The Effects of Housing on the Local Economy

HOUSING VIRGINIA

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Introduction

That housing is a critical part of our national and state economy has been brought home emphatically over the past four years. The deep recession that began in 2007 was, in significant part, brought about by the collapse of the housing market and the impact on the economy that followed. The long, slow recovery, that is still tenuous as this paper is published in late 2011, is being held back by continued weakness in the housing sector, the huge loss of homeowner equity, and continuing foreclosures that contribute to the over supply in housing stock.

Construction, including residential development, is an important element of GDP for Virginia, contributing over $15 billion to the state GDP in 2010. However, due to the drop in housing construction over the past four years, this sector has been a shrinking contributor to Virginia's economic health. Since residential construction jobs in Virginia peaked at over 35,000 in the third quarter of 2006, the decline has been precipitous, down to under 19,000 by the first quarter of 2011 – a drop of over 45%.

In this paper, we explore this direct connection between housing and economic vitality at the state, local and neighborhood level. We hope that these papers will be the basis for conversations that can lead to a greater understanding of the importance of housing to economic growth and to policies that will expand housing development and opportunity.

Housing Virginia
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1 Measuring the Economic Impact: The Housing Multiplier

Greg Chmura, Chmura Economics and Analytics

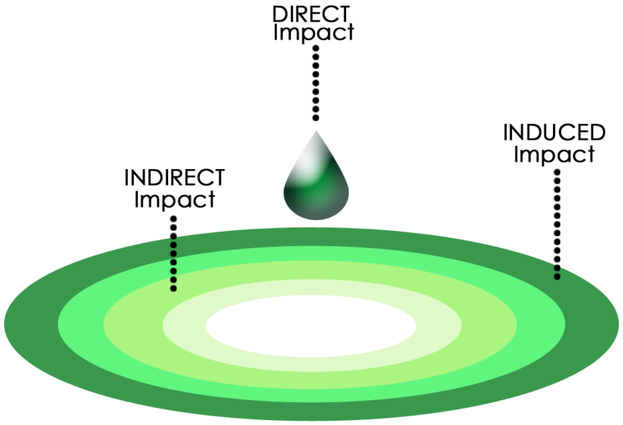
Housing activity and the residential construction associated with it are key elements of the national, state, and local economies. This fact was impressed upon policymakers as the bursting of the housing bubble was a major factor in sending the nation and the world into a deep recession in 2007. Exactly how housing affects the economy is often less well understood. In this paper, we outline the basic concept of the housing "multiplier" and how it works to ripple benefits through the economy.

The major housing impacts that economists typically quantify are jobs, spending, and tax revenue. For housing, these impacts occur in two phases: when the housing is constructed and during occupancy.

The Multiplier Effects from Housing during Construction

The first impacts are the jobs and spending that occur when the housing is constructed. Jobs created during this phase include the construction workers who are building the structure as well as workers in their firms who support them, such as office managers, cost estimators, and accountants. This first layer of impact, the direct impact, includes the jobs described above as well as the total construction spending on the project itself.

In addition to the direct economic impact of housing construction, there are also ripple effects. The ripple effects comprise two types of impacts: indirect and induced. The indirect impacts are the jobs and spending created from businesses that are suppliers to the construction operations. In home construction, these businesses include those providing goods such as building material suppliers and cabinet manufacturers as well as businesses providing services such as architectural firms and trucking companies. The induced impacts result when the workers involved in the construction project spend their income in the region. For example, these workers may spend their wages at regional restaurants, retail stores, health care establishments, and so forth. This spending creates new jobs at the consumer-related businesses.



Housing Multiplier Effect

It is not guaranteed that all of the direct impacts and ripple effects will occur within the area where the housing is constructed. This depends upon the types and number of businesses located in the area. Some of the building materials, for example, may not be available locally and may be purchased from further away. As a result, some of the impact may occur outside the region or even the state. Likewise, some of the jobs created may also occur outside the region. Nevertheless, much or most of the housing construction impact occurs locally.

One example of the potential ripple effect is the Virginia Housing Coalition's (VHC) proposed Virginia Housing Trust Fund which would increase access to affordable housing options in the Commonwealth through the provision of grants and low cost loans. The model to analyze the impact of this project assumed that the fund along with leveraged investments would invest $572.9 million from 2012 to 2022 in housing construction in the state. This spending is the direct impact and translates to an annual average spending of $52.1 million which would also create an average of 262 jobs per year in Virginia. After adding in the ripple effects, it is estimated that the total statewide impact of the project would be $92.9 million per year in spending and 536 jobs annually. The entire study may be found at http://www.virginiahousingtrustfund.org/resources.html

Multipliers, the numbers you can multiply by the direct impact to get the total impact, are used to compare the size of the ripple effects to the direct impact. In the VHC example, the spending multiplier was 1.78. This means that for every one dollar directly spent on the project an additional seventy-eight cents of impact would be created through ripple effects. Similarly, the jobs multiplier of 2.05 means that for every direct job created in the project, another 1.05 jobs are created through ripple effects

Multiplier Effects from Housing after Construction

After construction, housing is occupied and further economic impacts occur. If the housing units are rented, rental payments contribute to the economic activity. The household income of all housing residents contributes to the economic activity when households spend their disposable income on items such as food, clothing, transportation, and health care. As with the construction impacts, the degree to which these impacts remain in the local economy depends on the services and goods available within that particular region.

To illustrate the relative size of these impacts, we'll return to the VHC example. In this case, the constructed housing is intended for low income families with average income of about 60% of the state median income. The household spending impact of this project, therefore, would be lower than average. A third of the housing was assumed to be single-family houses, townhouses, and condominiums that are sold with the other two-thirds of housing being rented apartments. The economic impact of the renting plus household spending is estimated for the year 2023 after the construction phase is fully complete. The annual total ongoing impact is estimated to be $331.0 million and 1,778 jobs—more than three times the size of the annual average impact of the construction operations.

"Workers may spend their wages at regional restaurants, retail stores, health care establishments, and so forth. This spending creates new jobs at the consumer-related businesses."

The impact does not stop here, however, because local and state governments benefit from tax revenue generated during both the construction and residential phases. In the VHC example, the construction phase is estimated to generate over $800,000 in BPOL (business, professional, and occupational license) taxes for local governments and over $9.0 million in state revenue due to individual and corporate income taxes. For the post-construction residential phase, taxes for local governments are estimated at $8.0 million annually, largely from property taxes in addition to sales and other taxes. The residential phase is also associated with state revenue due to income and sales taxes, estimated in the VHC example at about $5.2 million annually.

The local impacts of housing also include less easily quantified benefits. A 2007 Iowa report, for example, found that "well-designed affordable housing can help to jump-start stagnant neighborhood housing markets." This same report, that included multiple case studies, delineated other considerable benefits of decent affordable housing: "Community revitalization, expanding home ownership, and the effective delivery of health care and other services are all enhanced by public investment in stable housing." The full report can be found at http://www.iowafinanceauthority.gov/documents/filelibrary/Economic_Impact_Final.pdf.

The contraction in the national housing industry triggered the last recession, the worst economic downturn since the Great Depression—a slump from which the nation is still struggling to recover. This is a reminder of the importance of housing within the economy. As in the nation, a strong housing industry at the regional level is an important element in the growth and health of local economies.

Quick Facts

- The major housing impacts that economists typically quantify are jobs, spending, and tax revenue. For housing, these impacts occur in two phases: when the housing is constructed and during occupancy.

- Jobs created include the construction workers who are building the structure as well as workers in their firms who support them, such as office managers, cost estimators, and accountants. This also includes the total construction spending on the project itself.

- Ripple effects are comprised of building material suppliers and cabinet manufacturers as well as businesses providing services such as architectural firms and trucking companies. Induced impacts result when the workers involved in the construction project spend their income in the region at regional restaurants, retail stores and health care establishments.

- The household income of all housing residents contributes to the economic activity when households spend their disposable income on items such as food, clothing, transportation, and health care.

2 Does Housing Pay Its Way? The Fiscal Impact of Housing on Local Government

Neal J. Barber, Community Futures

A former county administrator in Virginia recently commented “a new home doesn’t even cover the costs of educating the children residing in the home much less the total cost of local government”. This is the common misperception among local government officials – “new housing is a drag on local budgets” and “new homes consume more local tax dollars through services than they generate through local tax revenues”. This white paper examines that theory both from the perspective of education costs and the overall cost of local government (including education).

Community Resistance to New Housing

Existing residents in communities often fear that new housing will drive up their taxes to pay for the costs of educating the children of new residents. New housing can be considered a liability not an asset to the community and land use policies frequently discourage new housing construction, often with substantial fees and requirements attached to residential rezoning requests. These policies add additional costs to new housing and further drive up housing prices, making housing less affordable to the workers in that locality.

One commonly held belief says that a typical family living in a new home with at least one child will cost the locality a minimum of $5,000 per year in education and that the typical new home does not generate enough real estate taxes to cover that cost. This type of analysis ignores a broader set of facts that should be used to evaluate the impact of housing on the cost of local government services. A more comprehensive look can reverse these commonly held notions.

The Multiplier: Residents Generate a Range of Tax Revenues

Residents not only pay local real estate taxes, but also contribute to a wide array of local taxes and fees. Typically, a household will pay personal taxes on two or more cars that they own. About one in every seven households owns a boat generating additional personal property taxes. Often, residents operate home-based businesses that generate license taxes and fees. Families go out to eat and spend their income in local shops and stores, generating sales and meals taxes. These household expenditures in the local economy help local businessmen and women who then pay additional taxes to the local government.

> *“The 2010 median home sales prices exceeded the home values needed to cover the total cost of local government in 16 of the 26 localities within the five regions studied.”*

Typically, the larger the population of the locality, the higher the percentage of household income is circulated throughout the local economy generating even more local tax revenue. The larger the local population base the greater the market for locally produced goods and services and the less income flows out of the locality supporting the economy of other areas. All of these factors contribute to a vibrant economy and a strong and diversified tax base.

A Fairer Evaluation

This paper suggests a relatively simple but more comprehensive method to determine the level of housing values that would be needed to cover the costs of local government -- particularly the costs of education. While this analysis does not reflect all of the positive multiplier effects described above, it does take into account the relationship between real estate taxes and other tax sources as well as the share that residential real estate taxes are of total real estate taxes collected from all categories of property.

"School costs represent the largest single category of local government expenditures."

Does Housing Pay Its Way?

Home Values Needed to Cover the Local Costs of Education

School costs represent the largest single category of local government expenditures. A relatively simple series of calculations can help determine the required value a home in order for the taxes on it to cover its "share" of the cost of local education. We'll refer to this as the "housing breakeven value". This procedure is summarized in endnote 1.

Using this analysis in five regions across Virginia, Charlottesville MSA, George Washington Regional Commission (Fredericksburg), Lynchburg MSA, Middle Peninsula and Roanoke MSA, large variations were found in the costs of educating students, students per household, local tax rates, and home values needed to cover local education costs for FY 2010.

In summary, the 2010 median home sales prices exceeded the home values needed to cover the local cost of education in all localities within the five regions with only a few exceptions. Contrary to common belief, the conclusion is clear that homes generate sufficient local tax revenue to cover the local cost of educating the children that will reside in these homes.

The results of this analysis for each locality within the five regions studied can be found at http://www.housingvirginia.org/T1.aspx?PID=560.

Home Values Needed to Cover the Total Costs of Local Government—Including Education

Using the same type of analysis outlined above, the similar calculations show the costs of local government (including education) and their relationship to housing costs. As above, there was a large variation among localities in the costs of local government per household, the household real estate taxes needed to support local government, and the home values necessary to generate sufficient real estate taxes to cover local government costs for 2010 throughout the five study areas.

In the majority of localities, homes generate sufficient local tax revenue to cover the total cost of local government. The 2010 median home sales prices exceeded the home values needed to cover the cost of local government in 16 of the 26 localities within the five regions studied.

In 2007, the median sales price exceeded the home value needed to cover the total cost of local government.

The values related to the cost of local government for each locality within the five regions studied can be found at http://www.housingvirginia.org/T1.aspx?PID=560.

This analysis only looked at the median sales price of existing and new housing combined. If a comparison were made just for new home sales, the median new home sales prices would far exceed existing home sales prices and the positive fiscal impact would be greater. The definition of median home sales price means there are an equal number of homes valued above and below the median. Local housing policy should also reflect this principle and provide a range of housing types and price ranges above and below the median.

Housing Preferences are Shifting

Over the past several decades there has been a distinct preference for single-family home ownership over apartment/rental housing. There has been a further preference for "trade-up", larger, higher-priced housing. These preferences have been market driven with the large number of higher-income "boomer" generation of buyers that flooded the marketplace. This huge market gave rise to the largest surge of home construction and price escalation that this country has ever seen. Today's economic realities do not support the escalating incomes of past years. Real wages, adjusted for inflation, have been flat for a decade.

Changing demographics also mean changes in housing preferences. The biggest demographic driver is the entrance of the 'Millenniel Generation" into the housing market, which appears to have significantly different housing preferences. These include smaller, more affordable housing options in denser urban environments than their "boomer" parents. Apartments are now frequently seen as a more permanent housing choice rather than a stepping-stone to a "real" house in the suburbs. This generation is more environmentally aware, technologically connected and wanting to go where their life style preferences can be met.

Housing as an Economic Engine

Contrary to the common misperception, housing is not a drag on the local tax base but a contributor to the local tax coffers. The analysis in this paper indicates that housing values are typically sufficient to cover the costs of education and total local government expenses (including education). If the indirect and induced impacts of new homes to a community were added to the equation, the conclusion would be even more dramatic and compelling that housing is a fiscal asset to the community not a liability.

Many localities need to rethink their land use and housing policies in order to encourage housing that meets the needs of all of its residents and workers. Changing market realities make it imperative that localities encourage and accommodate higher density, smaller, environmentally friendly, and affordable housing in their community that is readily accessible to urban amenities. Doing less than this will place the locality in a competitive disadvantage to those jurisdictions that welcome the new generation of workers with housing types, costs, and locations that are attractive to them.

Endnote 1. By multiplying the per pupil local costs of education by the number of students per household, the average local cost of education per household is determined. Real estate taxes needed to cover the cost of education are calculated by multiplying the local household cost of education times the percentage real estate taxes that are of all local revenues. Next, the percentage of real estate taxes that are paid by residential property is calculated and applied to the average household cost of education (ie. what part of this cost is covered by housing related tax revenues). Finally, the value of a home that is needed to generate the real estate taxes is determined by dividing that amount by the true tax rate.

Quick Facts

- New housing is sometimes considered a liability not an asset to a community, and land use policies frequently discourage new housing construction—resulting in substantial fees and requirements attached to residential rezoning requests.

- Household expenditures in the local economy help local businessmen and women who then pay additional taxes to the local government. The larger the local population base the greater the market for locally produced goods and services and the less income flows out of the locality supporting the economy of other areas.

- In the majority of localities studied, homes generate sufficient local tax revenue to cover the total cost of local government—inclusive of the cost of educating the children who will reside in those homes

- Changing market realities make it imperative that localities encourage and accommodate higher density, smaller, environmentally friendly, and affordable housing in their community that is readily accessible to urban amenities.

3 The Future of Homeownership: Can We Sustain the American Dream?

Barry Merchant, Virginia Housing Development Authority

Since the advent of long-term, fixed-rate mortgage financing during the Great Depression, several generations of Virginia's families have relied on the financial stability provided by fixed monthly mortgage payments to help build a sound financial footing. This paper examines this decades-long backdrop against economic realities that are calling these practices and values into question.

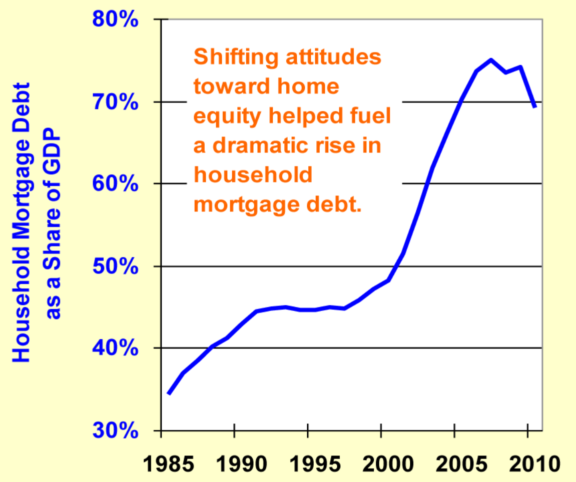
Historical Tradition and Values

For 400 years, Virginians have highly valued homeownership. A large share of Virginia's early settlers chose to leave the insecurity of European farm tenancy for the opportunity to own land and gain control of their economic destiny. The stability and control provided by ownership has remained highly valued, even though the vast majority of Virginians no longer derive their livelihood from the land. Virginia communities also place a high value on homeownership. Property owners have a long-term stake in their community and are willing to invest their time and talent toward the support of community institutions and civic activity.

The substantial local reliance on real estate taxes has increased this stake, since owner-occupants are motivated to maintain and enhance the value of their property.

Together, these personal and communal values have made homeownership "the American Dream." The institutional and governmental supports put in place to promote these values have increased the share of homeowners from just under half of Virginia households in 1940 to over two-thirds today.

Since the late 1980's, another view of homeownership has emerged that at first complemented, but more recently has undermined long-held values. The federal Tax Act of 1986 eliminated the deductibility of consumer interest payments while preserving the deductibility of most mortgage interest. This resulted in the rise of the home equity line of credit as a vehicle for consumer finance and, along with it, a shift in attitudes toward homeownership.



Sources: U.S. Bureau of Economic Analysis (BEA) and Federal Reserve Flow of Funds Account Report

Homeownership Shifts from Asset Accumulation to Equity Access

Traditionally, home equity mainly was viewed as long-term wealth accumulation and security in retirement. But in recent decades, home equity has come to be viewed as a short-term return on investment and as collateral to support increased household borrowing. This shift in attitudes was facilitated by an era of declining mortgage rates and steadily rising home values which enabled homeowners to easily refinance or "trade up" to larger homes.

Likewise, as consumer demand and market conditions favored larger homes, community attitudes increasingly shifted to support of large lot zoning and away from acceptance of the development of smaller, more affordable starter homes and multifamily rental housing options.

This shift in attitudes toward homeownership has had substantial consequences. Over the past four years, Virginia families and local communities have learned painful lessons from the excessive household leverage and artificial inflation of home values that lenders, homeowners and local communities all supported during the unsustainable housing boom. Virginia's home foreclosure rate, while far below that in many other states, has caused substantial hardship for families and local communities throughout the Commonwealth.

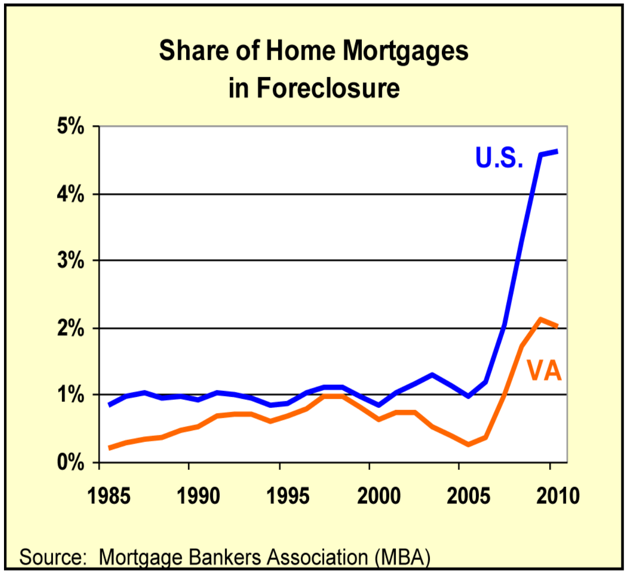
Foreclosure Crisis and Loss of Wealth

The foreclosure crisis began in Northern Virginia, which was Virginia's hottest market during the boom. The rapid rise in home values fed excessive mortgage leverage and the extensive use of sub-prime and non-traditional loan products with limited qualifying criteria. This greatly increased purchasing power and further fueled the meteoric rise in prices. But once lenders began to experience significant losses from non-traditional loan products and removed them from the market, then the lower purchasing power afforded by traditional underwriting standards could not sustain inflated values, and prices inevitably fell both quickly and sharply.

In downstate markets, non-traditional mortgage products were more heavily used for cash-out mortgage refinancing in order to replace other consumer debt. Consequently, home values rose and fell less dramatically than in Northern Virginia. Nonetheless, as the deep recession has taken a heavier toll on downstate markets, loss of employment income has led to a steady, persistent rise in defaults and foreclosures as households struggle to meet their financial obligations.

"Now, the market must depend on the much smaller "Baby Bust" generation to absorb the oversupply of large "trade-up" homes that is weighing down the market."

Significant drops in home values, whether they have occurred quickly or more slowly, have substantially depleted household wealth and left as many as a quarter of Virginia home mortgager holders owing more than their home is worth.



Local communities have likewise suffered economically as falling home values have significantly reduced local real estate tax collections which comprise over a third of local government revenues. The expected reduction of local revenues, as a result of declining home values, will likely have a lasting impact due to the lag time in reassessments. Home values have not yet stabilized in most local housing markets. A recovery in home prices is likely to be slow and uneven as has been true in Northern Virginia which experienced the housing downturn first, and is experiencing a fledgling recovery.

Demographics Drive More Shifts

The recent housing boom was supported not only by shifting household and community attitudes regarding homeownership, but also by the aging of the Baby Boom generation that caused demand for larger "trade-up" homes to soar. That demand peaked at the height of the boom, and is now declining rapidly as the Baby Boom generation moves toward retirement. Now, the market must depend on the much smaller "Baby Bust" generation to absorb the oversupply of large "trade-up" homes that is weighing down the market.

As Virginia looks forward to a housing recovery, a new set of demographic drivers will fuel the market. The first wave of "Gen Y"—the children of the Baby Boomers—have left school and are seeking to establish independent households. They are struggling with unemployment and under-employment and extremely high levels of student debt. They are leery of the financial commitment that homeownership entails and fearful of the hard financial consequences and reduced mobility currently being experienced by the preceding generation of homebuyers.

"Just as first-time buyers underpin the home purchase market, so quality, affordable rental housing provides the solid foundation for entry into sustainable homeownership."

Finding a New Footing: Credit, Supply and the Balance with Rental Housing

Despite a return of home prices to historic affordability norms, young families struggle with new, higher down payment requirements and tightened underwriting standards. They are having difficulty competing with cash investors for the low-priced distressed "bargains" that constitute almost of a third of current home sales.

Local Virginia housing markets are now facing a significant challenge. First-time homebuyers are the foundation of the home purchase market. Re-sales of existing homes cannot fully recover without an adequate level of sales to first-time buyers. In the near term, rental of investor-owned single-family homes is helping to reduce the excess supply of homes for sale and the need of lenders to expeditiously liquidate foreclosed inventories. But historically, excessive numbers of scattered site single-family rental properties have destabilized neighborhoods and led to declining property conditions and values.

So, what is a realistic and sustainable future for homeownership in the Commonwealth? Clearly, it must focus anew on the traditional personal and community values that made homeownership a dependable foundation of household financial security and community economic vitality.

That will mean building finance models that enable young families to access homeownership while rewarding thrift and discouraging excessive household leverage. It will mean finding ways of resolving current market distress in a manner that balances the need for reasonable household debt relief and neighborhood stability, with the need to retain investor confidence in order to sustain the flow of affordable mortgage credit upon which healthy housing markets depend.

Sustaining homeownership will also require a renewed local willingness to accommodate the expansion of affordable rental housing options. Without quality, affordable rental housing, households are unable to establish the level of savings and financial stability upon which a transition to sustainable homeownership depends. Just as first-time buyers underpin the home purchase market, so quality, affordable rental housing provides the solid foundation for entry into sustainable homeownership.

Quick Facts

- During the housing boom, home equity came to be viewed as a short-term return on investment and as collateral to support increased household borrowing.

- Significant drops in home values have substantially depleted household wealth and left as many as quarter of Virginia home mortgage holders owing more than their home is worth.

- First-time buyers are the foundation of the home purchase market. Re-sales of existing homes cannot fully recover without an adequate level of sales to first-time buyers.

- Sustaining homeownership requires finance models that enable young families to access homeownership while rewarding thrift and discouraging excessive leverage.

- Sustaining homeownership also requires quality, affordable rental housing to enable households to establish the level of savings and financial stability upon which a successful transition to homeownership depends.

4

Mixed Use Development: Economic Benefits Beyond the Multiplier

Costa Canavos, Virginia Housing Development Authority
Robert J. Adams, HDAdvisors

Other papers in this series describe the economic impact of residential construction in terms of the number of jobs created, the fiscal effect on tax collections and the increased flow of money within the local economy through salaries, materials purchases and other expenditures. There are several econometric models (including the IMPLAN model explained in another essay in this report) that accurately describe and predict this direct and indirect economic impact. In this paper we want to examine the economic benefits of mixed use development. Of course, the economic impact assumptions that apply to residential construction are equally valid for mixed use and mixed income construction projects. But we want to explore some of the other spin off benefits of mixed use development in addition to the direct economic, fiscal and employment impacts noted above.

"Mixed use development is becoming more favored among planners and elected officials because the efficient land use creates the opportunity for short commutes to work and shopping."

Fiscal and economic benefits occur on two levels – direct and indirect / induced. Direct impacts are those that are directly attributable to the project (e.g. on-site construction and retail sales). Indirect benefits are those that occur as purchases and spending cycle through the local and regional economies. Induced impacts measure the effects of household and institutional spending (e.g. spending by construction workers in the area as a result of wages earned on-site).

Purchase of construction materials will have "ripple effects" throughout the local and regional economy as material vendors in turn purchase goods and services needed in their business from other suppliers throughout the region. Similarly, employee earnings will be spent within the local economy, generating successive rounds of spending in the area. Finally, mixed use development includes substantial "retail" components which create greater consumer spending for goods, dining and entertainment.

Beyond these predicted effects, mixed use projects can have a profound and positive impact on stimulating complementary development within the same submarket. Successful mixed use projects demonstrate commercial and residential market viability that supports subsequent investment. "Street level" and neighborhood enhancements described later in this paper further expand this impact.

Historic Roots of Mixed Use Development

Mixed use development has been a significant element in the landscape of American cities since their earliest formation in the 17th century. Buildings with a mix of commercial and residential uses were the norm in villages, towns and cities. When “Euclidian” zoning became the common approach to land use regulation in the early part of the 20th century, segregation of land uses began to dramatically reduce mixed use development. The predominant thinking of planners at the time was that by segregating types of uses, occupants would not be “disturbed” by “incompatible” uses.

All of that began to change again in the 1980’s when the principles of “New Urbanism” were introduced and began to be increasingly adopted within towns and cities across the country. The “Smart Growth” movement has put additional momentum behind this shift in thinking. The result has been a resurgence in mixed use development at a rate and scale that has expanded dramatically during the past decade with major implications for both urban and suburban development.

“Successful neighborhoods are ones where pedestrians are numerous, destinations are clear and plentiful, and numerous eyes on the street create a safe zone for visitors.”

Defining Mixed Use

Mixed use development means a building or complex of buildings that include a variety of land uses. Typically the term is used when residential uses are combined with office, commercial, entertainment, or civic uses such as schools, libraries, or government services. Mixed use projects may be very large in scale or confined to one small site. A common pattern consists of storefronts or restaurants with apartments on upper floors.

Mixed use development is becoming more favored among planners and elected officials because the efficient land use creates the opportunity for short commutes to work and shopping. Biking, walking, or short trips both benefit individual lifestyles and reduce traffic congestion and energy consumption for transportation. A well-designed mixed-use development of more than one building also lends itself to place-making, the ability to create a new “place” with its own feel, style and attraction – a location that is desirable for pedestrians and encourages interaction.

Mixed Use: A Range of Benefits

There are many advantages that are attributed to mixed use development. These range from the direct and induced economic benefits that have been described previously to a whole series of physical, social and aesthetic effects that are uniquely associated with this type of development. Anecdotal evidence suggests that mixed use projects can be catalytic for the neighborhoods in which they are developed. Mixed use development has a more profound impact, because of the very mix of uses that distinguishes these projects.

A significant predictor of successful neighborhood revitalization is the vibrancy and perceived security of the street scene. Successful neighborhoods are ones where pedestrians are numerous, destinations are clear and plentiful, and numerous eyes on the street create a safe zone for visitors. Mixed use projects by their nature contribute to all of these elements needed for success. Housing provides for a 24 hour district with residents coming and going. Office space adds to the pedestrian population and supports retail, dining and entertainment. Retail and dining attract visitors, adding even greater activity. All of these contribute socially, culturally, and economically to the growth of the area.

Benefits of Mixed Use

•Encourages more revitalization in its proximity and expands economic investment

•Encourages high quality design

•Preserves and enhances traditional village centers

•Promotes a traditional mix of retail, restaurants, offices, civic uses, and multi-family housing

•Provides more housing opportunities and choices; including affordable housing

•Enhances an area's unique identity and development potential

•Promotes pedestrian and bicycle travel

•Reduces auto dependency, roadway congestion, and air pollution by co-locating multiple destinations

•Promotes a greater sense of community
•Promotes greater efficiency in the use of land and infrastructure

•Concentrates development in established areas, thereby protecting rural areas and environmentally sensitive resources

"A well-designed mixed use development of more than one building also lends itself to place-making, the ability to create a new "place" with its own feel, style and attraction."

Different communities choose mixed use development for different reasons. Some see it as a way to incorporate a mix of housing types, while enhancing traditional town character. Other communities have used it as way to revitalize struggling areas and spur economic development. In such areas, it is critical to restore an active, safe, vibrant street scene where residents, workers, shoppers and diners mix. The combination of residential and commercial uses, combined with infrastructure improvements can accomplish this. Still others use it to create or enhance downtowns or village centers, particularly when located near transit.

Commercial uses in close proximity to residential areas are often reflected in higher property values, and therefore help raise local tax receipts. The transit-based mixed use development that has been occurring in Northern Virginia, focused around Metro stops, is an excellent example of this successful strategy. Businesses recognize the benefits associated with areas able to attract more people, as there is increased economic activity when there are more people in an area to shop. The presence of customers who live in close proximity further enhances the viability of local shops and dining.

In large metropolitan areas, workers are increasingly using quality of life criteria in making decisions about where to work. They are beginning to better understand the financial and social tradeoffs involved in long commutes. Many are willing to choose smaller homes in more densely developed neighborhoods, if that community offers a mix of uses that will allow them to spend less time in the car and more time with family, friends and leisure pursuits. This trend has positive economic benefits, not just for these families, but for the communities that encourage this type of development.

Successful mixed-use development attracts new investment within an impact area.

Mixed Use Case Studies

The Hancock in Roanoke

The landscape of downtown Roanoke has been transformed by historic renovations that have converted underutilized buildings into vibrant, mixed-use/mixed-income developments. During a stroll downtown on a warm summer evening, it becomes difficult to overlook the energy and vibrancy that has been created by many professionals choosing to live downtown along with the shoppers, diners and entertainment seekers. Following revitalization, it is often instructive to look back and identify the projects that served as catalysts. In this case, all roads lead to Roanoke residents and developers Scott Graeff and Ed Walker who purchased the Grand Piano & Furniture building located at 35 Campbell Avenue in the heart of downtown Roanoke in 2004.

This iconic site originally consisted of multiple buildings including Hancock Dry Goods built in 1898. In 1929 the buildings were purchased by N.W. Pugh Department Store and were fully unified through the construction of the mosaic terra cotta façade. The original façade was entirely bricked over in 1965 when the building was purchased by Grand Piano and Furniture Company. The development team hired Stanley Shield LLC which specializes in historic renovations to act as the general contractor for the project, and they were able to successfully restore the original façade of the building that you see today.

The Hancock epitomizes the type of innovation and risk taking that illustrated that living downtown was marketable. It also shows that providing mixed-income rental housing in a single building can work together. There are a total of 58 apartments in the project and a total of 17 units will remain affordable for persons making 80% or less of area median income. The remaining 41 apartments are non-income restricted market rate units. A local law firm with a fifty year operating history has leased the entire commercial space on the first floor which is roughly 12,500 square feet.

Since the opening of the Hancock many other buildings in downtown Roanoke have been converted into mixed use/mixed income apartment projects and they all continue to be very successful. This transformation of downtown living could not have been achieved without developers who had a vision, took a major financial risk and converted the former Grand Piano building into this mixed use success story. The blueprint for success which began with the Hancock has led the revival of downtown Roanoke. Future projects are no longer saddled with misperceptions about downtown marketability. In downtowns, mixed use success plays a critical role in spurring new investment, which, in turn, grows the overall economy.

Mixed Use Case Studies

Station on South Locust in Floyd

The town of Floyd is located on the Crooked Road trail as many visitors come to town for Friday night jamborees at the Floyd Country Store. For the past ten years the Town of Floyd has been gaining a reputation as an artisans' community. Floyd resident Woody Crenshaw has based his company, Crenshaw Lighting, in Floyd and has been an advocate for the Town of Floyd for many years. When the country store started showing signs of deterioration, Crenshaw renovated the entire store and modernized the building. He was also able to convert an abandoned grocery store into the Village Green, which currently has eight small businesses in the property.

Directly across the street from the Floyd County Store is the former Mama Lazardos Restaurant –a building of 15,000 square feet that sat vacant for a decade. Unfortunately, this centerpiece building in the heart of the Town of Floyd became dilapidated and needed significant attention. Crenshaw and other investors purchased the building in 2007 planning to convert the building into a mixed use/mixed income project.

While redevelopment was already underway in Floyd, the continued revitalization process would have stalled without the redevelopment of the Mama Lazardos building with its key location directly in between the Country Store and the Village Green. The redevelopment of this building took over three years and multiple partners. At completion this mixed-use/mixed-income project became the Station on South Locust, with nine rental apartments on the second floor and multiple retail spaces on the first floor. The project also includes an outdoor farmers market for the community. What differentiated the Station project form the other two redeveloped buildings was the residential component found on the second floor. Incorporating downtown housing is a key ingredient in sustaining long term revitalization success for an area.

Floyd demonstrates how successful mixed use can help drive more development. The Station on Locust Street is now providing the final piece of the redevelopment puzzle that has helped Floyd become a vibrant destination along the Crooked Road. The Hotel Floyd, a downtown boutique hotel which opened in 2007, is now planning an expansion.

Floyd is a rural community that wanted to maintain its rural heritage, while improving the economic vitality of the town center through redevelopment of the commercial center. A trip to Floyd today will show firsthand that the redevelopment of the Town of Floyd has achieved both goals and that revitalization that includes mixed use can be successful in smaller rural communities.

Quick Facts

- Fiscal and economic benefits occur on two levels – direct and indirect. Direct impacts are those that are directly attributable to the project (e.g. on-site construction and retail sales). Indirect benefits are those that occur as purchases and spending cycle through the local and regional economies.
- Successful mixed use projects demonstrate commercial and residential market viability that supports subsequent investment.
- Benefits of mixed use development include more quality revitalization, increased investment, and a greater number of quality housing choices.
- Concentrating development in established areas protects rural areas and environmentally sensitive resources, while promoting a greater sense of community in its unique appeal.

5 The Emerging Role of Health Care Systems in Neighborhood Revitalization

Dougal Hewitt, Bon Secours Richmond Health System

"People who move from a poor neighborhood to a better-off one could end up thinner and healthier than those who stay behind, according to an urban housing experiment that tracked low-income residents in five major cities for 10 to 15 years."
-Amina Khan, Los Angeles Times

One of the emerging trends in housing and community development is the increasingly important role played by major institutions and large employers in shaping policy solutions and implementing "on the ground" community improvement strategies. Where major institutions have historically created barriers between themselves and their communities, many of these large corporations are now reversing course and have become significant agents of change in their neighborhoods and larger communities with dramatically positive results for local economic health. The reasons for these changes are complex and often unique to the particular company or institution, but common themes do exist. Nowhere has this trend been more pronounced than with hospitals and health care systems.

Health systems are certainly one of the major economic engines in our country and in our communities.   But health is essentially a fundamental aspect of life and for centuries the buildings that house medical facilities have been powerful symbols of their society. The activities of a hospital affect immediate neighbors and can affect entire regions.

How can hospitals serve as centers of wellness and healing, not only for individual patients, but for the community itself? How is the business of health care connected to affordable housing in the neighborhood, community, and region? This paper examines the link between health systems and the communities they serve.

Adapted from: Socio-ecological model, CDC, 2006

Historic Connections between Hospitals and Communities

The earliest hospitals in Western tradition were prominent destinations in their own right. The first recognizably Christian hospital, established in the fourth century by Saint Basil, was designed as a town. A landmark for travelers, it included housing and a marketplace. Others soon followed. These urban care centers were precursors of the monastic infirmaries that became legendary for a high level of hospitality and compassion. The monastery gardens provided medicinal plants and an opportunity for fresh air and exercise.

As cities grew in wealth and security, urban hospitals that were run by both religious orders and secular societies developed. These institutions were an important part of the fabric of the neighborhoods in which they were located, and in many cases were significant buildings that instilled a sense of civic pride. By the twentieth century changes in architectural trends, combined with the advent of mechanical heating and cooling, led many institutions to abandon earlier courtyard and pavilion models and to focus on internal spaces. Additionally, following demographic trends, many hospitals relocated outside of urban centers and built according to suburban standards.

"We're not just interested in physical health. There are other needs in the community that need to be met, and we're committed to a transformation of this community."
-Sister Anne Marie Mack, Bon Secours Richmond

Designing Health Care Facilities in a Community Setting

A growing body of research has deepened levels of understanding about how the built environment affects community well-being. The same disconnected physical environment that produces sprawl also dictates the form and organization of modern day health care facilities. The separate zoning that limits the vitality of mixed-use in a downtown also limits the design of hospital buildings. Research documents the positive impact of social support and community in the healing process. Kevin M. Leyden, in the September 2003 American Journal of Public Health notes that, "the more integrated we are with our community, the less likely we are to experience colds, heart attacks, strokes, cancer, depression, and premature death of all sorts."

Nearly a decade of research on the links between the built environment and public health has led to a growing understanding of the importance of where and how people live, and the effect this can have upon their health and well-being. Hospitals can exert an enormous impact upon neighborhoods, cities and regions not only through the provision of medical care but also as leading employers and civic institutions.

Healthy Communities Support Healthy People

One way that the mission of Bon Secours Health System addresses this impact operationally is by setting the expectation that each of its regions will participate in “healthy community” efforts that explicitly engage local residents. This initiative flows in part from a long standing commitment to serve the people of West Baltimore who, some years ago, sought their hospital’s help in clearing away “rats and trash” rather than addressing specific diseases. Concern for the built environment expands the Bon Secours’ mission beyond illness to include the context of buildings, campuses and neighborhoods as well.

Engaging the community through both service and planning, the Bon Secours Richmond Health System recently initiated community visioning sessions, known as charrettes, to develop future plans that address the needs of the community. One of these charrettes supported growth in a new, suburban community. In conjunction with a neighborhood transformation initiative, another charrette sought to prepare Richmond Community Hospital, a 45 year old flagship facility for its future in a dense, inner city neighborhood.

Urban Neighborhood Focus

In 1995, Richmond Community Hospital joined the Bon Secours system in an acquisition that was widely hailed as a demonstration of the system’s commitment to the inner city. Significant enhancements have been made to the hospital since it joined Bon Secours, but the neighborhood surrounding the hospital has experienced only modest and incremental improvements and the challenges of the location have limited patient and physician choice.

Over the years there have been pressures to close the facility which is also the largest employer in Richmond’s East End. To support positive growth, Bon Secours leadership decided to go beyond the hospital’s walls and engage in building a shared vision with the community that would promote positive growth and help the entire neighborhood to flourish.

Many Bon Secours staff had been actively engaged with neighborhood residents in a multitude of ways over the years. In recent years, “Healthy Neighborhood Liaisons” employed by Bon Secours have built on the existing relationships and formed new ones with local business leaders, members of civic associations, city officials, leaders of church and community organizations, philanthropists, and many more.

Bon Secours leaders recognized from the beginning of the community visioning process that there must be multiple partners, and that the hospital should not and could not be the sole owner, payer, designer or leader.

The City of Richmond’s planners along with the Richmond Redevelopment and Housing Authority (RRHA) were eager to participate and brought funds as well as staff time and commitment to the process. Local philanthropies were also engaged and provided financial support for the charrette.

Key partners brought the nationally prominent design firm of Duany Plater - Zyberk to Richmond, and led a week-long charrette. Preliminary work with the constituent groups and a schedule published through print and electronic media spread the word. Thousands of people attended the public and key-stakeholder meetings at which participants were invited to shape the future of the neighborhood, with designers and artists on-hand to provide a visual representation of ideas and themes as they emerged.

Health and Community Revitalization

In a neighborhood that suffers from high rates of infant mortality and rampant obesity, along with cardiac disease and diabetes, health related issues were brought to the forefront during the charrette. Much discussion focused on the need for safe streets with retail destinations that encourage walking and provide access to healthy food choices. By creating mixed use projects in these communities that incorporate housing, office, and retail, we can further promote walking as an alternative to driving to reach shopping or work destinations.

Although the East End includes many churches and community institutions, there is no supermarket. While there are numerous corner stores, they do not provide sufficient access to fresh fruits and vegetables. This condition has come to be known commonly as a “food desert.” Community-based urban agriculture organizations have begun to come forward to address this gap and a community-wide effort is seeking to attract a supermarket and to establish a stronger retail core for the neighborhood. Poor housing conditions are also significant contributors to environmentally related diseases and illness, making a focus on housing improvement a high priority. Also, when housing is made more affordable, then the income that is saved can be used to meet other basic needs, for example, the purchase of fresh fruits, vegetables and other healthy foods. This type of diet can be more expensive than a diet predominantly dependent upon more inexpensive carbohydrates such as rice and pasta.

To combat obesity, we need not only to eliminate food deserts, we need to enable the purchase of healthier foods, and the less families need to spend for housing, the more they will be able to allocate to the development of a healthy diet.

A Community Plan

Many perspectives and voices enlightened discussions on the neighborhood and the hospital. After open discussions and design sessions, the many ideas were tested, adjusted and refined into a plan that wove the diverse interests and ideas into a coherent whole. The results included a medical district that provides expansion areas for the hospital as well as key public institutions such as the library and police station. The hospital is accurately perceived as a crucial anchor in the community, and as with each significant institution, the design of the facility and its edges establish a character for its immediate surroundings. Together these could form a strong network and identity for the East End. The prominence and extension of each institution into the streets and sidewalks around it demonstrates the strength and diversity of the institutions which together ensure an economically thriving and physically secure place.

The charrette process brought many benefits. Most immediately, the public forum enabled open discussion among the hospital staff and key constituents regarding the role of the hospital and hopes for its future. It also advanced engagement between multiple private, philanthropic, civic and governmental organizations and the community and established a foundation of relationships that support implementation of a plan.

Housing is the central component and building block of any neighborhood. The transformation initiative puts a special emphasis on improving housing conditions and ensuring access to affordable housing. The issue of good housing is one that is important not only for existing community residents, but also for employees of the hospital. As part of a strategy to enhance employee quality of life, good housing choices that are within walkable / or easy bus commuting distance are highly desirable outcomes for the health system.

Within the Bon Secours Health System there is an understanding that in order for the health system to flourish the neighborhood must prosper.

"Poor housing conditions are also significant contributors to environmentally related diseases and illness, making a focus on housing improvement a high priority."

Housing Actions Emerging from the East End Transformation Plan.

•Continue to develop single family housing for homeownership.

•Continue to redevelop foreclosed properties.

•Support the development of a mixed use, mixed income housing development.

•Develop a "Model Housing Block" of affordable single family homes at the 1300 blocks of N. 26th Street and N. 27th Street.

•Support the development of a mixed income housing development at The Pillars of Oakmont.

•Develop affordable housing for persons with disabilities at the Cool Lane site.

•Continue acquiring vacant and blighted properties along the 25th Street/Nine Mile Road corridor.

•Develop mixed-use and multifamily residential housing along Nine Mile Road.

Quick Facts

- Nearly a decade of research on the links between the built environment and public health has led to a growing understanding of the importance of where and how people live, and the effect this can have upon their health and well-being.

- By creating mixed use projects in these communities that incorporate housing, office, and retail, we can further promote walking as an alternative to driving to reach shopping or work destinations.

- When housing is made more affordable, then the income that is saved can be used to meet other basic needs, for example, the purchase of fresh fruits, vegetables and other healthy foods.

- As part of a strategy to enhance employee quality of life, good housing choices that are within walkable / or easy bus commuting distance are highly desirable outcomes for the health system.

Author Acknowledgments

Robert J. Adams
Bob Adams has a wide, diverse expertise in both housing finance and public policy. He is President of Housing & Development Advisors which he founded in 2006. The organization provides a range of consulting services, including financial structuring for housing and commercial development, community revitalization planning for downtowns and neighborhoods, and public policy development for affordable housing and community development. His clientele includes non-profit, for profit and public sector organizations. Bob previously served as the Executive Vice President & Chief Operating Officer of Community Housing Partners for nearly a decade as well as leadership positions at the National Low Income Housing Coalition, Virginia Department of Housing & Community Development, and Virginia Housing Development Authority. Bob serves on a variety of national and local Boards and Advisory Committees including the Advisory Council of the Federal Home Loan Bank of Atlanta.

Neal Barber has devoted his entire professional career to improving the conditions of Virginia's communities with a particular emphasis on distressed areas. Prior to forming his own company, Community Futures, he served with the Town of West Point's Economic Development Authority and is the former Director of Virginia's First Cities Coalition, the Urban Partnership and the Virginia Department of Housing and Community Development. Neal has worked to enact and implement many of the State's redevelopment programs, Enterprise Zones, Regional Competitiveness Act, Main Street Program, and the Virginia Housing Partnership Fund. Neal's professional responsibilities have ranged from project management to strategic planning to legislative lobbying to regulatory compliance. Neal's greatest accomplishments have been in helping communities and organizations achieve their vision.

Costa Canavos is a Community Housing Officer with Virginia Housing Development Authority's REACH team focusing on local government outreach and marketing VHDA's Mixed Use/Mixed Income Financing Loan Program. Prior to coming to VHDA , he worked for Henrico County administering the county's CDBG and Enterprise Zone programs. Before that, he worked with HH Hunt in Richmond in their community management department. Costa served on ULI Richmond's executive committee as co-chair of the Outreach Committee and currently is on the board of the Virginia Downtown Development Association.

Greg Chmura is the Senior Statistician with Chmura Economics & Analytics. Greg has been editor of the Virginia Economic Trends quarterly and has provided technical writing and editing for Chmura for the past decade. Chmura Economics & Analytics is headquartered in Richmond, Virginia and is a leading member of its industry, specializing in quantitative research, traditional economics, workforce and economic development, and software design. Chmura has performed numerous economic impact studies and research projects for the real estate industry the investment community, working with clients such as CCIM of Virginia, Richmond Homebuilders Association, and the Virginia Housing Coalition.

Dougal Hewitt is Senior Vice President of Mission for Bon Secours Richmond Health System in Virginia. Dougal began his career in healthcare in 1990 with Eastern Mercy Health System in Philadelphia, Pennsylvania. He joined Bon Secours in 1998 and his responsibilities have grown to include advocacy, building healthy communities, diversity, ethics, spiritual support services, values integration and volunteers. Presently, Dougal is pursuing doctoral studies at the University of Miami on the effects of the built environment on health and well-being. Highly engaged in the community, Dougal serves on multiple boards including Virginia Supportive Housing, Local Initiatives Support Corporation, Tricycle Gardens, the Richmond Community Hospital Foundation and the Bon Secours Richmond Healthcare Foundation.

Barry Merchant is Senior Policy Analyst for the Virginia Housing Development Authority where he manages VHDA's research and analysis related to housing needs and program policy. Barry began his career in housing with the City of Portsmouth and the Virginia Department of Housing and Community Development, and joined VHDA in 1984. Barry helped lead the development of Virginia's 2001 statewide housing needs assessment and authored that intiative's series of reports. In recent years, Barry has assisted the Virginia Housing Commission in structuring a process for reviewing and adopting state housing policy. Currently, he is assisting the Administration in development of a state housing policy framework, and monitors housing market conditions and foreclosure trends in Virginia on behalf of the Administration's Virginia Foreclosure Task Force.

HOUSING VIRGINIA

Housing Virginia is a broad based, statewide partnership of public and private organizations and committed individuals. We believe that all Virginians should have access to high quality, affordable housing in suitable locations. Housing Virginia:

- Promotes a positive image of affordable housing.
- Demonstrates the need for affordable housing throughout Virginia.
- Supports the work of local and regional housing networks to educate, communicate and advocate for affordable housing.
- Influences public policy and planning to enhance the supply and quality of affordable housing.
- Encourages the development of a supportive administrative, regulatory and financial environment.
- Convenes key stakeholders to advance forward-looking housing policy development and facilitate dialogue on affordable housing trends.

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