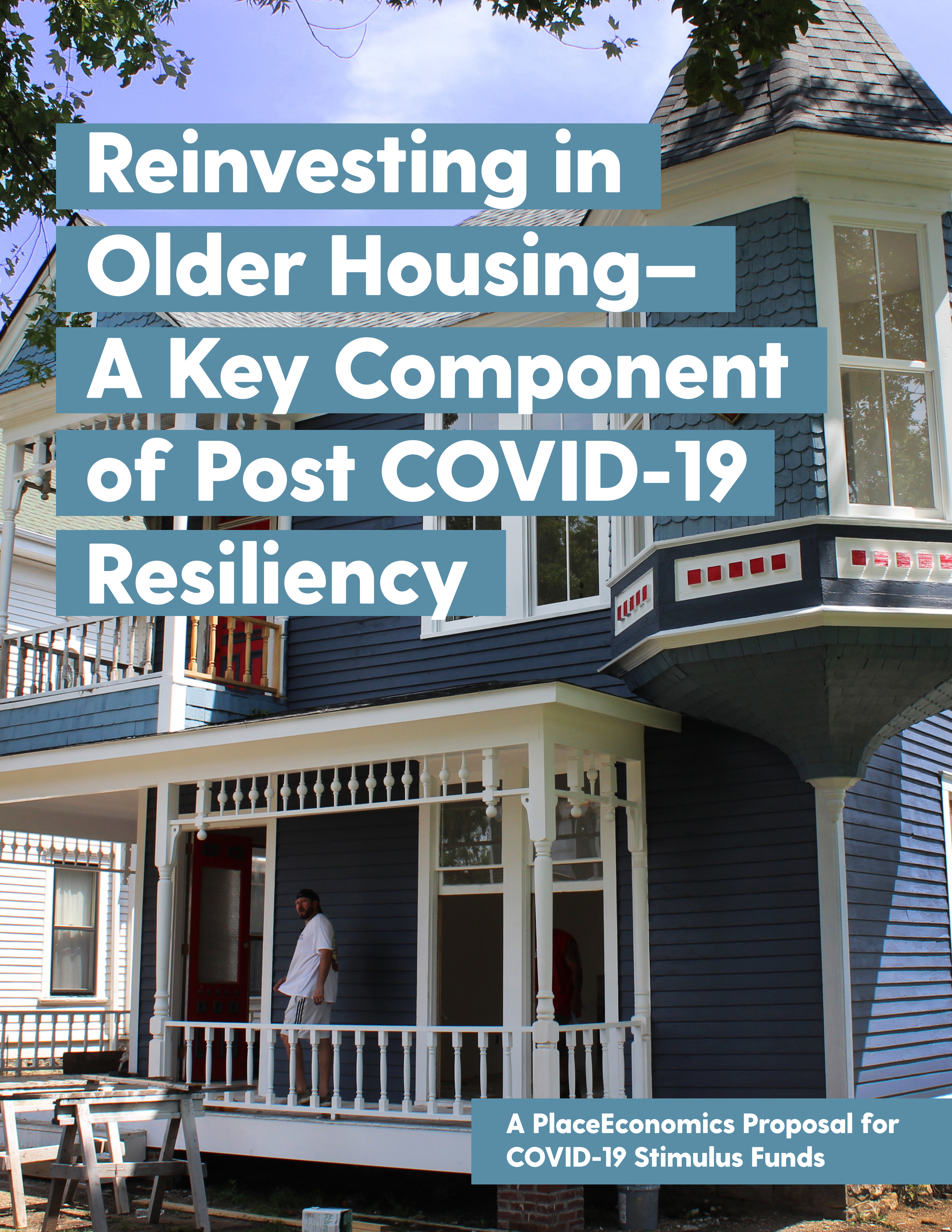


Reinvesting in Older Housing— A Key Component of Post COVID-19 Resiliency

A PlaceEconomics Proposal for COVID-19 Stimulus Funds

About PlaceEconomics

We at PlaceEconomics are a private sector consulting firm based in Washington, D.C. with over thirty years experience in the thorough and robust analysis of the economic impacts of historic preservation. We are not experts in lobbying for preservation policy, but from our perspective from measuring the impacts of historic preservation across the US and internationally -investment in older buildings should play a big role in the road to recovery from the economic crisis resulting from COVID-19 impacts. Here is our proposal on how to capitalize on existing buildings using existing policy frameworks for future federal stimulus monies.

Cover photo: Fort Smith, Arkansas - Rental Housing Rehabilitation

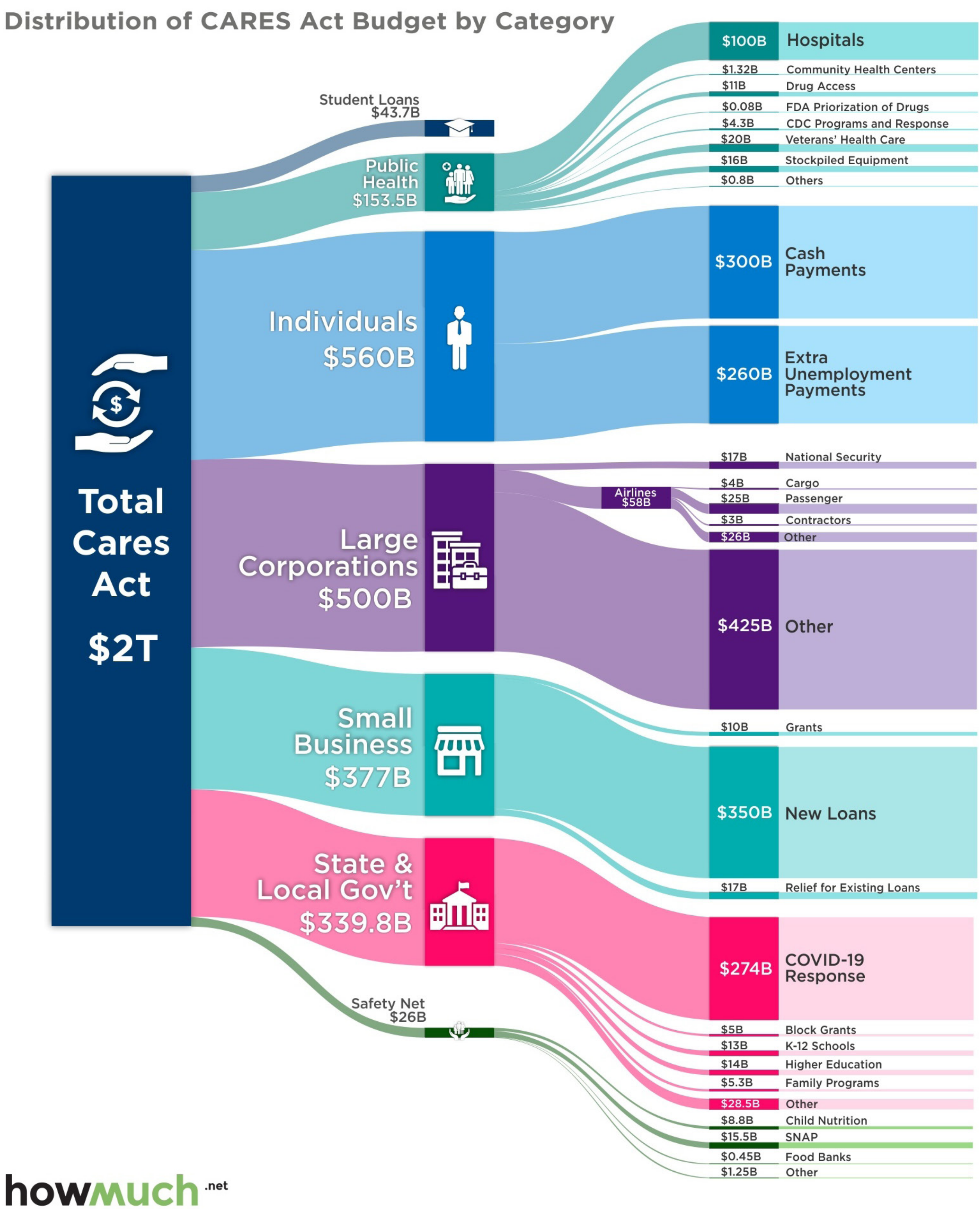
Introduction

$2.7 trillion: a gargantuan amount of money. $2 trillion of that was authorized on March 27, 2020 when President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the COVID-19 pandemic. If you broke that $2.7 trillion into $1 million dollar chunks and gave it away, 2,700,000 people would become millionaires overnight. Alternatively, you could buy a McDonalds burger for every man, woman, and child in America every day for the next 9 years. This puts into perspective what a huge amount of money Congress has spent already, and it is 100% borrowed. It will ultimately need to be repaid. Our children and grandchildren will be paying off that debt for their entire working lives.

Congress had to act quickly, and it was appropriate to get money immediately into the hands of as many people as possible and to help small businesses survive. However, the entire impact of the $2.7 Trillion stimulus package is going to be short term – the $1,200 check that most of us will get, the forgivable loans to keep people paid for three more months, the increase in the amount of unemployment payments. None of that $2.7 Trillion expenditure is going toward long-term investments. What was done by Congress and signed by the President in March and April was absolutely necessary, but what we have done as a country is bought a hamburger and financed it with a 30-year mortgage. This is not a criticism of what had to be done, but an economic reality we should not forget.

Invested differently, this funding could both create jobs today and stimulate longer term impacts in the future. Capital assets, such as infrastructure, housing, and downtowns, are long-term investments. For example, you borrow money to buy a house (a long term asset), and pay off the loan over 25 or 30 years. Your city issues bonds to pay for infrastructure like new streets or to replace the municipal water plant. The city is borrowing money, but it is being invested in long-term assets. While COVID-19 relief spending thus far was necessary, it was only a bandaid. If we want to take this opportunity to strengthen America through this crisis, we must invest in programs and assets that constitute long-term investments. Such investments build resiliency within our communities to help us recover and weather future catastrophic events.

A Breakdown of Coronavirus' $2T Economic Stimulus



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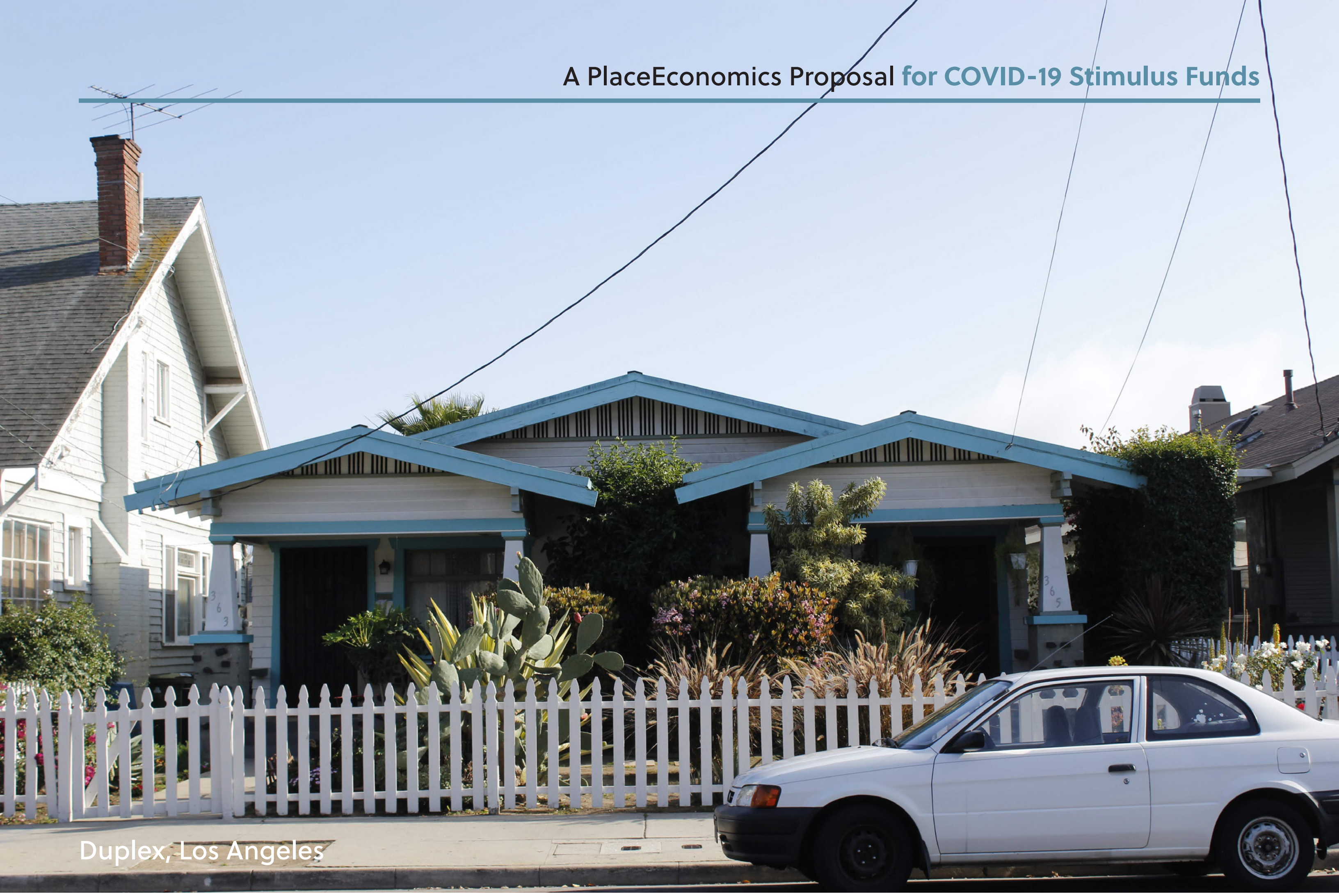
United States Senate - https://senate.gov



Duplex, Los Angeles

Housing is Infrastructure

The American economy depends on infrastructure to function properly. Safe and efficient transportation networks keep our supply chain going. Power grids, broadband networks, water supplies, and waste disposal all contribute to productivity, while promoting health, wellness, and safety. As we've seen over the last few months, in times of crisis, the reliability, efficiency, and sustainability of these networks are paramount.

Just as roads and bridges connect communities and families to resources and opportunities, so does housing. Housing is one of the largest pieces of the nation's infrastructure, as it provides Americans with the stability necessary to participate in the economy. The United States has historically invested in housing infrastructure during times of crisis. Following the Great Depression and World War II, the Government embarked on major initiatives to provide Americans with safe, decent housing. Those initiatives, like so much other infrastructure spending, have always been used to stimulate the economy. They provided resources that still serve necessary functions today–many Americans live in and use infrastructure that was built during their grandparents' generation. The next stimulus funds need to have the same multigenerational lifespan.

Addressing Two Crises at Once

The COVID-19 pandemic is inarguably a historic economic, social, and physical crisis. Thirty million Americans have filed for unemployment in the last 6 weeks alone. According to a recent survey from Main Street America, over 7.5 million small businesses will close if the disruption caused COVID-19 continues. This new acute crisis will only exacerbate an underlying, chronic crisis that has been building in America for years–the affordable housing crisis. Nearly a third of all households in America meet the housing cost burdened threshold, meaning they spend more than 30% of their income on housing.

Housing affordability is not just an issue for large, growing metropolitan areas; it is widespread geographically. There is no county in America where a full-time worker making minimum wage can afford the rent on a modest two-bedroom apartment. Even beyond the 100 largest metro areas, the Cost Burdened share of households is more than 27%. It is not just New York City and San Francisco. and it is not just renters. In Dayton, Ohio – a place with relatively affordable housing, still 40% of renter households pay more than 30% of their income for housing, as do 17% of homeowners. Regulations are often seen as the barrier to affordable housing, but even in Houston, which prides itself on minimal land use regulations, 47% of renters and 21% of homeowners are housing cost burdened. The COVID-19 and the affordable housing crises have at least two things in common – every city, town, and village in America has been affected and neither problem will solve itself.

Relying on existing subsidized affordable housing programs will not, alone, solve the problem. Around 100,000 affordable housing units are created each year using the Low-Income Housing Tax Credit (LIHTC). That compares with 11.6 million housing cost burdened renter households. At the current rate it would take 116 years to create enough affordable units using the LIHTC to provide for the households currently in need. One reason for this might be because the majority of LIHTC units are developed using costly, new construction. A recent comprehensive analysis of five years of LIHTC projects found that the average per unit cost was $209,095 for new construction, as compared to $153,394 for acquisition and rehabilitation. In other words, four units of affordable housing can be created using existing buildings for every three with new construction. We do not mean to imply that Low Income Housing Tax Credit is not an important tool. It is. Yet, even in that program, there should be an emphasis on rehabilitating existing construction projects.

Where is relatively affordable housing being provided today, largely without subsidies of any kind? In older and historic houses. Maintaining and improving that housing stock should be the top affordable housing priority.

Shotgun, San Antonio

Why Older Houses?

According to the American Housing Survey, in the United States there are just over 40 million housing units that were built prior to 1960, or about 29% of the total housing stock. About 60% of pre-1960 housing is owner occupied and 40% renter's dwellings. The numbers demonstrate that this older and historic housing stock are already providing largely unsubsidized affordable housing:

33% of all households making less than $15,000
live in pre-1960 housing

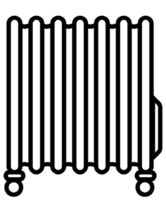
65% of all housing units renting for less than $1000/month
were built before 1960

32% of all pre-1960 housing units
are occupied by Black households

32% of all pre-1960 housing units
are occupied by Hispanic households

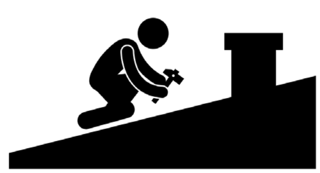
> "The existing housing is the most affordable housing we have."
> – San Antonio resident, Housing Task Force Public Meeting

But aren't those old houses about to fall down? No! Only 1.8% of occupied units are described as "seriously inadequate" and another 5.6% as "moderately inadequate." A majority (92.6%) of these housing units are in adequate condition, but many are in need of minor repairs:



8.2% have heating issues
and some lacked adequate insulation

8.6% have had water leaks
and another 13.9% with leaks from the outside



7.2% need roof repairs
of differing levels of severity

4.8% have electrical issues
such as outdated wiring or circuit capacity issues

Apartments in Columbus, Ohio

The bad news is that each of the problems above can significantly shorten the remaining economic and physical life of the dwelling unit. The deferral of repairs has an accelerating impact on the condition of the structure. Delaying repairs can ultimately cost 3 to 4 times what they would have cost if done when initially needed. For residential properties this deferred maintenance often means the relative cost of making the repairs vs simply razing the structure pushes the decision toward demolition. The good news is that most can be remedied for a relatively modest cost.

Even though small investments can preserve these units, we are still losing older affordable units at a higher, faster rate than we are able to build them. For every unit of affordable housing being created using the LIHTC, we are losing two units of pre-1960 housing to demolition. At the same time, the new housing being created by the housing market is overwhelmingly geared to the top end of the market. We are simultaneously tearing down what is affordable and building what is not.

Which brings us to what will be the next round of the stimulus package. What should be included?

Principles for the Next Stimulus Expenditure Round

The context above makes a series of principles very clear. In order to get the highest use out of necessary relief spending, that money should have multiple impacts: recovery from COVID-19 impacts, stimulate the economy, address the affordable housing crisis, build resilient systems, and invest in long term assets. For the next round we would suggest that the expenditures meet eight basic principles:

1. **Investment should be in long term capital assets.**
2. **Job creation should be a priority particularly through small business activity.**
3. **Programs should benefit local economies of all sizes throughout the country.**
4. **Local governments should be assisted.**
5. **Expenditures should be environmentally responsible.**
6. **The programs funded should be part of a comprehensive local resiliency strategy.**
7. **Each Federal dollar spent should address more than one pressing need.**
8. **The administration of the programs should work within the already existing administrative framework.**

The Proposal

In the United States, there is a well-established framework for investing in existing resources, outfitted with both regulations and incentives. This makes the funneling of stimulus money to those resources and communities highly efficient. Therefore, it makes sense to utilize and expand upon this existing public policy framework. For the next round of coronavirus responding stimulus spending, the PlaceEconomics proposal has four components:

- Provide funds to local governments for investment in their older (pre 1960) housing stock.
- Adopt the Historic Homeowners Tax Credit program.
- Expand the Federal Rehabilitation Tax Credit for smaller projects.
- Create a Job Training Program for the Rehabilitation Trades.

The following is not a detailed policy document, but rather provides a skeleton of good public policy that offers sticks and carrots, while simultaneously safeguarding public money.

1. Provide funds to local governments for investment in their older (pre-1960) housing stock.

- This would be available to both owner occupants and owners of rental housing.
- The base maximum amount would be $40,000 per house (or $20,000 per dwelling unit in multi-family housing) but that could be supplemented by a local government's own funds.
- For properties located in National Register Historic Districts or Qualifying Local Historic Districts, the maximum amount would be $50,000 per house and $25,000 per unit if a multi-family structure.
- For owner occupied housing the expenditure would be accompanied by a five-year lien. Each year of ownership after the award would reduce by 20% the amount of the initial expenditure. If the house is sold within the five-year period, a pro rata refund to the city would be required. This would not apply to sales or inheritance within a family.
- For tenant occupied properties the property owner would have to commit to maintaining the rents at the current level for five years. Any disposition of the property within that time period would also require pro rata refund as described above.
- Local governments would have to commit not to raise property taxes on the increased value of properties attributable to the investment for five years.
- Existing city/county offices of housing or similar agency would administer the program.
- In addition to the monies for the grants, local governments would also be provided with adequate funds to administer the program.

Helena, Arkansas - A home rehabilitated using the Arkansas State Historic Tax Credits

2. Adopt the Historic Homeowners Tax Credit program.

- This would be modeled on the existing historic property tax credit that currently only applies to investment properties.
- The owner of a qualifying property would be entitled to a 20% tax credit for investment in the historic residential property up to a maximum of $200,000 in investment or $40,000 in tax credit.
- This would not be a permanent change in the tax law, but only enacted for five years.
- Unlike the existing historic tax credit, the "substantial rehabilitation" test would be a minimum of $5,000 but no "greater than basis" requirement.
- Other provisions of the existing tax credit would apply, including the five-year holding period requirement.
- State Historic Preservation Offices would be provided additional funds sufficient to administer this new program.

3. Expand the Federal Rehabilitation Tax Credit for smaller projects.

- For projects less than $2,000,000, the amount of credit available under the existing historic tax credit program would be increased to 40% from the existing 20%, and all of the credit would be available at the "placed in service" date rather than the deferred use as is currently the case.

4. Create a Job Training Program for the Rehabilitation Trades.

- Any local government or its designee would also be eligible for funds for the training in the construction trades, particularly as they apply to rehabilitation in general and historic rehabilitation in particular.

A Note on Implementation

In order to implement the programs above, a few changes to existing policy might be necessary to remove barriers. While attacks on existing regulations are often driven by ideology rather than a measurement of the ultimate public benefit, nonetheless it may make sense to alter two current regulatory requirements in order to make faster and more effective the implementation.

1. Waive Davis-Bacon requirements for all funds used under this program. Davis-Bacon is the requirement that projects using federal funds must pay "prevailing wage". The impact of Davis-Bacon is to raise the cost of labor on average around 20% more than, in fact, the rate for which local labor can be secured. Even more important, however, is the multi-year record keeping requirements that basically preclude small firms from undertaking projects involving federal monies which trigger Davis-Bacon.
2. When the Secretary of the Interior's Standards for Historic Rehabilitation are applied for residential properties under this program, only the exterior work would be subject to review. The rationale for this (in an emergency situation) is that the "public benefit" generated by applying property preservation practices is primarily the exterior of residential properties. Commercial properties, by contrast, regularly have the general public inside the building, so applying good preservation principles inside and out through the Secretary's Standards is more warranted.

Meeting the Principles

The programs recommended above meet each of the principles established earlier.

1. Investment should be in long term capital assets.

This older housing stock is a capital asset, and the reinvestment in these dwelling units will extend both their physical and economic life. The job training component, while not a capital asset, is a long-term asset in that life-long skills that will be acquired by the men and women who undertake the training.

2. Job creation should be a priority particularly through small business activity.

Every $1 million spent rehabilitating older houses will create 6.1 Direct Jobs, 4.6 Indirect Jobs, and 5.8 Induced jobs, or a total of 16.5 jobs. The income from those jobs would be $360,948 for Direct Jobs, $262,712 for Indirect Jobs, and $293,217 for Induced Jobs. In other words, $1,000,000 expenditure ultimately creates nearly a million dollars ($916,778) in labor income This compares favorably with another likely priority in the next Stimulus package, investment in repairing infrastructure. Maintenance and repair construction of highways, streets, bridges, and tunnels generates 6.5 Direct Jobs, 3.6 Indirect Jobs, and 5.8 Induced jobs, for a total of 15.9 jobs. The corresponding income numbers are $382,611/$242,872/$295,757). The difference is this – nearly all residential rehabilitation work is done by small businesses; nearly all highway/bridge/streets projects are done by large firms.

3. Programs should benefit local economies of all sizes throughout the country.

Because every part of the country has both an older housing stock and a housing affordability problem, villages, towns, cities, and rural areas in every region would benefit from these programs.

4. Local governments should be assisted.

It would be a disservice to what are already vastly overstretched local governments to provide them with money to provide as grants but not provide them sufficient resources to administer the programs. Because there will be necessary oversight on both the expenditures for the rehabilitation but also the subsequent compliance requirements, local governments will need adequate staff to responsibly meet their obligations under these programs.

While local government would be precluded from increasing property taxes on the value increase generated by these improvements, they would likely see enhanced revenues in year six and thereafter, providing them with additional resources to pay teachers, firefighters and to fix potholes. Additionally, since this would be investment within existing service areas, no new infrastructure would be required.

5. Expenditures should be environmentally responsible.

The average size of a pre-1960 house is 1282 square feet. While that may seem small compared to new houses being constructed today (2641 square feet) it is certainly large enough for a sizable segment of the market. 63% of all households in America consist of only 1 or 2 people. For families who do need more space, 11% of pre-1960 houses are 2500 square feet or more. But what is the impact of tearing down just one average sized pre-1960 house? An additional 189 cubic yards of debris goes into the landfill equaling 55 tons. The environmental impact of recycling the last 200,641 aluminum cans is wiped out. The debris from this one house has the impact on the landfill of all of the plastic bags used by 300 people over their entire lives.

Every child in America learns that being responsible environmentally means reuse, repair, recycle. Renovating older housing does all three.

Because older housing already exists, no new urban sprawl is created when reinvesting in them.

6. The programs funded should be part of a comprehensive local resilience strategy.

Every town, city, and state in America will need a resiliency strategy after the peak of the coronavirus has passed. But recent research on resilience has revealed it has multiple components. Among them are: foster long-term and integrated planning, meet basic needs, support livelihoods and employment, ensure social stability and security, foster economic prosperity, provide and enhance natural and manmade assets. Reinvesting in each city's older housing stock can be a core component of each of those resiliency requirements.

7. Each Federal dollar spent should address more than one pressing need.

Adopting this program would simultaneously address: affordable housing, job creation, small business survival, job skills shortages, assistance to local communities, and others. Every dollar of federal funds would address multiple challenges.

8. There is already an administrative framework to administer the programs.

Nearly every local government has existing offices for housing and/or economic development and/or historic preservation. So, the existing human and organizational framework for implementation already exists. While funding would be necessary to accommodate the additional workload that these recommendations would require, in most places it would not be necessary to create entirely new and unfamiliar departments.

On the state level, every state already has a State Historic Preservation Office (SHPO) with trained people to administer the existing federal historic tax credit. While additional funding for additional responsibilities would be necessary, the human and administrative framework is already in place.

Conclusions

The simultaneous crises of affordable housing and the economic collapse driven by the COVID-19 pandemic need a major national response. The proposals above could cost effectively address both needs, advance the public good, and be a major step in the resilience of American towns and cities of all sizes. In conclusion, the proposals outlined in this report are good public policy for the following reasons:

1. They represent investment in long term assets.
2. The work is labor intensive, meaning the same amount of expenditure generates more jobs and more local income. The labor component of the investment is then re-spent locally having a sizable secondary impact on the local economy.
3. Because most of the investment will be in labor rather than materials which are often purchased overseas, there will be much less impact on trade balances than new construction so more money stays in United States.
4. Because the work will be on local housing, using primarily local labor hired by local firms, the economic impacts will be local.
5. Small businesses who undertake the vast majority of residential rehabilitation will be major beneficiaries.
6. Small business has been particularly impacted by coronavirus and both the construction trades and the housing market are expected to be negatively impacted for an extended period of time.
7. Older housing exists in every jurisdiction, rural, suburban, and urban so the programs will be widely dispersed nationally.
8. Other than small businesses, the major negative economic impact of the coronavirus has been on local government. Both in the short and the intermediate time frame, these programs will assist local government.
9. None of these proposals either require extension of infrastructure nor add to urban sprawl.
10. These proposals would restore assets for homeowners, stabilize rents, and improve living conditions for millions of Americans.

Respectfully offered,

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