Habitat for Humanity Las Vegas
A Social Enterprise

Habitat for Humanity Las Vegas
A Social Enterprise

Presented by

Guy Amato
President, CEO
Habitat for Humanity Las Vegas

Contributors

John Anderson, AIA
President, SH Architecture

Additional research provided by
Joe Vertucci
Volunteer

Acknowledgements
Special Thanks to:
Eric Kurtzman, CEO - Kurtzman Carson Consultants LLC
Jade Anderson, CEO - Capstone Brokerage, Inc.
Kandy Delacruz, Manager, Corporate Communications - MGM Mirage Corporation

January, 2009

Habitat for Humanity Las Vegas: A Social Enterprise

Habitat for Humanity Las Vegas builds "simple, decent, affordable homes for working families in partnership with God and our community." In order to sustain its homeownership program, Habitat for Humanity Las Vegas focuses its efforts on building a community of people and organizations to support its mission. Habitat for Humanity creates a measurable impact on the families it serves and on our Southern Nevada community.

Habitat for Humanity Las Vegas (HFHLV) is a "Social Enterprise" benefitting our community through its ability to create Financial and Social Capital in a sustainable and environmentally responsible way. While there are immediate benefits to the families directly impacted by the program, these same benefits are extended throughout the community. In detailing the broader impact of the Habitat for Humanity program, we hope to gain wider acceptance and encourage greater financial and social investments from the community we serve.

The purchase of a Habitat home under favorable mortgage terms benefits the client family financially. It provides them with a decent, affordable home that stabilizes them economically, sustains their decent living conditions and allows them to build equity over time. That stabilizing factor has a domestic impact on the family which can care for itself without public assistance and be relieved from the undue stress and related domestic strife that often accompanies financial hardship. Children are able to thrive. The benefits translate into a stable and productive family with a stake in the community. The family can contribute through their independence; sustained labor and potential for their children to be properly educated and grow up with greater expectations for a bountiful life. The transformative impact of the Habitat for Humanity program breaks the "cycle of poverty."

Financial and social benefits extend to other people, organizations and the community-at-large. Financial capital is created for the client families through home equity; for HFHLV through the creation of assets (mortgages & land); and for the community through increased economic activity, property taxes and the development of in-fill parcels throughout the valley. The social impact is measurable. Social Capital is created by expanding the number of people and organizations that participate in the Habitat program as community partners, volunteers, service providers and advocates. Community participation in Habitat activities breaks down social barriers and stereotypes, increases public awareness of other social issues and provides citizens the opportunity to become actively engaged in helping solve problems within their community.

Financial and Social Benefits extend to the entire community

Changing the business model

Moving beyond the traditional "non-profit" model, Habitat for Humanity Las Vegas embraces the principals of Social Entrepreneurship as a "Social Enterprise." Habitat for Humanity Las Vegas will set and meet financial, social and environmental performance targets, a "triple bottom-line."

Positioning itself with the capacity to grow its programs and the attendant community benefits,

Habitat for Humanity Las Vegas created a self-sustaining business model. It established a related retail business and other revenue generating business activities which contribute to underwriting operational costs. HFHLV leverages its mortgage portfolio to augment the public and private investments that provide funding for development and construction. Habitat actively pursues collaborations with other social, civic, faith-based and private organizations to extend educational and cultural opportunities to client families.

Habitat for Humanity Las Vegas evolved from the traditional model of a non-profit organization seeking 'donations' to do "charity work" to a Social Enterprise coordinating the investment of community resources to create Social and Financial Capital for the entire community.

As a Social Enterprise, Habitat for Humanity Las Vegas and its community partners invest resources to build affordable, sustainable housing for working families. Habitat for Humanity Las Vegas will provide a Community Return On Investment by providing a compound increase in Financial and Social Capital for the entire community.

According to Jane Wei-Skillern, a Harvard professor, who co-authored the book Putting Entrepreneurship in the Social Sector:

> We define social entrepreneurship as innovative, social value-creating activity that can occur within or across the nonprofit, government, or business sectors. While virtually all enterprises, commercial and social, generate social value, fundamental to this definition is that the drive for social entrepreneurship is primarily to create social value, rather than personal or shareholder wealth.

An entrepreneurial approach to the mission opens up new ways of creating financial and social value by engaging a broader segment of the community. It also provides a new perspective in which the community will view Habitat for Humanity Las Vegas. By providing demonstrable results, utilizing sound business and investment practices, Habitat for Humanity Las Vegas will attract more community and financial support.

The following sections offer the basis of how Habitat establishes and meets its Financial, Social and Environmental goals, and describes the ways in which Habitat impacts the community it serves by creating Financial and Social Capital.

BUILDING FINANCIAL CAPITAL

Habitat for Humanity Las Vegas builds simple, decent, affordable single-family homes that are purchased by an eligible family[1] at no profit. Funds obtained through grants and donations from "Community Partners" such as private and public corporations, foundations, civic and professional associations, private individuals and government agencies underwrite local development and construction costs.

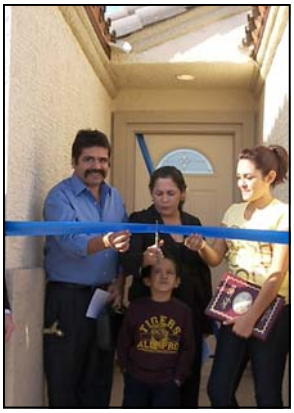
An investment in a Home Sponsorship of $100,000 partially funds the cost of building a home. The money is used to leverage other private, smaller donations and reimbursements from government agencies in the form of HOME/LIHTF and Community Development Block Grant funds, which are used to underwrite land and civil improvement costs.

An additional $30,000 of funding is realized as a result of the initial Home Sponsorship. The total $130,000 investment builds a home that will appraise for $200,000.[2] Habitat then creates a no-interest mortgage, generally for 30 years, based on the cost of construction. In this example, the amount would be $130,000 or the cost of building the home.

Habitat for Humanity Las Vegas creates Financial Capital benefitting the client family, community and the organization in the following ways:

Initial Sponsor money is leveraged for greater effectiveness

- The family pays a no-interest loan, for example, $130,000. At no interest, 100% of each monthly payment reduces the mortgage principal, thereby increasing the family's equity in the home and building wealth for the family. HFHLV holds the mortgage, an asset for the organization, which can be leveraged as collateral against loans to build other homes through Habitat for Humanity International. Using the above example HFHLV needs only 10 mortgages to borrow $300,000 which can then be leveraged to build three more homes.



- The $70,000 difference between the appraised value of $200,000 and the $130,000 mortgage represents the housing "subsidy" and an asset for the organization. HFHLV maintains a lien or "silent second mortgage" in that amount on the home. In the event the homeowner sells the home prior to paying off the first mortgage, the balance of the silent second mortgage would also be due to Habitat from the proceeds, and used to fund the construction of other homes.[3]

- The homeowner and the community also benefit from the appreciation of value the home will experience over the life of the mortgage. Conservatively, estimating a 1.5% increase value per year, the home would be worth $307,995 after 30 years and contribute to the family's equity, the home values of the surrounding community and increased property tax revenues to the local government.

- The cost of land is critical to the affordability of the homes. Parcels for construction are obtained in areas in need of redevelopment or in-fill parcels that do not represent commercially viable development opportunities for private builders. Such vacant parcels are located within various older neighborhoods in the Las Vegas valley. These vacant parcels have a

negative impact on property values and represent safety and quality of life issues to the surrounding homeowners. Traditionally, HFHLV has acquired these lots through private and local government donations or through the use of HOME funds, HUD funds distributed by local governments.

- Vacant in-fill parcels, which would not otherwise be developed, are now occupied by homes and working families. The value of the surrounding homes increases, building equity and wealth for the surrounding families. While that percentage or dollar increase might be difficult to quantify, it is reasonable to expect that a fully developed parcel of land would add more value to surrounding homes than a vacant parcel.

- The properties are now assessed for a greater value as developed, residential land thereby increasing property tax revenues to the local government.

- The "multiplier effect"[4] measures the impact of the outward spread from the point of origin throughout the community. As reported in "The Economist" in August 2006, "Each dollar spent on residential construction…generates $1.27 in additional economic activity." The approximate $130,000 spent building the home conceivably generates an additional $165,100 in economic activity in the community.

Developing in-fill parcels, building homes revitalizing neighborhoods,

- The Habitat model uses volunteer labor for much of the work building homes. In Fiscal Year 2007/2008, HFHLV built seven homes and logged over 15,000 volunteer construction hours (an average of 2,143 hours per home). Calculating an hourly rate of $19.51, based on the average annual rate calculated by Independent Sector, a Washington, DC-based coalition of nonprofits and foundations, the value of that volunteer labor saves $41,810 in construction costs per home.

- The Habitat ReStore, a new HFHLV enterprise started in 2007, represents a valuable asset. Sales revenue underwrites 60% to 80% of the organization's fixed overhead allowing more of the money contributed to Habitat to be used for building homes. In Fiscal Year 2007/2008, the ReStore generated over $525,000 in revenue.

- Area home improvement and construction supply businesses and individuals, now familiar with the mission of Habitat, donate building materials to the ReStore. Not everything donated is necessarily appropriate for the construction of Habitat homes. The ReStore is open to the public, sells new and salvaged building materials, electrical and plumbing fixtures, windows, doors and hardware at a deep discount.

- The ReStore is a source of inexpensive home improvement supplies and materials to small home improvement contractors and homeowners working to make capital improvements on area homes. Those improvements lead to the increased home values as families have a resource to better care for their homes.

- The ReStore contributes to increased profits for small business owners, injecting more money into the local economy.

- It also provides a viable re-cycling opportunity for unused building materials, overstock and appliances that might otherwise be put into local landfills.

Community Return on Investment

The effective use of capital is measured using the Return on Investment (ROI) calculation. It compares how much money was gained or lost relative to the initial investment. As a Social Enterprise, Habitat for Humanity Las Vegas values the effective use of capital. The ROI formula could be used as a measure of effectiveness, however, the return on investment does not accrue directly to the initial Community Partner. An initial investment in the form of a $100,000 Home Sponsorship creates a greater amount of financial value that accrues to the client families, to Habitat for Humanity Las Vegas and to the community-at-large for the purposes of "creating social value, rather than personal or shareholder wealth."

An initial sponsorship from a Community Partner of $100,000 is put to work locally to create equity, assets, financial leverage and economic activity. The value of the homes built, the development of marginally useful parcels of land, the creation of a mortgage portfolio and the economic activity created are measurable financial results created by the initial investment.

While not representing a direct return to the Community Partner, the Community Return on Investment is measurable.

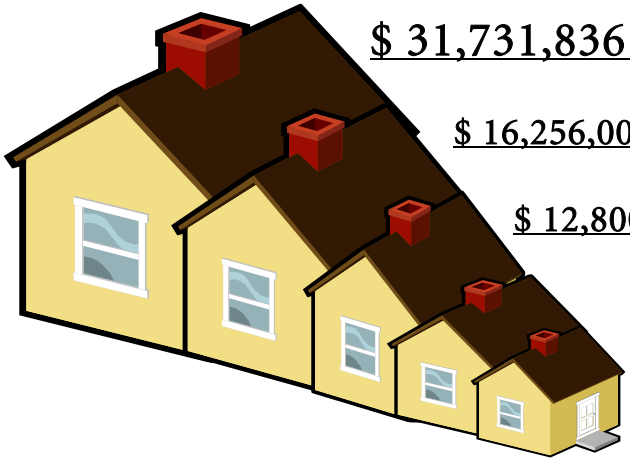
Summary

An initial investment of $100,000 to sponsor a home is leveraged to create measurable increases in financial value within the community. Sales from the ReStore underwrite fixed overhead costs, help Habitat attain self-sufficiency and redirect donated money into the organization's primary mission – to build affordable homes.

Focused Resources Provide Community-wide Returns

The financial gain from these activities is not used for increasing the wealth of shareholders; it is used to help families work themselves out of poverty, breaking the generational cycle. It is also used to redevelop blighted areas of the community, improving property values and quality of life; and generating economic activity for working people and small businesses. It is an investment of Financial Capital that generates a generous return which is used to build additional Social Capital in the community.

Habitat for Humanity Las Vegas, established 1991



$ 31,731,836 - Financial Value Created

$ 16,256,00 - Economic Activity created

$ 12,800,000 - Value of all Homes

$ 2,675,836 - Value of Volunteer Labor

$ 3,840,000 Community Partner Investments

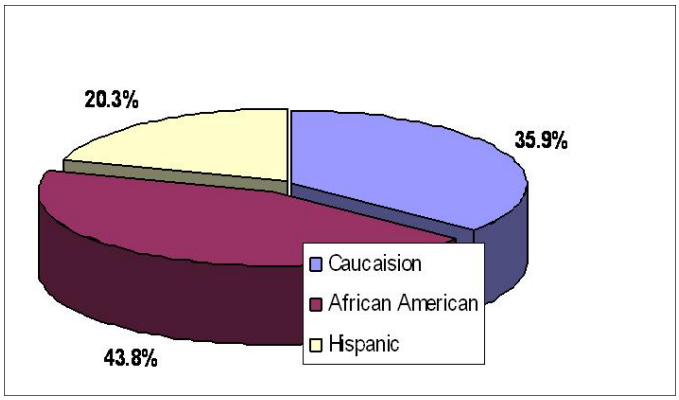
Building Social Capital

Defined as "an informal norm that promotes cooperation between two or more individuals,"[5] every successful enterprise creates some form of social capital.[5] Successful businesses create Social Capital within their company when they can develop an environment where employees share a common vision, set of goals and individual stake in the collective outcome of their endeavors. Such an environment helps generate company value in the marketplace that returns income and profits to the company, the shareholders and employees.

As with the creation of Financial Capital in the Habitat model, Social Capital occurs in three areas. It is created in the associations made between Habitat for Humanity Las Vegas, individuals and organizations that support it directly. It is created with the improvement of living conditions, skills, opportunities, productivity and potential of the client families served. It is created within the local community and beyond as the Habitat experience inspires people to become more engaged in civic life.

Habitat for Humanity Las Vegas creates Social Capital benefitting the client family, the community and the organization in the following ways:

- In addition to being provided with a sustainable, decent and affordable place to live, the recipient family experiences a paradigm shift, moving from renter to owner. The impact on the family is profound in its psychological impact and how the family views itself within the community, and is transformational in its behavioral influence on both the adults and children in the household. By requiring 300 hours of volunteer labor building Habitat homes, including their own, the families are fully engaged in improving their own lives, learn new skills, have a sense of earned reward, take greater pride in their accomplishments and their new home.



- No longer disenfranchised, families have a stake in the health and well-being of the community in which they live.

- HFHLV families work together for 18 to 24 months building each other's homes and attending classes and events. When they move into their homes and become neighbors, they have the benefit of having already established good relationships with a strong community of families sharing a common, positive experience.

- Children may contribute one hour of volunteer time to the family for good grades in school.

One hour is credited for every 'A' received on their report card. Providing children an opportunity to become involved in a family endeavor motivates them to do well in school and contribute to the family in a tangible way. They gain a sense of personal value, as well as learn the value of work and the concept of being rewarded. This also lends to preventing the causes of anti-social behaviors.

- The housing costs for a Habitat family (no-interest mortgage payment, property taxes and homeowners insurance) are limited to 30% of the family's gross monthly income. This is a widely accepted underwriting guideline among mortgage lenders and allows the family more financial resources to provide the other necessities of family life, such as healthcare options, clothing; education and quality of life purchases.

- A sense of long term security is created for the family knowing their home is affordable and within their income bracket. It relieves the stresses of surviving in a month-to-month, subsistence environment and allows families to plan long- term, knowing they are building equity and will have the resources for improving their living conditions and future.

Creating Relationships for Social Good that would not otherwise exist

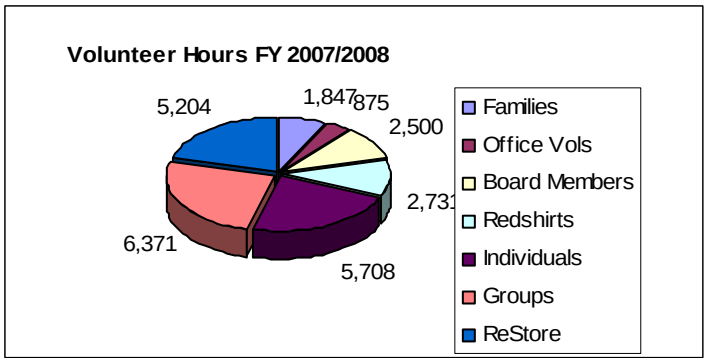
- Relieving the financial stress reduces the chances of domestic strife and violence, as well as other attendant social problems.

- It empowers single mothers to provide properly for their children while living independently and in control of their lives.

- All of these factors lead to more stable and productive citizens. It leads to better, more educated children growing up with a sense of pride and a hope for a better future.

- HFHLV raises capital from various, often disparate, organizations and people who would not otherwise collaborate in a social endeavor to build homes, or build on land that would not otherwise be developed.

- HFHLV is the conduit by which resources may be accessed from a local bank, a national sports organization, a private local company and local government for the purposes of building an affordable home. It is unlikely that the relationship between these organizations would exist under any other circumstances. Nor would their efforts alone accomplish the task of building an affordable home for a working family.



- Volunteers perform much of the work building homes. HFHLV creates opportunities for retired people to remain active doing meaningful and fulfilling work. Several skilled retirees, called Red

Shirts, volunteer their time supervising unskilled volunteers on the job site. Many have been volunteering for Habitat for several years.

- Companies schedule work days for their employees to, in part, "give back to the community," but also reap the rewards of experiencing the best team building exercise that can be devised. Several national companies visiting Las Vegas for conventions have opted for "build days" as team building opportunities rather than golf outings or other "manufactured" team building exercises. By understanding the value of the opportunity, they also contribute money. The companies benefit greatly by engaging employees in the community and by doing meaningful work - helping people help themselves. This provides a sense of camaraderie, cooperation among employees from different departments, a sense of common identity and purpose, and an overall fun way for people to interact in a meaningful way outside of office policy and protocol. The company's morale and productivity are measurably increased.

- There are many examples of executives attending a company conference in Las Vegas who participate in a Habitat build event. They return to their own community motivated to support their local Habitat affiliate with financial and volunteer resources.

- Union trade schools, such as the local roofers and painters & drywall unions, send apprentices to volunteer their time building Habitat homes. This provides them an opportunity for real world training and enhances the unions' community outreach efforts to develop skills among untrained individuals. It also helps to keep construction costs low and homes affordable.

- HFHLV has a database of over 10,000 volunteers. In Fiscal Year 2007/2008, the affiliate logged over 20,000 man-hours of volunteer time.

- Volunteers from all walks of life work side-by-side with the families who will purchase and live in the homes. They have the opportunity to get to know the families in a meaningful way. This helps to break down stereotypes and misconceptions people may have about each other based on generalizations of race, income, marital status and national origin.

- Working with the families helps others understand the need for affordable housing, as well as appreciate the benefits to the whole community that comes through providing it.

Summary

By acting as a conduit to marshal the resources needed to build a home and make it affordable, Habitat for Humanity Las Vegas creates relationships among organizations and individuals that would not otherwise exist. While the initial benefits would seem to accrue to the family who will eventually purchase the home, all who participate on some level are in fact changed and benefit from the experience. Volunteers and Community Partners are able to see tangible results for their contribution of time and resources in the span of one day as construction of a home proceeds. They also get to know the people they are helping first hand and to appreciate their work and value. By providing the opportunity to volunteer their time in a meaningful way and receive immediate and tangible rewards for the experience, volunteers are more than likely to continue their financial and volunteer support for Habitat. They are also more than likely to advocate and support affordable housing efforts in the community. They may, in fact, become more sensitive to other social needs and more willing to engage in supporting programs and solutions to the benefit of the whole community.

Environmental Goals

Habitat for Humanity Las Vegas is essentially a developer. The organization acquires, entitles and develops land and builds homes. As such, there is an environmental impact related to our activities. The Environmental Capital we create for our homeowners directly impacts their social and financial well-being. We endeavor to adopt the principles of green building in the selection of our sites, the energy efficient design of our homes, the materials we use, the equipment we install, the management of our work sites, disposal and recycling of our waste and continued maintenance of the homes.

Habitat for Humanity Las Vegas is committed to designing and building homes that are energy efficient and sustainable, which can lower operating and maintenance costs by as much as 20-30%. There are various standards of certification to document our efforts. Using programs such as Energy Star and Environments for Living, we can limit the additional cost-overhead of certifying and maintain the affordability of the homes.

Green homes rely upon established and proven design features and technologies that do not have a significantly large up-front cost. The features of a green home make it considerably less expensive to operate over time, which offsets the cost of materials that may cost more up-front. A green home is a healthy environment for its occupants. Indoor air pollutants can be 4-5 times higher in a "non-green" home contributing to health issues for the homeowners.

Through the ReStore operation, Habitat is able to salvage and sell fixtures, doors, appliances and other building materials that might otherwise end up in a land fill. This in turn generates needed operating revenue for the affiliate, contributing to the organization's sustainability.

Environmentally responsible development creates opportunities for new funding sources and donations of sustainable product.

Environmentally responsible and sustainable development benefits the client family, the community and the organization in the following ways:

- Building an Energy Star home is 10% more energy efficient than a code minimum home. With additional features, construction techniques and design consideration, there is potential savings of up to 30% on energy use.

- Habitat homes are located in communities. By building on infill lots or previously developed sites, we can assure that our homes are near transportation and services. Compact use of property makes the best use of utilities and resources and increases the sense of community.

- Green homes conserve water for our Valley through use of drought tolerant plants, drip irrigation, and high efficiency indoor fixtures and appliances. Habitat homes will use 50% less water than standard homes.

- "Heat island effect" is the term used to describe the tendency of urban areas to retain the heat of the day in their high concentrations of paving and hardscape. Habitat homes reduce the heat island effect by using light-colored hardscape and roofing materials.

- The building envelope of a Habitat home is designed for comfort and efficiency. By using updated installation techniques alone, insulation performance can be improved by 5%. Windows with low-e glass and vinyl frames reduce heat gain and make interior spaces more comfort-

able.

- Green home building techniques limit the loss of energy through mechanical ducts, while effective thermal barriers prevent heat loss at the building envelope.

- Insulating attic spaces where mechanical systems are installed will reduce temperatures by 20 degrees during peak summer temperatures, thus optimizing performance and reducing energy cost.

- Green homes have high efficiency mechanical systems controlled with programmable thermostats, resulting in monthly savings for the home owners.

- Homes are designed with efficient layout of plumbing fixtures, circulation loops and insulated hot water piping (R-4), thus reducing energy loss and natural gas use and cost.

- Green homes have high efficiency hot water heaters.

- Lights in homes account for approximately 30% of energy use. Installing Energy Star rated Compact Fluorescent Fixtures, exterior lights with motion sensors, and Energy Star rated appliances through out Habitat homes reduces energy consumption.

- A healthier home means fewer expensive doctors' visits and fewer days of missed work. Green homes are healthier homes that use environmentally preferable materials such as FCSC wood, low VOC paints, green carpets and recycled paper insulation.

- Natural ventilation in green homes, as well as use of mechanical ventilation systems to filter and bring fresh air inside and vent stale air outside, keep residents breathing easy.

- Building a standard home creates approximately 1.5 tons of construction waste that ends up in landfills. Green homes, through construction waste management plans, generate 50% to 90% less waste.

- Using advanced framing techniques minimizes the use of lumber materials saving natural resources.

- Erosion control techniques during construction minimize impacts to the environment and storm drainage systems improving our communities.

Provide a green home maintenance program to increase awareness and education of the homeowner.

Summary

There are many economic benefits to Habitat homeowners for owning a green home. The value of a green home is typically higher than that of a comparable standard home, and the market demand for green homes continues to rise ensuring long term equity. Green homes are more durable than most standard homes because of its high-quality building materials and construction processes, requiring fewer repairs and monthly maintenance cost. Soon, it will cost less to insure a green home than a standard home. The Fireman's Fund Insurance Company already offers a 5% discount to LEED-certified commercial buildings.

Utility costs and homeownership impose a considerable financial burden on low-income households as energy costs continue to increase faster than the incomes for Habitat families.

Footnotes

1 - Families are selected based on their need for adequate housing, their ability to pay back a 0% interest loan and their willingness to partner with Habitat for Humanity Las Vegas.

Applicants must:

Be a legal, permanent resident of the United States
Have lived in Clark County for the past 12 months
Not have a discharged bankruptcy in the past two years
Not have any outstanding liens or judgments
Not have debt that exceeds 55% of your monthly income
Have a minimum total household income of at least $22,950 per year (gross)

Maximum allowable total income for 2008 is as follows:

2 people	$28,860
3 people	$32,460
4 people	$36,060
5 people	$38,940
6 people	$41,820
7 people	$44,700
8 + people	$47,580

2 - Based on actual appraisals in the greater Las Vegas area between June, 2005 and March 2008.

3 - In the event that HOME funds are used, the property will be a lien for that amount in second position, held by the local government entity that distributed it, thereby reducing the amount of the silent second mortgage for a length of time defined as the "period of affordability." However, the affordability period for those funds is usually less than the primary mortgage. Should the homeowner stay in the home past the period of affordability for the HOME funds, the total amount is forgiven and represents additional equity to the homeowner. If they sell prior to the expiration of the period of affordability, a pro-rated or full amount is paid back to the government for re-use in funding affordable housing in the community.

4 - Multiplier Effect of Each Dollar Spent on Housing from the Economist, August 12, 2006