WHITE PAPER

Economic Impact Analysis Guide for Mixed-Use Real Estate Development

Charlotte, NC

IMPLAN

Use data to develop your economy.

Economic development organizations are using economic impact analysis every single day. Here's what they know.


Renderings produced by Flaherty & Collins Properties
and the Elkhart River District Communications Team

Contents

Intro

We live in a data-driven world.

The growing need to put things into numbers makes metrics, figures, and analytics more important than ever.

One path to such assessment is economic impact analysis, and its benefits are known throughout many professional circles. Academic institutions, federal and state & local governments, nonprofit organizations, economic development groups, corporations, consulting firms, and many more are all using economic impact analyses to quantify the value of their work, to communicate the economic benefits of their projects, and to simply learn more about their local economies in the interest of informed decision-making.

But as valuable as economic impact analysis is, and as widely as it's being performed and used, the fact remains that for most…the economy is a scary thing to try to study. If not scary, it's at the very least, intimidating. And like many intimidating tasks, some of the fundamentals which lie at the heart of it are often lost in the shadows of the prevailing belief that it must always be a difficult undertaking.

While many economic impact analyses *can* be extremely complex, detailed, and lengthy in their development and performance, it doesn't require an expert economist or years of effort to perform quality analyses. More important than "putting in the hours" to produce a compelling study is understanding what economic impact analysis truly requires from each analyst and how to approach it the correct way.

This white paper serves as a resource that you should consult if you've never heard of economic impact analysis or, if you have, one that you should consult before beginning an analysis of your own.

What is economic impact analysis anyway?

Economic impact analysis is a type of study which allows an analyst to examine the effects of a specific event on a given economy.

It estimates changes in activity throughout an economy in response to changes in production. It's commonly used to measure the economic ramifications of things like sporting events being hosted in an area, the relocation of large business headquarters to a region, or even to quantify the value of a local organization's projects and efforts—in addition to analyses as complex as a mixed-use development's construction and operations.

So what do you need to understand before diving into your analysis?

The following steps are meant to get you thinking about important considerations when developing your analysis and about the types of decisions you should be prepared to make during the critical planning stages.

Know **Thyself**

If there's one habit you should adopt (and never let go of!) during the course of your economic impact analysis, it's certainly a habit of asking questions.

For instance, the first thing you might ask is, "What is my goal?"

You need to determine the purpose of the study immediately, because what you want to know will dictate what information you'll need to gather to then model an economic impact. Most analysts perform impact analyses with the goal of acquiring data that aligns with a larger, specific objective. Perhaps a business is looking for metrics which make their organization or projects look more favorable than competitors' in the eyes of the public or legislative policymakers? Or maybe a government organization is looking for evidence which can serve to discredit the claims of political dissenters? Regardless, it's important to know why you want to perform an impact analysis and what you're hoping to get out of it first and foremost.

IN PRACTICE: Economic and Fiscal Impacts of the Foundry Development Project

Flaherty & Collins Properties had their eye on prime riverfront land that was very ready for development. There were no existing structures, there was existing road access, river views were abundant, and the inner city location along the high streets of Elkhart, Indiana promised great opportunity for designing a project that would weave seamlessly into the neighborhood fabric in dynamic ways.

The city already knew its market potential and demographic trends. More people were interested in moving closer to work in the city. Responding to this interest meant not only creating more variety in residential options but also inviting the types of businesses which support household spending demands.

They knew right away that a mixed-use development would be the perfect foray into welcoming more residents to the city. But what sort of blend would most benefit the city in terms of jobs supported or taxes generated?

Flaherty & Collins Properties examined the economic impact of the construction phases of new mixed-use structures including parking and public spaces as part of their Stonewater at the Riverwalk development.

The spending associated with building and operating the development translated fluidly into an economic impact analysis

which emphasized property, sales, income, and utility tax revenues which the city would bank during each year of construction and subsequent years of operations at the average occupancy rate for the area. They found that in total for the first year of construction the region would enjoy an economic impact of $26,132,739 on top of an investment of $25,549,627—$5,150,000 of which came from public funds.

This meant that the city would see a five fold return on every dollar the public invested. Future years of operational impact would be gravy.

The project broke ground within a year of the publication of their economic impact analysis findings.

Read more about this project at IMPLAN.com/case-studies/foundry.

As mentioned above, the first question should be, "What do I want from this study?"

In the proposed scenario, the ultimate "win" is to convince the City of Elkhart to approve a new development with all its social and economic complexities and potential benefits. In order to do this, the actual audience of any study that Flaherty & Collins Properties conducts would likely be government personnel and other financial benefactors with the means to offer that business special incentives, more favorable zoning, or public investment to choose this area over others they may be considering.

Decisions like whether or not to sell deciding parties (whether only government personnel or also investors, community leaders, or others) on the amount of spending to local businesses that will be stimulated as a result of the relocation, the amount of subsequent spending by existing local businesses that will be stimulated, the number of jobs that the incoming business will create, or some other consequence of the proposed relocation, are all important to make during these developmental phases.

What, in the most specific terms possible, are you able to measure?

Economic impacts are sparked every time money or commodities change hands. These sparks catch fire throughout an economy in supply chains, tax revenues, household income and spending, and myriad other places. Here's what's available in your tinderbox when you're looking to create an impact of your own:

TENANT COUNT BY USE

Each business and household by income level has differing economic effects depending on what the local economy can support. This means that it's crucial to know not only occupancy rates, but also what volume of sales any prospective commercial tenant might feasibly generate in a year, how many employees they have, and what they pay their staff. Households impacts, too, will vary depending on maximum occupancy per unit and how much income households are likely to generate within your study area.

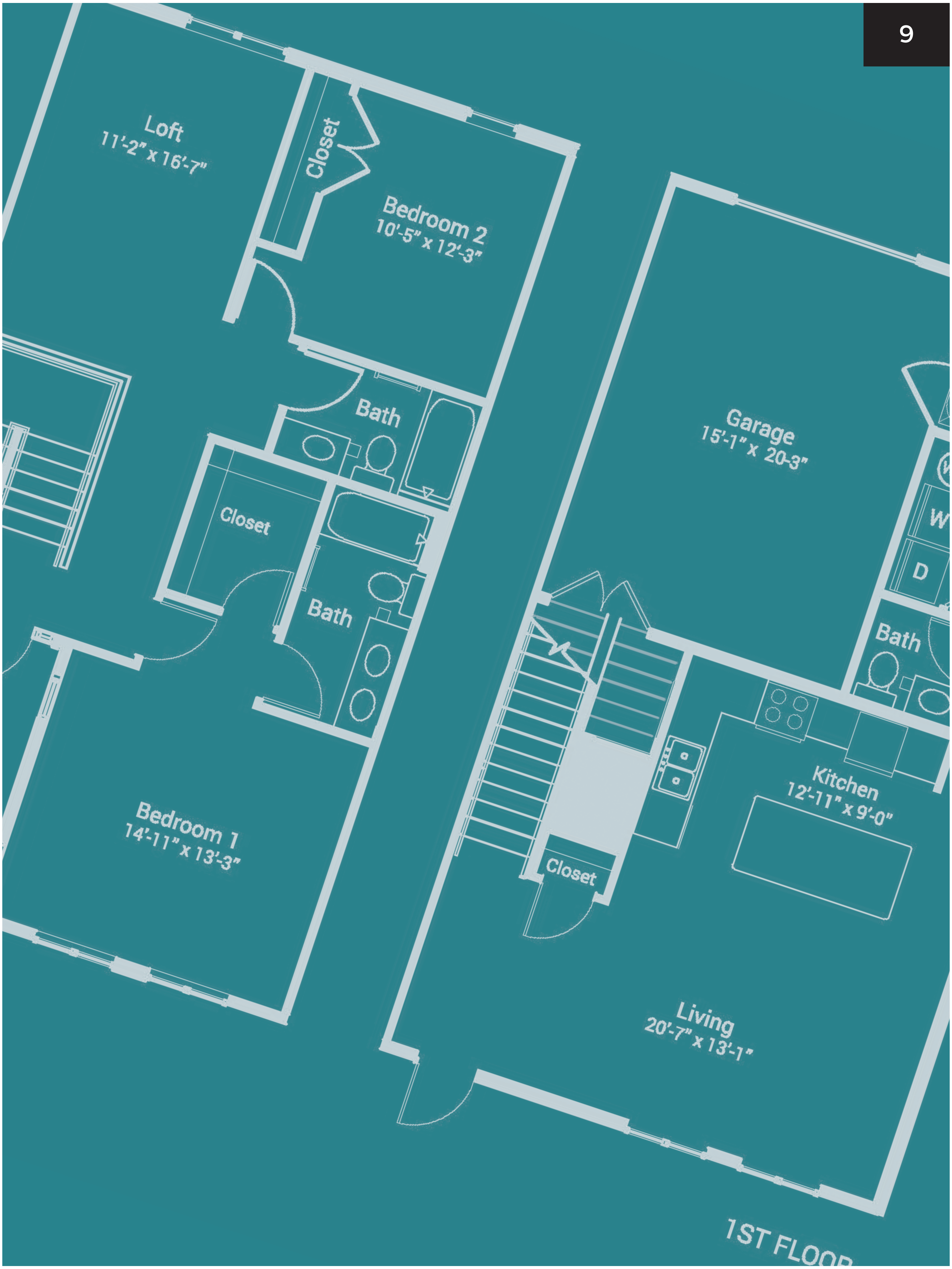
TENANT SECTOR BREAKDOWN

Each business spends money differently. Consequently, their spending affects the local economy uniquely. Consider, for example, the differences in spending between a restaurant and a law office. A restaurant will likely need to import produce from beyond the city (or even county) limits whereas a law office's expenditures may stay local in the form of wages or filing fees for city hall. This means that a portion of the restaurant's expenditures leak out of the local economy while much of what the law office spends may stay in town. While this doesn't mean that one or the other business type is guaranteed to have a greater economic impact, it does generally mean that the mix of businesses impacted in the area will vary.

Economists categorize businesses with similar spending patterns into what they call "sectors" (or sometimes "industries"). Identifying the sectors which support the most economic activity in the region can lead to greater economic impacts from your development's operations and often ensure the viability and longevity of its commercial mix.

TENANT BUSINESS ACTIVITY

For most analyses, all you need is to supply information for one or all of the following components: Industry Sales, Employment, Employee Compensation, and Proprietor Income. Industry Sales should be Sales Revenue or Value of Production. If you have Labor Dollars, that can be used too—either as your initial input if you don't have Industry Sales, or as a customization after you've entered Industry Sales. Labor dollars should be appropriately separated into Employee Compensation and Proprietor Income.


Loft
11'-2" x 16'-7"
Closet
Bedroom 2
10'-5" x 12'-3"
Bath
Closet
Bath
Bedroom 1
14'-11" x 13'-3"
Garage
15'-1" x 20-3"
W
D
Bath
Kitchen
12'-11" x 9'-0"
Closet
Living
20'-7" x 13'-1"
1ST FLOOR

Find the **Right Tool** for the Job

After you've explicitly determined the goal of your analysis, it's important to arm yourself with the correct tool to accomplish that goal.

This is a crucial step, and is one that is often tackled prematurely. Analysts who are eager to start researching will often adopt an analytical tool, have a few (usually incomplete) pieces of data, and then begin their analysis with the hopes that they'll "figure out the rest as they go." Doing so can prove to be a huge hindrance in later stages because there are many objectives which *cannot* be met using certain tools. Analysts who commit to an analytical tool before fully understanding what they want out of their analysis run the risk of finding out (often too late) that the tool they're using is not the best fit for their study.

In selecting your tool it's important to understand the differences between them and what type of methodology is most appropriate for your purposes, as well as the pros and cons of each of the available options.

There are many economic tools to choose from so the expansive range of options won't be listed in this guide. However, it's important to recognize and consider which qualities are most important to you and which tools excel in those specific areas of emphasis.

For instance, some important questions to ask when evaluating potential tools might be:

1. What is this tool's data source?

It's important to consider where a tool's data comes from. Is the source widely trusted? Is the source known to be impartial? Is its data relevant to your study?

For instance, consider whether or not the tool's source data is recent enough for your study. A tool whose source data is 5 or 10 years old might not be an appropriate selection for an analyst looking to model an impact that will occur next year.

2. Do I have the information that this tool requires, and can it deliver the information that I want?

It's important to consider whether the information that a tool requires to function is reasonable for you to obtain. For instance, a tool that requires an analyst to bring a large amount of information to the table would *not* be an appropriate tool for an analyst with limited access to such information. Additionally, even if you do have access to copious amounts of such information, it's important to consider whether or not that tool can even offer the output you're seeking. Put simply, if the ultimate goal of your analysis is to obtain a specific data figure, make sure that in the end, your selected tool is capable of delivering it.

3. Is this tool legitimate?

Finally, it's also important to make sure that the tool is for credible! Can it's validity be substantiated elsewhere throughout the economics community? Is there a reasonable number of academic studies which use and reference it? Is there sufficient documentation and literature on the tool's methodologies? Be sure to do your homework before committing to a particular tool. Consult a number of different sources to make sure that its methodologies are sound and that it has a healthy standing amongst those in the community whose opinions are most trusted. Exercise a reasonable level of caution in your search. If a tool seems too good to be true…sadly, it might be.

IN PRACTICE

Flaherty & Collins Properties engaged Crowe Horwath LLP, a public accounting, consulting, and technology firm, to conduct their analysis. As analysts intent on presenting findings to the city council, one of the things that Crowe had found to be of the utmost importance was accuracy and practicality. They knew that Flaherty & Collins wanted to be able to stand with confidence behind any facts or figures that they presented to the city and to be able to explain and reiterate any claims concerning the economic effects of the proposed development. So for this analysis, Crowe's criteria for selecting an effective tool were that its source data was accurate, reliable, and widely vetted, that it didn't require an unreasonable amount of data in order to be used, and that it could ultimately report the number of jobs that might be created or supported by the project as well as detailed tax data.

Get the Right Data

After you know the explicit goal of your study and have selected the correct tool with which to accomplish it, you're going to need some data.

Your study will require you to research and obtain specific information regarding your scenario.

For instance, when modeling the impact of sustained leasing activity in a city over a long period of time, you will need to learn how much money will be directly spent over the course of a year or even how many jobs the project itself is expected to support.

The best place to turn for this information is the source itself. This data is usually easy to acquire from the initiators of the project. In most cases, the appropriate parties will share the cost of their project with the hope that it will generate interest amongst competing sites. In other cases, questionnaires or survey methods can also serve as an effective means of collecting valuable information.

It's also important to decide the setting of the impact you'd like to model. This is comprised of two pieces: time and place. If you're trying to model the economic impact of an event on the local economy, it's crucial that you overtly define both when the event is taking place and what geography(ies) you consider to be "local."

Depending on the economic data you consult, "local" can be defined as a neighborhood composed of a handful of zip codes, a county, a metropolitan statistical area, congressional district, a selection of counties, or even a state.

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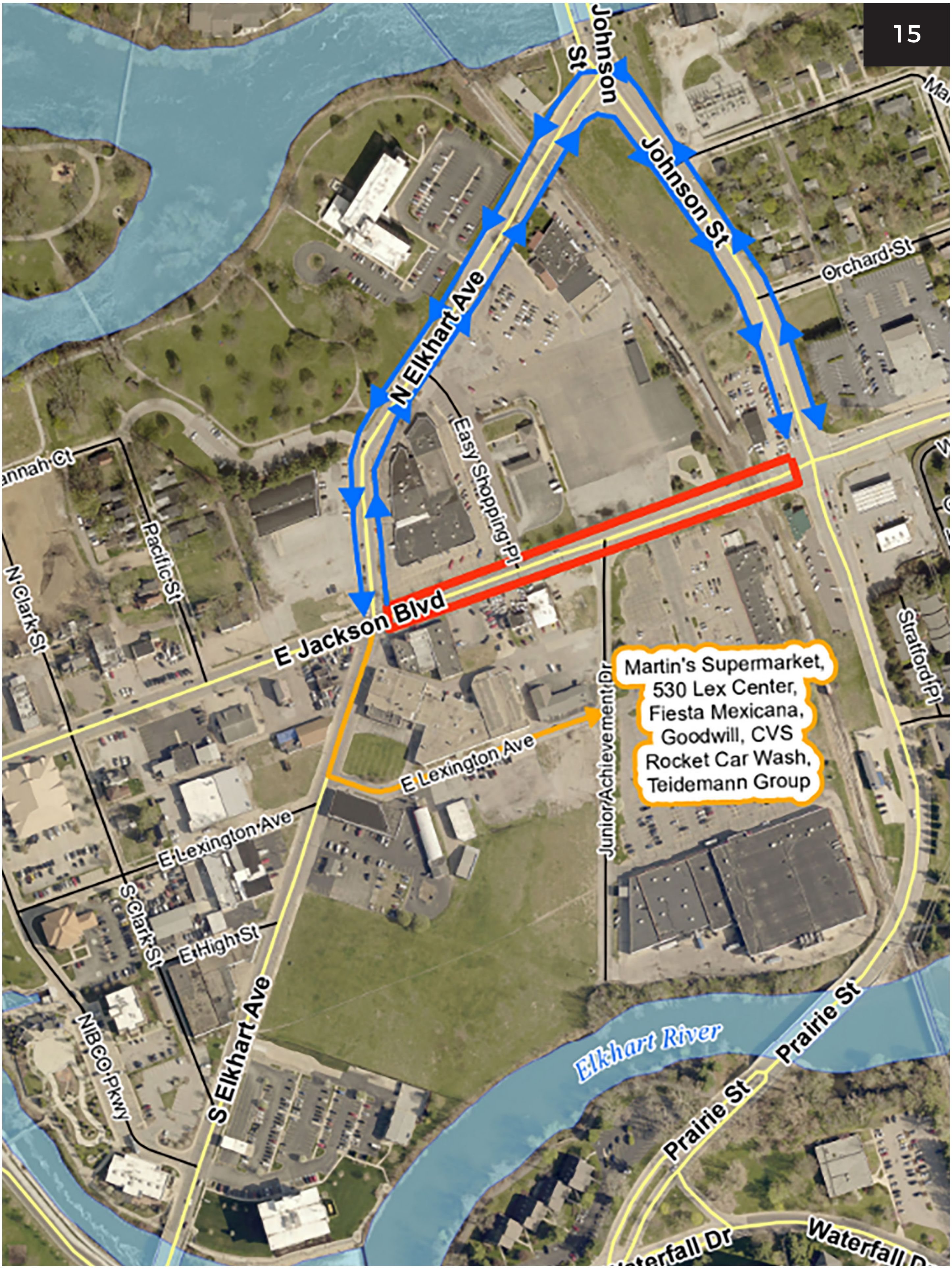
Crowe defined the City of Elkhart, Indiana geographic region as zip codes 46514, 46516, and 46517. This would restrict the estimation of economic impacts to the city center as distinct from the surrounding county or the state at large. While this specificity doesn't capture activity outside of the three zip codes, it does describe how much new business activity the city could expect to see within walking distance of the site's community.

With place set, the analysts looked next to setting a time frame. They specified a construction and operations phase for the development's first 5 years:

- Construction: Development and construction of the Foundry Site (2017-2018)
- Residential Rental: Rental of apartments post construction (2019-2021)
- Retail: Local purchases by individuals living in new residential units (2019-2021)

Data was provided by the city and the developer, and assumptions were validated with the city prior to conducting the analysis.


Johnson St
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Orchard St
E Jackson Blvd
Martin's Supermarket, 530 Lex Center, Fiesta Mexicana, Goodwill, CVS Rocket Car Wash, Teidemann Group
E Lexington Ave
E Lexington Ave
Junior Achievement Dr
Pacific St
N Clark St
S Clark St
E High St
S Elkhart Ave
NIBCO Pkwy
Stratford Pl
Elkhart River
Prairie St
Prairie St
Waterfall Dr

Review and **Report**

You've reached the defining moment. It's time to report your results.

NOT SURE WHERE TO START?
Check out "Creating a Compelling Economic Impact Report" to see how to structure a study, interpret results in a meaningful way, and organize and present results clearly in a report.

Visit http://info.implan.com/how-to-guide to download a copy.

You've done so much hard work to effectively plan and execute your analysis that it would be a tragedy to trip at the finish line. To avoid doing so, the number one thing to remember at this stage is to report "only your results".

As tempting as it might be, avoid using any unnecessary language when sharing your findings. Do not make any statements or claims which can be argued against by somebody reviewing your figures, because one thing you can trust is that there probably is someone out there who wants to do just that. Don't leave them the room to do it!

Keep your sentences short and concise. Keep your written diction quantitatively objective (use phrases like "greater than" or "less than") and not qualitatively subjective (*never* use words like "good", "bad", "better", or "worse").

And most of all, do *not* write anything that your data does not say. As obvious as this sounds, it is imperative to the credibility of your study that you do not report anything in words that are not backed up objectively and supported by your numbers.

Less is so much more. Stick to the facts!

Familiarizing yourself with your results with the same rigor and discipline you devoted to understanding your base data is perhaps the most crucial step in your entire analysis.

Whether you fall victim to making a claim which is untrue or fail to report invaluable information which supports your primary goal, there are many ways to misuse your new-found data thanks to a fundamental misunderstanding of what your results really say.

Only after you've completed your analysis and thoroughly reviewed (and understand!) the results of your impact, should you begin sharing numbers with your intended audience.

IN PRACTICE

TOTAL ECONOMIC IMPACT OF THE STONEWATER AT RIVERWALK MIXED-USE DEVELOPMENT ACCORDING TO THE 2016 ANALYSIS

Investment	2017	2018	2019	2020	2021	Total
Public	$5,150,000					$5,150,000
Private	$11,883,085	$8,516,542				$20,399,627
Total Investment	$17,033,085	$8,516,542				$25,549,627
Fiscal Impacts						
Property Tax				$316,769	$ 316,769	$ 633,538
Sales Tax	$416,364	$211,168	$219,303	$223,496	$227,769	$1,298,100
Income Tax				$65,506	$65,506	$131,012
Sewer/ Stormwater/ Water			$89,021	$89,021	$89,021	$267,063
Total Fiscal Impact	$416,364	$211,168	$308,324	$694,792	$699,065	$2,329,713
Economic Impacts						
Total Impact	$26,132,739	$13,072,517	$7,039,212	$7,187,056	$7,338,461	
Total Employment	192	97	56	56	56	

See how the researchers digested and reported these results at IMPLAN.com/case-studies/foundry.

Wrapping it Up

Whether you're trying to explore the right tenant mix, compare the tax potential for prospective projects, or demonstrate the economic value of your development to municipalities and their communities, economic impact analysis will add levels of depth and clarity to your understanding of a local economy and how your work satisfies the needs of the regional or local public.

IN PRACTICE

"In addition to business attraction and retention, housing is an important component of the city's economic development strategy," said Elkhart Mayor Tim Neese. "We hope that [the Stonewater at Riverwalk project] will be a catalyst for future development projects citywide and will welcome more people to live and invest in the city of Elkhart."

Take the first step now! To start your economic impact analysis today visit IMPLAN.com.

For more information about how economic impact analysis can benefit your organization or to inquire about IMPLAN's host of exciting products, give us a call at (800) 507-9426.

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