Housing Alliance
of Pennsylvania

Pennsylvania House of Representatives Commerce Committee
Representative Peter J. Daley, Chairman

Hearing on HB 1776 Housing and Economic Revitalization Act
November 10, 2009

Testimony of the Housing Alliance of Pennsylvania
Presented by Elizabeth G. Hersh, Executive Director

Good morning and thank you for the invitation to testify on House Bill 1776, the Housing and Economic Revitalization Act.

I think we would all agree that the relationship between the housing market and the economy has never been clearer. In fact, if we have learned nothing else from the events of the past year, we can say incontrovertibly that a strong, healthy housing market under-girds the economy. When the housing market fails, the economy fails.

The question on the table today then is, can housing – which triggered the current economic downturn – also provide the stimulant to recovery?

The answer is yes. In fact, the Housing Alliance of Pennsylvania released a report last May written by the Econsult Corporation, *Rebuilding Pennsylvania's Housing Market: Potential Economic Impacts of a Pennsylvania Housing Trust Fund.* As you know, Representative Daley, Chairman of this committee, has proposed the establishment of a state housing trust fund through House Bill 60, the Pennsylvania Housing Affordability and Rehabilitation Enhancement Act (PHARE) which has similar goals to HB 1776 of investing in the housing market, but it does so through capital investments rather than the tax credit approach and specifically targets expanding housing choices for consumers who earn modest incomes, those most in need.

The results of the economic impact report are useful for the discussion at hand today. In that report, economist and Econsult Director Lee Huang found that each dollar the state invests in housing returns from $1.62 to $2.28 to the state's economy. The return is the result of the sale of supplies used in construction, items such as lumber, drywall and roofing. It also takes into account other expenses tied to construction such as fuel and insurance. Each $1 million invested in this kind of work results in nearly 20 full-time jobs for one year. The jobs created are in a wide variety of sectors, including construction industries, manufacturing, health care, retail, professional services, financial, insurance and others.

Public investment in housing creates benefits that will last over the many years the housing is in use. The economic impacts of State expenditures for construction are distributed widely throughout the State, with each region sharing in the benefits, because housing construction and rehab impacts are felt locally.

Each dollar invested by the State in stabilizing the housing supply increases State and local tax bases through personal and corporate income tax, and sales and use taxes. Econsult's economic analysis finds the State economy gains an additional return ranging from 62% to 128% on expenditures for housing. This return – increased economic activity - is the result of increased goods and services supplied by other businesses to support construction (lumber, drywall, roofing, etc) and other direct expenditures (fuel, payroll, insurance, etc.), as well as the increased spending by those employed, which in turn causes further increases in supply of a wide variety of goods and services, with concomitant economic impacts.

So to return to the matter at hand, The Housing Alliance strongly supports the intent and underlying philosophy of the Housing and Economic Revitalization Act. Housing equals jobs and economic growth for the Commonwealth.

But the Economic Impact Analysis conducted by Econsult leads us down a slightly different path than what HB 1776 currently proposes. And it is our hope that we can work together with Representative Bear and with the Pennsylvania Builders Association to bring our state housing trust fund proposal, "PHARE," together with the Housing and Economic Revitalization Act. Here's why.

The economic analysis conducted by Econsult found that the biggest and quickest return on taxpayer investment comes from rehab and repair of already existing properties. The highest rate of return -- $2.28 million for every $1 million of public expenditures, and the creation of jobs equivalent to 20 full-time one year jobs -- comes from rehabilitating and remodeling existing dwellings. This is significant because, while all State funds spent on housing are put into circulation relatively quickly, remodeling and rehabbing existing properties can be started and completed the most quickly. In addition to the impacts of State expenditures, building and remodeling homes to close the gap between incomes and housing prices generates significant new economic activity through increased spending by the individuals and families moving into these homes, including move-in expenses and, importantly, increased annual disposable income available to families currently paying far too much of their household income for housing expenses while forgoing other needed purchases.

Rehab and updating existing housing stock has an immediate qualitative impact on neighborhoods suffering from outdated, uninhabitable and abandoned dwellings. This is critical to restoring and maintaining property values for the surrounding properties so there is a positive community impact as well as the economic impact. And

I think we can all agree that if our investment and labor can make communities stronger and safer while making homes more affordable and bringing up property values, that is a double bottom line we can all be proud of.

We would recommend that the threshold for the bill's remodeling rebate be eliminated or significantly reduced to better incentivize the range of rehabilitation work on existing properties and de-emphasize making homes bigger as a primary legislative goal. We would eliminate the new square footage requirement for the remodeling rebate. Not only would this modification create more work in the construction industry and stimulate the economy more quickly and effectively, but it responds to the unique character of Pennsylvania's housing stock. 74% of our houses are more than 30 years old. For low income and elderly homeowners there is a dire need for home repair assistance. HB 1776 could begin to address that need, but only if the $50,000 minimum and the additional square footage requirements were deleted.

Similarly, we would advocate for balancing the rebate in the bill for new and existing homes. As written, HB 1776 provides up to $10,000 for the purchase of a new home, but only $2,500 for an existing home. At the very least, HB 1776 should provide an equal rebate for new and existing homes. A preference for existing homes would be even better.

So first, we would modify the bill to increase the emphasis on investing in the existing stock.

Secondly, we would advocate for the inclusion of rental housing in the legislation. There are many good reasons to include multifamily development and rehabilitation in this incentive and investment package: greater affordability for entry level and lower wage workers, attracting and retaining young people in our communities, making a home for the older generation when they retire, options for all members of the community. But to stick with the economic impact and job creation aspects of the legislation, there is good news. New construction of multifamily housing creates more jobs than single family construction. So let's get it into this bill and get our builders, carpenters, architects, HVAC guys and all the others working in the building and trades industries back to work by investing in multifamily as well as single family construction and rehabilitation.

Finally, we would add an affordability component. We cannot ignore the fact that more than 90,000 families statewide are on housing authority waiting lists for public housing and rental vouchers. 53% of households that rent pay more than 30% of their income for housing, leaving few dollars left to cover other family needs. 17% of homeowners have incomes under $20,000 a year, and many of them need assistance with home repairs. 15,000 Pennsylvania families are without homes altogether and school districts report that they are serving 13,000 homeless children a year statewide.

Now I don't think it is the obligation of homebuilders to solve the housing affordability problems of the Commonwealth. But I do think that we have a unique opportunity here to stimulate the economy, bring builders back to work and make it economically advantageous through tax credits, rebates and investment for builders to construct homes that people with low and moderate incomes can more easily afford.

In closing, the Housing Alliance shares your goal of a stronger, healthier housing market spurred by state investment NOW to bring homebuilders back to work, jump start the economy and most important, make sure that every Pennsylvanian has a home they can afford in a community that is safe, attractive and offers them the chance to work hard and contribute. We have a chance here to have a win-win proposal that creates and expands housing opportunities for Pennsylvanians by investing in our existing stock, expanding homeownership and rental opportunities through state incentives, capital and investment. But to do so we need to use the economic data that we have to guide us by equalizing the rebates for new and existing home purchases, eliminating the $50,000 minimum expenditure for the remodeling rebate, eliminating the new square footage requirement for the remodeling rebate, and adding multifamily to single family construction and rehab.

We hope you will consider marrying this bill with the establishment of a state housing trust fund - your bill, Mr. Chairman, HB 60 - to allow for a comprehensive rebalancing of the housing market. It is not good enough to try to get us back to where we were before the crash. We have a golden opportunity to figure out what went wrong and work to correct it.

Thank you.