



Habitat Tucson’s Social Impact Report

The Community’s Affordable Housing Problem

- 50,000 housing units in greater metropolitan Tucson are 50+ years in age and in need of significant rehab. Many of these are occupied by vulnerable and at-risk populations, including seniors aging-in-place. 39,000 of these housing units are considered substandard, overcrowded *and* cost-burdened (paying more than 50% of income on housing).
- Among other detrimental socioeconomic factors, substandard housing also represents a public-safety risk to the community.
- In a very good year of production, the community is producing no more than 1,000 units of new or rehabbed affordable housing.
- An estimated 20% of Tucson households live below the national poverty line (family of 4 below \$20K/yr)
- AZ has the 2nd highest foreclosure rate in the nation, as foreclosures have increased 8-fold in the last three years and as currently 38% of the properties for-sale in Tucson have been (or are in the process of being) foreclosed.
- Even with the decreasing price of the median priced new or resale home, the 2010 gap between a median income household’s home-buying power and the median priced home is \$15K, and that gap increases to \$100K for the 146,000 low-income households in Pima County, a gap that is increasing as Arizona’s per capita income fell 4.1% in 2009 (compared to a 2.8% nationwide).
- Local and national socioeconomic studies confirm a statistically valid correlation between affordable homeownership and a multitude of positive socioeconomic outcomes for families, neighborhoods, and the overall community.

Habitat’s Solution.... Our Theory of Change

Our theory of change – which reflects our core operating principles of balancing individual benefit with the common good, asking everyone to contribute to the solution, and being good stewards of the community’s resources – is as follows:

Inputs →	Intermediate Outcomes →	End Outcomes →	Impact
Construction Education – both for homeowners & volunteers	Homes for families Homeownership skills & financial literacy	Stable families Stronger neighborhoods Increased property values Improved Education Higher Income 168% SROI, per independent study	Economic self-sufficiency Sustainable quality of life Thriving, prosperous community

Our theory of change implies that volunteerism or broad community engagement leads to systemic change, as does personal transformation for each person engaged in Habitat's mission. Together, these two ensure the kinds of quality-of-life opportunities and just relationships that households, neighborhoods, and the overall community need to reach our potential.

Habitat believes in making results happen. We believe in mutual investment in one another's success. We believe that – much like any other public-benefit or common-good infrastructure, whether public-safety, health, transportation, water, public education, libraries, and economic development – a community should strategically invest its public resources in creating a sufficient supply of affordable housing opportunities for its hardworking low-income families who are ready for the responsibility and opportunity to achieve the American dream of homeownership, and who will therefore become even more socio-economically productive & value-added members of our community.

If we look at a comparison of just two of the systems above – public-safety and health, for instance – we can make the following argument based upon national and local research:

- Some research (University of Chicago's Journal of Law & Economics) suggests a 30% inverse elasticity correlation between policing and crime, such that increases in the police force correlate to a decrease in crime.
- Some research (Harvard's Joint Center for Housing Studies) similarly suggests a 7% elasticity correlation between homeownership and crime.
- Extrapolating valuation data and correlation research from the above sources and from local City of Tucson data indicates that an investment of \$100,000 to increase by at least 1 the # of owned homes in Tucson vs. an investment of \$100,000 to increase the police force by 1 officer would yield the following:
 - A 1-year net present value (NPV) of -\$75,000 for the officer vs. an NPV of -\$93,000 for the house.
 - But since the \$100,000 investment towards the home is a one-time investment, by year 30 of that asset (the life of the mortgage), the NPV remains at -\$93,000; whereas the investment in the officer requires ongoing annual investments of \$70,000, for a 30-year NPV of -\$662,000, even with this strategy's higher elasticity correlation (or benefit).
 - Further, if instead of building 1 house with the \$100,000, that money was spread as matching down-payment to, at most, 50 buyers, the 30-year NPV of the initial one-time homeownership investment improves to -\$66,000 NPV.
 - In either case, assuming the research's validity of a statistically significant correlation between homeownership & crime and police staffing & crime, neither investment would be considered a rational investment from a purely financial assessment of just this one socioeconomic factor or correlation, as both result in negative net present value investments. It is outside the scope of this analysis – or Report – to provide such a full socioeconomic value assessment (although some additional information is provided in this Report regarding additional value related to housing).
- A 2010 cost-assessment study from Pima County Community Development of a \$1 spent on treating health problems related to unsafe housing conditions vs. a \$1 spent on mitigating those conditions through physical changes in the housing quality reveals that

healthcare costs approximately 2.5 times more than improving the housing. The study examined the cost trade-offs associated with mold, asbestos, lead, mercury, radon, physical hazards, water & waste hazards, and pesticides.

Continuing with the operating values or beliefs of Habitat, it should be noted that while Habitat believes that all people have a basic human right to safe, decent, affordable housing, we believe that *homeownership* is an opportunity and a responsibility that not everybody is ready for. Consequently, our organization's core value can be summarized as *a hand up, not a hand out*. Investing in families' homeownership is an investment in improving the socioeconomic quality-of-life of our overall community.

We acknowledge that our annual direct production as an affordable homebuilder who utilizes volunteer builders will not solve the community's significant affordable housing needs and challenges. We believe, however, that our business model of utilizing hands-on volunteers in all aspects of our work informs people about and engages them in the affordable housing needs and challenges of our community. We expect these informed and engaged volunteers to become affordable housing advocates, so that the overall community's creation and preservation of affordable housing becomes scaled-up to meet the real needs. Our Theory of Change, then, is not meant to be transactional for the mere benefit of our organization but rather transformational for the socioeconomic benefit of the overall community, both for the sake of this generation and subsequent generations.

Our Business Model

Habitat Tucson has served as the general homebuilding contractor and zero-interest mortgage-lender to 300+ households in Pima and Santa Cruz Counties.

Habitat Tucson is the only land-developer, homebuilder, mortgage-lender, and homeownership advocate for working families in Pima and Santa Cruz counties who make between \$19,000 and \$54,000 per year (depending upon family size). These are the low-income working people who make our communities run day-in and day-out, including childcare workers, healthcare workers, school bus drivers, retail clerks, restaurant & resort workers, assembly workers, call-center workers, etc.

Utilizing a core of professional staff and thousands of "grassroots & grasstops" volunteers each year, Habitat Tucson (a locally governed and independently incorporated "franchise" of Habitat for Humanity International) attempts to engage all sectors of our local economy in a hands-on experiential endeavor to increase Tucson's investment in improving the hidden crumbling infrastructure of affordable housing currently available to low-&-moderate-income households within our community.

Because of our engagement philosophy of working with "novice" homebuilding volunteers, regardless of their skill-sets, in order to influence public-policy & community resource allocation decision-making, Habitat Tucson is not the least expensive homebuilder in the market, although our market-quality homes cost in the bottom-quartile of local homebuilders' costs. Habitat

estimates that novice-builder volunteers add 4% additional cost per sq. ft. This cost is offset by the value of the in-kind donation of building supplies that Habitat receives each year.

Habitat's zero-interest mortgage loans are the primary means by which Habitat homes are made affordable to low-income families. In addition, Habitat charges its homeowner families less than the appraised value of their competitively priced market-quality home. While less than 2% combined of Habitat families sell their Habitat homes or default on their mortgages, Habitat Tucson nonetheless protects the community's investment by a layered mortgage-lien and shared-equity structure, in which the family never needs to pay back the entire original appraised value unless they sell or refinance their Habitat home.

Recent Activities

In the last 10 years, through its homebuilding, homeowner education, and mortgage lending services, Habitat Tucson has provided over 325 hardworking local low-income families with the opportunity to achieve the American dream of homeownership.

Habitat Tucson isn't merely a homebuilder and a mortgage-lender, it is also a land and subdivision developer, routinely developing neighborhoods of up to 40 homes. Habitat Tucson recently scaled-up its efforts and is completing the development of a mixed-income neighborhood of 393 homes, in which 60 Habitat homes will be interspersed with for-profit homes built by other local homebuilders. For this new neighborhood, in addition to our green sustainable-design homes, Habitat is also developing three parks and circulating walk and bike paths. The total project costs on this subdivision development exceed \$12M, or twice Habitat's annual operating budget.

Four years ago, Habitat Tucson launched its HabiStore Home Improvement Center, a retail operation selling donated and recyclable building materials, major appliances, and furniture to the general public. Not only does this store generate earned-income for Habitat, it also encourages the recycling of these materials to a public that needs low-cost home-improvement opportunities. Tucson Clean & Beautiful and Freecycle estimate that the HabiStore annually diverts over 200 tons of recycled materials (equivalent to 40 elephants) from Tucson's landfills.

Habitat Tucson leverages its direct services by also advocating for changes in public policy and funding, in order to ensure that the thousands of Tucsonans who live in substandard, overcrowded, and cost-burdened housing (shelter, transitional housing, rental, and homeownership) have an opportunity to improve their housing conditions through such strategies as low-interest loans & grants from the City's & County's recently launched Housing Trust Funds.

Financials

A \$5.6M annual operation with total assets and liabilities of \$10M, Habitat Tucson:

- Spends only 11% of its revenue on fundraising & administrative activities, compared to the national norm for non-profits of 20%

- Has diversified revenue streams (minimizing economic & externality risk), including 52% from philanthropic investment, 39% from earned revenue sources (mortgages, retail store operation, investment earnings & gains), 9% governmental contracts.
- Has a current ratio of 3.19, a debt ratio of 14%, and a sustainable annual growth-rate of 1%, all of which rank it as one of Habitat International's top 50 U.S. producers from among 1,200 Habitat affiliates worldwide.

House Sponsorships

- The current full house sponsorship rate is \$85,000. Groups of "investors" or philanthropic supporters (whether from the business community or faith communities) often pool their resources to cover this sponsorship amount.
- Habitat combines this \$85,000 sponsorship with another \$45,000 from Habitat's own earned-revenue sources and/or from Habitat's public-sector partners to fully cover the cost of the lot-acquisition, site-development, and build-out of the home.
- The philanthropic house sponsor(s) receives a number of exclusive opportunities and benefits, including significant volunteer homebuilding opportunities as well as significant print & broadcast media and co-branded marketing exposure.

Results & SROI ("social return on investment" or social impact)

Our local research tells us that:

- The completion of every Habitat Tucson home – each of which is sponsored by social-venture philanthropists or "investors" – yields a minimum 168% return to the community on the investment (from independent audit from Community Services Analysis, LLC)...
 - factoring in the value of the home and mortgage
 - the economic activity generated by the construction of the home
 - the increase in property and other public-benefit taxes generated by the new homeowner
 - the lowered rate (or cost) of public assistance utilized by Habitat families as they move into safe, decent, affordable homeownership
- 59% of Habitat Tucson households have seen their incomes increase
- 61% use less or absolutely zero government assistance
- 52% have significantly decreased their credit card debt
- 53% report strong improvement in their children's grades in school
- 26% report improved physical health
- 81% report that their life-goals have changed
- 90% report an increase in their sense of optimism about their future

A growing body of nationwide research indicates a statistically valid correlation between Habitat homes and "spill-over" socioeconomic benefits upon surrounding neighbors, including:

- Improved property conditions & economic values, as measured by increased house prices

- Increased neighborhood safety and reduced rates of crime (see page 2 of this Report for additional data)
- Improved school performance, as measured by standardized achievement tests
- Increased attention to local environmental concerns

Strengths & Challenges

Globally, Habitat for Humanity is focused on 4 priorities:

- 1) Exponentially increasing the number of people we serve;
- 2) Mobilizing new capital into the affordable housing market;
- 3) Being a leader in transforming the systems that impact the production and retention of affordable housing; and,
- 4) Valuing the diversity of people and community in all that we do.

In a recent study by Stanford University (published by Jossey-Bass as Forces for Good), six traits were found to be operative in high-impact nonprofits like Habitat for Humanity, including:

- 1) Providing both direct service and advocacy for the cause;
- 2) Entrepreneurially utilizing markets;
- 3) Inspiring “evangelists” for the cause;
- 4) Nurturing nonprofit networks;
- 5) Mastering the art of adaptation;
- 6) Sharing mission leadership broadly.

Habitat Tucson’s recent achievements and strengths mirror Habitat’s global priorities, as well as the six traits of high-impact nonprofit organizations.

- 328 Tucson area low-income working families have purchased a zero-interest Habitat home
- Habitat Tucson’s life-time foreclosure rate is less than 1%
- 65% of Habitat Tucson families report significant, positive changes in their socioeconomic well-being since homeownership, improving their families, neighborhoods, and the community
- Habitat Tucson has an entrepreneurial track-record of “firsts” among Habitat for Humanity affiliates worldwide, including being the first Habitat affiliate to:
 - launch a partnership with local public high schools to build Habitat homes
 - launch a jobs program for work-release prisoners who also obtain community college credit in construction technology
 - launch a joint-venture with Native American tribes to build on- and off-reservation housing
 - launch the first Rainbow Build partnership nationally with the LGBT community
 - launch a joint-venture with for-profit builders to purchase, land-develop, and build out a mixed-income community of 393 homes

- launch, through our advocacy efforts, a local municipality’s housing trust fund and community land trust
- launch the first employer-assisted housing (EAH) program in partnership with Tucson Medical Center, and provided technical and financial assistance to the development of other EAH partnerships in Southern Arizona

Current Strategic Imperatives

The following strategic imperatives are grounded in Habitat Tucson’s mission to end poverty housing by creating opportunities for homeownership in partnership with low-income families and by making safe, decent, affordable shelter a matter of community conscience and action. And they are guided by Habitat Tucson’s operating principles of Partnership (in which everyone’s contribution is needed and valued), Balancing the Common Good & Individual Benefit (or balancing the good of the many with the good of the one), and our organization’s effective, efficient, and ethical Stewardship of the Community’s Resources that are invested in our work.

1. *The Wow! Experience.* We want everyone who comes into contact with Habitat’s mission to be wowed and personally transformed by that encounter.
2. *Double Our Impact.* Given the immense and complex affordable housing needs of the community, we want to double our affordable housing impact each and every year without a corresponding increase in our costs or per client investment (currently at average \$106K/household: current blended cost of new and rehab construction). This will inevitably mean leveraging our own annual housing production (whether new or rehab) through partnerships with other producers and by acting as a catalyst/advocate for significantly scaled-up financial/social/political investment from the public, private, and NGO sectors of the economy to adequately address the community’s affordable housing need. At the current level of need (50,000 at-risk units) and at the community’s current annual affordable housing production (1,000 units per year), it will take 50 years to address the current needs. Habitat proposes to the community a doubling of the community’s current annual results so that the current needs can be met in the lifetime of one Habitat mortgagee (25 years).

Investment Required

In order to scale-up and leverage our endeavors to increase the community’s supply of affordable homeownership units for the people on Habitat’s waiting list and the estimated 50,000 other households in greater metropolitan Tucson who could benefit from improved housing conditions, Habitat Tucson is seeking:

- Increased philanthropic investment, in the form of “pooled” house sponsors/investors for our homebuilding activities and our hoped-for launch of both a housing rehab program for existing homeowner-occupied units for such vulnerable and at-risk populations such as seniors aging-in-place and a down-payment assistance program for non-Habitat low-income families seeking to purchase affordable resale homes in the marketplace.
- Increased social and political-capital – what we call “the leverage factor” – so as to encourage the creation of more favorable public-policies and public resource allocations to

increase and improve our community's inventory of affordable housing, including the realization that \$1 spent on homeownership is an efficient strategy to improve, among many other socioeconomic benefits, household and neighborhood health, well-being, and public safety.

- Other down-payment and homebuyer assistance NGOs for us to provide grants.
- Elderly, aging-in-place homeowners who need minor rehabilitation and/or weatherization to provide assistance to, so as to increase the quality of their current home.

Leadership

A diverse group of 24 volunteer board members, with extensive experience across a variety of professional backgrounds and skill-sets – including local business owners, corporate executives, religious leaders, and Habitat homeowners – governs Habitat Tucson.

Day-to-day management of Habitat Tucson's operations is led by Michael McDonald. A native Tucsonan with a masters degree in international management from the Thunderbird School of Global Management, Michael has over 20 years of management experience in both for-profit and nonprofit corporations, including oversight of \$MM commercial and residential construction projects with Burr-Brown Corporation, The Nature Conservancy of Arizona, and the University of Arizona. Other key management personnel include deputy director Danny Knee with an MBA from the Eller School of Management, a masters in planning from Rutgers, and a background in both governmental and nonprofit housing, including the New Brunswick Housing Authority and the Tucson Urban League; director of community development Barbara Brown with an extensive background in philanthropy at the Community Foundation for Southern Arizona and the Santa Barbara Community Foundation; director of retail operations (HabiStore) Terry Dee with an extensive background in community service and retail management with Home Depot's Tucson operations; finance director Lynn Richards, with 16+ years of nonprofit grant-management and accounting with The Nature Conservancy of Arizona; director of homeowner services Lori Bable with an MA in Philosophy and 7 years banking and lending experience in Arizona; and assistant director of construction Patrick Pitman with over 25 years of construction superintendent and project management experience with such companies as Del Webb.

Sources for Data:

Pima County Consolidated Plans 2006-2010; 2010-2015
U.S. Housing and Urban Development Administration
Harvard University's Joint Center for Housing Studies
National Association of Realtors' August 2010 study on the benefits of homeownership
University of Ohio State, Dept. of Public Policy
University of Arizona, Dept. of Applied Sociology

University of Southern Indiana's Center for Applied Research & Economic Development
Arizona Daily Star
Brookings Institute
Drachman Institute
Habitat for Humanity International
Community Services Analysis, LLC
Pima County and City of Tucson Community Services