by Habitat on goods and services, which creates an impact that is equivalent to 670 full-time jobs across the state. When (1) the direct Habitat job count is added to the indirect jobs impacts supported by (2) the economic activity of Habitat employees and (3) the organization’s own non-payroll expenditures, the total jobs impact that is directly or indirectly related to Habitat is equivalent to 1,511 full-time jobs. Considering that in fiscal 2010-2011 Habitat for Humanity’s Tennessee affiliates built 217 homes and completed another 51 rehabilitations (each of which is evaluated here as one-half of one home, resulting in a total of 242 completed “homes”), this amounts to about 6.24 full-time full-year jobs per completed home.

Table 1: Total Jobs Impact, 2010


Total HFH Payroll Spending = \$19.2 million	Direct Jobs Impact from HFH Payroll Spending	386
	Indirect Jobs Impact from HFH Payroll Spending	455
	Total Jobs Impact from HFH Payroll Spending	841
Total HFH Non-Payroll Spending = \$22.2 million	Total Jobs Impact from HFH Non-Payroll Spending	670
	TOTAL JOBS IMPACT	1,511

³ For the purposes of estimating jobs impacts, part-time jobs are assumed to equal one-half of one full-time job.

These estimates associated with Habitat’s operations imply a jobs multiplier of approximately 3.9. This means that for every direct Habitat job, there are 2.9 other jobs created in the statewide economy. This multiplier is unusually high when compared to other economic impact estimates, but it can be attributed to Habitat’s unique ability to leverage volunteer construction, administrative, and retail staff throughout its operations. Survey data from Habitat for Humanity’s affiliates in Tennessee reveal that over 32,000 volunteers supplied nearly 430,000 hours of volunteer labor in 2010. In 2010, in addition to salaried administrative staff, there were more than 250 individuals who voluntarily served in executive, finance, public relations, and other critical roles across the state. When this uncompensated workforce is considered, the figures are not far from more typical outcomes. The end result is a very high level of economic activity given the organization’s aggregate labor expenses.

Earnings Impacts

The economic impact of Habitat for Humanity in Tennessee can also be expressed in terms of the total amount of earnings dollars generated. This can be estimated by summing total payroll spending, the total earnings impact from the indirect jobs impact in Table 1, and the estimated earnings impact from non-payroll spending. As shown below in Table 2, payroll spending by Habitat for Humanity affiliates in Tennessee amounted to \$19.2 million in 2010. An equal earnings impact arose from the indirect jobs impact. The earnings impact from non-payroll spending is estimated to be \$17.3 million. These three components add up to a total earnings impact of Habitat for Humanity in Tennessee of approximately \$55.7 million in 2010, or more than \$230,000 per completed home.



“We donate quite a few items and your affiliate makes purchases as well. It's been beneficial to both of us.”

*David Fox,
Absolute Rental & Supply*

Table 2: Total Earnings Impact, 2010

Category	HFH Payroll Spending	Earnings Impact from Indirect Jobs	Earnings Impact from Non-Payroll Spending	Total Earnings Impact
Construction	\$7.3 million	\$8.5 million		
Non-Construction	\$9.8 million	\$8.7 million		
Retail (ReStore)	\$2.1 million	\$2.1 million		
TOTAL	\$19.2 million	\$19.2 million	\$17.3 million	\$55.7 million

Note: Column totals may not equal the sum of above elements due to rounding.

An alternative way to gauge economic impact is to estimate total spending impacts, specifically by applying RIMS II spending multipliers in various categories of expenditures. We performed this exercise for non-payroll spending for Habitat for Humanity, which totaled \$22.2 million in 2010. These expenditures generated an estimated total spending impact of \$39.5 million in Tennessee. We caution the reader against simply adding this spending impact to the earnings impact in Table 2, however, because these are two different ways to quantify an organization’s overall economic impact. For this reason, we have not quantified the spending impact of HFH payroll expenditures, preferring to cast those impacts solely in terms of jobs and earnings as in Tables 1 and 2.

“We have picked up additional business while working with Habitat affiliates and our corporate office works with Habitat International. It's turned out to be a great partnership.”

*Ben Buchanan,
Lansing Building Products*

Additional Economic Impacts

The impact of Habitat for Humanity in Tennessee far exceeds what can be quantified through traditional economic impact models. For example, the value of the housing that is provided to new homeowners often far exceeds the actual cost of construction. To illustrate, consider that in fiscal 2010-2011, Habitat affiliates across the state spent an average of \$78,000 to complete each of the 242 new “homes” (217

new homes and 51 rehabilitations, which are counted as one-half of one home). This is calculated by dividing total construction expenses by 242. It is, of course, reasonable to expect that the value to the homeowner far exceeds this actual cost of construction, due to donated or discounted materials, volunteer or reduced-cost labor, free or reduced-cost land, and the mandatory 300 to 500 hours of “sweat equity” that must be contributed by homeowners. This adds up to instant equity in the home, which represents a clear economic benefit that does not enter the above impact calculations.

“It's helped me out being able to have some work. It's been a good partnership. When things pick up I will still be interested in continuing to do the work. I'm a very loyal person and I don't forget those that were there for me during the lean times.”

*Riley Thompson,
Riley Thompson Plumbing*

Habitat homeowners also benefit from a zero-percent 20-to-30 year mortgage against the cost of their home. Due at least in part to the no-cost financing and support along the way, Habitat rarely experiences a foreclosure. Across Tennessee, the Habitat foreclosure rate since 1977 has amounted to 2.9% of the 3,000-plus homes built. Nationally, data from the Mortgage Bankers Association of America National Delinquency Survey indicate that in 2009 4.6% of all loans (and 15.6% of sub-prime loans) were in the foreclosure process. This lower probability of foreclosure provides tangible benefits to society at large.

In addition to the physical structures built and jobs created, Habitat also has a positive yet immeasurable impact on the neighborhoods and families it assists. The owners selected to benefit from the program have been thoroughly vetted and trained on how to be both a responsible individual and neighbor. Further, since virtually all new Habitat homeowners were renters before moving into their Habitat homes, Habitat activity increases homeownership rates. A vast literature has explored the many benefits of homeownership, both to owners themselves and to their communities, and some of this research has found that the benefits are higher for lower-income households.⁴ Because they own their homes and will directly enjoy the rewards of property value appreciation (along with bearing the costs if values decline), owners take

⁴ Coulson, N. E., “Housing Policy and the Social Benefits of Homeownership,” Federal Reserve Bank of Philadelphia *Business Review*, 2002 Q2, 7-16. Haurin, D. R., “The Private and Social Benefits of Homeownership,” Habitat for Humanity University Lecture Series, 2003.

better care of their homes than renters.⁵ This often translates into improved property values for nearby properties in the community.

Because ownership is a typically more permanent than renting, owners also tend to have more of a stake in their communities.⁶ They are more likely to vote in local elections and make a stronger commitment

“Habitat's work made the difference in us not having to lay-off any more [workers] than we did. They are one of the main reasons we survived as strong as we did.”

Aaron Smith,
Smith Trucking & Excavating

to their local public schools. Specifically, owners’ children are less likely to drop out of school, and perform better academically.⁷ All of these types of direct economic benefits to homeowners, along with the positive social spillover benefits that accrue to neighbors of Habitat homeowners, are not considered in our economic impact estimates above.

Another tangible yet immeasurable benefit of Habitat for Humanity is that new Habitat homeowners are perhaps some of the most prepared new owners in the American housing market. In addition to the required sweat equity, each homeowner completes classes on the following topics (adapted from Habitat for Humanity’s “Habitat Homebuyer Curriculum”):

Assessing Readiness to Buy - Participants evaluate the possibility of home ownership after weighing desire, cost, and responsibilities of homeownership.

- Pros and cons of homeownership
- A brief overview of the home purchase process
- The 4 C’s of credit and possible barriers to home ownership
- Housing affordability
- Information on obtaining a credit report

Budgeting and Credit - Homebuyers learn steps to manage their finances and understand credit.

- The importance of establishing a budget and maintaining good credit

⁵ Rohe, W. M., and L. S. Stewart, “Homeownership and Neighborhood Stability,” *Housing Policy Debate* 7(1): 27-78, 1996. Galster, G. “Empirical Evidence on Cross-Tenure Differences in House Maintenance and Conditions,” *Land Economics* 59: 107-113, 1983.

⁶ DiPasquale, D., and E. Glaeser, “Incentives and Social Capital: Are Homeowners Better Citizens?” *Journal of Urban Economics* 45(2): 354-384, 1999.

⁷ Green, R., and Michelle White, “Measuring the Benefits of Homeowning: Effects on Children,” *Journal of Urban Economics* 41(3): 441-461, 1997. Haurin, D., T. Parcel, and R. Haurin, “The Impact of Home Ownership on Child Outcomes,” Working Paper No. LIHO-01.14, Joint Center for Housing Studies of Harvard University, 2001.

- Their current financial status
- How to develop a spending plan that works for them
- How to increase savings and reduce expenses
- How to address financial obstacles to homeownership.
- How to develop a financial corrective action plan
- Importance of goal setting
- Importance of good credit
- Steps for resolving credit issues

Mortgage Financing - Participants learn the key components of the mortgage loan process:

- Steps in the mortgage loan process
- Loan application and approval process
- Common lending documents
- Closing process
- The importance of timely payments
- Understanding home equity

Maintaining a Home and Finances - Homebuyers learn valuable steps to handle the ongoing responsibilities of homeownership successfully and understand the importance of community involvement.

- Mortgage obligations
- Neighborhood involvement
- How to maintain and protect a home after moving in
- Home safety and security
- Energy efficiency
- Preventive maintenance
- Home repairs and improvements
- Taxes and insurance
- What to do if you cannot make a payment
- Predatory lending and other financial pitfalls

“The recession was devastating. Habitat's business made a great deal of difference. We have enjoyed and appreciated our long time relationship with Habitat.”

*John Spehar,
Insulation Unlimited*

A large part of a homeowner’s “sweat equity” comes through classes that teach financial discipline. The average habitat homeowner completes more than 100 hours of training in budgeting and financial management. These classes help to promote sustainable fiscal decisions among Habitat homeowners, just as the presence of a mortgage on the home functions as something of a required savings plan.⁸ The long-term goal is to develop a culture of financial security that will be passed down to younger generations.

⁸ Shlay, A. B., “Low-income Homeownership: American Dream or Delusion?” *Urban Studies Journal* 43(3): 511-531, 2006.

Additional impacts arise from the networks created by the local Habitat affiliates. They coordinate resources from banks, philanthropic organizations, government and individuals to provide the administrative and logistical support needed to ensure a successful build. Local intermediary organizations (like Habitat affiliates) can generate increased private and public funding for housing and community development, while mitigating risk and lowering transaction costs for everyone involved.

It should also be noted that Habitat homeowners pay local property taxes on their Habitat homes. To the extent that a Habitat home brings a non-performing property back onto property tax rolls, this may represent new (or at least increased) revenues to local governments in Tennessee for the purposes of providing schools, police and fire protection, infrastructure, and many other local services. Additionally, sales taxes are collected on many Habitat ReStore sales, thereby generating even more funds for state and local government services.

Yet another impact that is difficult to quantify involves the direct influence of Habitat activity on the network of local suppliers, contractors, sub-contractors, and partners who depend on Habitat builds as part of their ongoing business. A number of suppliers have provided useful quotes, listed throughout this report, to reflect the importance of Habitat purchases especially during periods of economic recession. Habitat construction activity thus provides an important stabilizing impact for the broader economy, literally keeping people at work during hard economic times.

"As owner of Late Night Electric Service, Inc., I can say that the Nashville Area Habitat for Humanity projects have provided stable business for my small company and allowed the continuous employment of my entire workforce even through strenuous economic times."

*James Pollock, Owner
Late Night Electric*

Conclusion

Habitat for Humanity provides significant direct and indirect economic impacts for the state of Tennessee. We estimate that Habitat generates a total economic impact that is equivalent to over 1,500 full-time full-year jobs, or approximately 2.9 jobs for every Habitat job. Habitat's total earnings impact in Tennessee is estimated to be approximately \$55.7 million. Thus, each completed Habitat home creates an impact that is equivalent to 6.24 full-time jobs or \$230,000 in earnings for the state of Tennessee.

These numbers are significant and important for the state economy, but they pale in comparison to the vast array of less quantifiable economic impacts from Habitat operations. The tangible benefits from home equity, no-cost financing, and financial literacy provided to homeowners create positive spillovers across the state. The increase in homeownership also creates economic benefits for homeowners and their neighbors. Just as importantly during these difficult economic times, Habitat projects provide a much-needed and stable source of employment and revenue for our state's construction industry.

“Consistent customers like Habitat are what keep our truck rolling. Habitat was a major source of business as they continued to build when others were not.”

Mike Konrad, East Chattanooga Lumber