

Downtown's economic impact today

NC's economy is in transition. Since 2000 our state has lost thousands of jobs in the manufacturing sector, and that has hit the smallest towns and rural areas the hardest. As we all look for opportunities to create jobs and rebuild wealth in our communities, one area continues to hold promise, and it is an area that we all know well – our downtowns. Let's look at a few reasons why downtown development is or should be a critical component of every town's economic plan.

First we should note that the reasons touted for economic development are the same for downtown development...with additional benefits.

- increase tax base
- increase loan demand and deposits
- enhance property values
- generate additional sales of goods and services
- create jobs
- and save green fields

Today when one talks about economic development, the conversation usually begins on the subject of small business.

Small business

Eighty-five percent of all American jobs are in firms with fewer than 20 employees and statistics clearly show that the majority of jobs are created in small firms.

In NC, ninety-six percent of the businesses have fewer than 100 employees; 77% employ fewer than 10. Over the past decade North Carolina's small businesses have accounted for as much as 80% of the net job growth.

Why is this significant to downtowns?

Among small business needs:

- affordable space
- diversity of rent options
- expansion possibilities
- nurturing environment
- access to other services...legal, accounting, financial, govt., other professional

“The type of space available in historic buildings is especially suited to small businesses and retail shops...in addition high-end small businesses are attracted to identifiable historic districts because of the character of the neighborhood and the scale of spaces.” Carolyn Douthat, *Economic Incentives for Historic Preservation*

As important as their economic contributions, small businesses are locally owned and are essential to the fabric of the lives of the communities where they are located. Locally owned, independent businesses keep profits in town and support local community projects.

“According to the U.S. Small Business Administration, locally owned businesses return about **60 cents out of every dollar** of retail sales to the community. Chains return only about **20 cents.**”

Business owners and their families provide enormous contributions to political, social, educational, religious and community leadership and recognize that their business futures are integrally tied to the future well being of the communities where they live and raise their families.

Besides small business, there are other economic impacts of downtown development as well. Here is one example. “The U.S. Department of Commerce measures the impact of production within a given industry three ways: the number of jobs created, the increase in local household incomes, and the impact on all other industries. **Building rehabilitation outperforms new construction in every case.**”

Downtown development essentially involves rehabbing older buildings. The rehabilitation of older downtown buildings is labor intensive, supporting **local craftsmen and suppliers** and utilizing **local building materials**, therefore keeping more money in the local economy where it can circulate to more people.

Rehabilitation means jobs.

Economic Impacts per Million Dollars of Initial Expenditure

Economic Effect (National)	Residential Historic Rehabilitation	Book Publishing	Pharmaceutical Production	Electronic Component Production
Employment (jobs)	36	35	28	30
Income (\$000)	1,240	1,160	1,045	1,018
GDP	1,672	1,722	1,546	1,483
State taxes (\$000)	106	103	93	87
Local taxes (\$000)	89	86	79	74

Source: Listokin, Listokin and Lahr 1998

There are additional economic impacts as well. Consider that visiting an historic site is among the top reasons cited for nonresident visitors coming to NC. That means that rehabbing older buildings creates an atmosphere that attracts tourists, and tourism is among the largest industries today.

Within tourism there is a subset known as heritage or preservation tourism. Preservation visitors stay longer, visit twice as many places and spend two-and-a-half times as much money as do non-preservation visitors. The historic sites visitor:

- Spends an average of \$62 more per day than other travelers,
- 90% come with their family,
- 55% spend nights away from home,
- 84% will return to visit the site again to bring others or will take more time.

Reusing existing buildings also means reusing existing infrastructure. Understand that water lines that all ready exist are lines that do not have to be extended or added.

And utility companies use the term, stranded investment, to refer to areas that are serviced but the meters are not hooked up. Meaning that they are not getting the full return for their investment, must like a city does not get the full return for its investment in infrastructure if their utilities are under-utilized.

Some would say that all retail development and growth is good for the community, no matter where it occurs, because it still creates jobs, sales taxes and tax base. But consider this: the ULI

study found that it is 30-300% more costly to serve sprawl-like development than traditional compact (downtown-like) development.

Furthermore, one of the big economic impacts to communities comes from so-called big box stores. Here are some facts you should know.

“WalMart employs 70 people for every \$10 million in sales, while small retailers employ 160 people per \$10 million in sales.” Elizabeth Humstone of Humstone Assoc., 1993 study. (Kennedy Smith quoted in Main Street News, Number 151, Feb 1999.)

“\$8.3 million of the \$10 million in annual sales generated by a WalMart within two years of its opening was “stolen” from [comes at the expense of] local businesses.” Elizabeth Hunstone and Tom Muller, 1997 study. (Kennedy Smith quoted in Main Street News, Number 151, Feb 1999.)

“A typical WalMart adds 140 jobs – but destroys 230 higher-paying jobs in the area.” Donella Meadows, Dartmouth College professor. (Kennedy Smith quoted in Main Street News, Number 151, Feb 1999.)

In that same vein, a study in Massachusetts compared public revenue and costs for various land uses. It found that in Barnstable, a city of 48,000 people, the small downtown stores generated a net annual surplus (tax revenue minus costs of service) of \$326 per 1000 square feet of space. Big-box stores, in contrast, created an annual deficit of \$468 per 1,000 square feet. In other words, they were a drain on public services. (Main Street News, No. 204, February 2004.)

In Pineville, NC, they added about six million square feet of retail space over the past decade. The new retail, a mall and many big box stores, generate so many police calls - for bad checks, shoplifting, and parking lot accidents - that they consume all of the revenue that they produce. The town recently raised property taxes and desperate to control rising costs, blocked further big-box construction. (Main Street News, No. 204, February 2004.)

Now this is not intended to be a speech about the ills of the big box, although there is plenty one can say about them. Rather, my emphasis today is to have you take on a greater appreciation for true costs of growth and for the economic value of the downtown development efforts going on here.

But big boxes are not the only competition that downtowns have faced. First we had to wrestle with malls. However the number of malls recently built or being planned has fallen dramatically from 11 malls opened in 2001 to only six in 2004.

In contrast, the latest development in the shopping world are the new “lifestyle centers”. Lifestyle centers are designed and built to resemble main streets. In 1999, there were perhaps 20 of these centers scattered around the country; by 2003 there were more than 120, and dozens under construction.

But understand this: building a street, putting up some building fronts, throwing in a few awnings, benches and trees and calling it “main street” hardly makes it so. It is theme park retail, pioneered by Walt Disney, and being perfected by today’s development community.

As popular as lifestyle centers are, they are not really an urban experience. It’s not a village, and it’s not a small-town Main Street and it certainly is not “hometown.” The stores on a true Main Street are occupied in large part by independent local merchants; lifestyle centers are occupied

almost exclusively by national chains. Not only that, but they are the same national chains in every center. Of the first 30 lifestyle centers built in the United States, Banana Republic was in 26 of them, the Gap was in 25, Victoria's Secret in 20, Bath & Body Works in 17, and Barnes & Noble in 16. If everywhere one goes, one finds the same things, there is no marketing advantage.

So the point here is that downtowns are the real thing. And that realness, so to speak, is bankable, marketable, and economically important.

Consider the words of the former CEO of Nations Bank, now Bank of America, Hugh McColl. In a speech given four years ago, Mr. McColl spoke at length about the importance of a healthy downtown. I simply want to highlight one of his thoughts:

“The Center City is also important because of the positive impact it has on the city's budget. Some people complain that we spend too much money developing the City center, as though this somehow takes away from the suburbs. The truth is exactly the opposite.

“Because of the density in the Center City, and the efficiency of using existing infrastructure, money invested here returns more in tax revenues than money invested in almost any suburban area... What happened is that for a relatively small capital investment – fixing up streets and sidewalks, planting trees and putting in new streetlamps -- the city turned a neighborhood that had been a drain on city services and a drag on downtown property values into a cash cow and an economic engine for the future.

“The same number of dollars invested on the city fringe might have gotten a road or two started. It would have required spending a whole lot more before the return even approached the value Fourth Ward has generated for the city... Simply put, there is no more efficient way to generate tax revenue than to develop the most valuable land in the city. That land is downtown. Center city development decreases the tax burden on the suburbs -- not the other way around.”

That is true in Charlotte, it is true in New Bern, it is true in Salisbury and I dare say it is true in your town, too.

And when we are successful, downtown development also encourages reinvestment in existing neighborhoods, enhancing property values and building the local tax base.

In Salisbury the 1989 property tax value of their MSD was \$31,500,000; in 1995 it had grown to \$45.5 million. By 1998 it was \$57 million and in 2002, up to \$69 million, more than double.

In Hendersonville in 1988 the property tax valuation in the MSD (12 blocks) was \$13.6 million. Same 12 blocks in the 2003 re-evaluation were \$46.8 million, a 344% increase.

New Bern “In 1978 the property values in downtown New Bern were \$8.7 million. In 1994 they were \$42.3 million, which represents a **486% increase**. That's \$196,560 in **increased yearly revenue** to the county.” In 2002 that number had grown to \$63 million in 24 years.

Let me give you one last set of numbers, the statistics that we have kept for 25 years in Main Street communities. Because of their annual reports (at least when they choose to tell us) we can say that Main Street communities have seen over \$983 million of new investment. That includes over 11,500 net new jobs and over 2,800 net new businesses. We have also had over 2,700 building renovations and over 3,200 facades redone.

The future?

That is the state of where we have been and where we are. What might be next?

There are several current trends that will impact small town and downtown development in the coming years. They are:

- Changing demographics
- More calls for smart growth
- Rising energy costs
- Growing health concerns
- And each of these contributes to one more trend – more people living downtown

Shifting demographics

While there has been much said and written about the steady aging of America, specifically we baby boomers, there are other demographic trends that bear watching. North Carolina is home to the fastest growing Hispanic market in America. North Carolina's Hispanic buying power in 2004 exceeded its 1990 value by an astounding 949% against a total statewide growth of 123%. The state's Hispanic market spent \$8.8 billion in 2004. (Source – NCIMED)

North Carolina is also home to the nation's second fastest growing Asian consumer market with estimates showing that the state's Asian buying power reached \$3.9 billion in 2004.

North Carolina is one of the nation's most important African American markets. In 2004, these purchases accounted for one out of every seven dollars spent in the state. African Americans spent \$32.5 billion in the state during 2004, a 230% increase over 1990 spending, over twice the state average.

The real bottom line is the growing economic opportunity these market segments represent. A lot of that is going downtown. Something to watch. (Source: NCIMED)

Smart Growth

A second trend to note is called smart growth. Smart growth is defined in many ways, but I have to admit that my favorite definition is that smart growth is simply the opposite of stupid growth. I imagine we all have examples of stupid growth that we can offer. Here is another definition.

The NC Smart Growth Alliance says that smart growth refers to a relatively compact pattern of development that accommodates a diversity of people, housing types and jobs and makes efficient use of our public investments. Sounds like downtown to me. It generally features:

- **Cost-efficient regional transportation systems** which provide real choice about how to move people and goods;
- **Efficient and sustainable use of land, natural resources and energy** that take into consideration preservation of natural open and recreational space for citizens and wildlife;
- **Walkable and bikable neighborhoods with mixed use centers** for public and commercial life;
- **An enhanced civic realm with strategically designed centrally situated public facilities;**
- **A broad sharing of the benefits of growth** that doesn't abandon existing neighborhoods and urban centers and their residents
- **The preservation of a built heritage** for future generations and;
- **Broad-based citizen participation** in the process of deciding how to structure a livable, vibrant, attractive community in which to live, work and play.

Why does this matter? As an example of the implications of smart growth, a Brookings Institute report released in spring 2004 noted that: **The cost of providing public infrastructure and delivering services can be reduced through thoughtful design and planning.** Several studies suggest that rational use of more compact development patterns from 2000 to 2025 promise the following sorts of savings for governments nationwide: \$110 billion, from 25-year road-building costs; \$12.6 billion, from 25-year water and sewer costs; and \$4 billion, for annual operations and service delivery. “Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns” by Mark Muro and Robert Puentes, March 2004

However one defines it, across the country people are talking about smart growth and questioning the patterns of growth that have prevailed for the past 60 years. They are beginning to recognize that downtown development represents smart growth and more than that, it makes good sense. While we will not stop sprawl, people are looking for and expecting to find choices, so revitalized downtowns will become more in demand.

Energy Costs

Regarding the next trend, is there anyone here who really needs to be reminded about the rising costs of energy? Gas prices have gone up over \$1.00 a gallon in the past year; world energy consumption is at an all-time high with no sign of letting up; and there is some serious discussion about oil reserves being depleted in the next 15-30 years. While we can argue the percentages and dates, no one is willing to say that we have unlimited supplies.

One of the drivers of this, so to speak, is our own dependency on cars. From 1960 to 1995 the per capita VMT grew by over 130%. But what does that really mean?

Compared to 1969, Americans today drive:

- 88% farther to shop
- 137% farther for family/personal errands
- The average American driver spends 443 hours per year, the equivalent of 55 eight-hour workdays, behind the wheel.

As this reality takes hold, and the true cost of commuting are revealed, we will see more people moving back to downtowns, to be near jobs, housing, education and entertainment centers. This is also related to the next trend.

Health Concerns

Doctors with the Centers for Disease Control and Prevention (CDC) found several primary connections between suburban sprawl and public health. Their findings include:

Increases in vehicle miles traveled have resulted in an increase in air pollution and in the incidence of respiratory diseases. While there have been numerous articles documenting this, perhaps this is best illustrated by the results of a study by the CDC. During the 1996 Olympic Games in Atlanta, at which time vehicular traffic was kept at artificially low levels by city authorities, the peak daily ozone concentrations decreased 27.9 percent and peak weekday morning traffic counts dropped 22.5 percent; at the same time the number of asthma emergency medical events dropped 41.6 percent.

Second, sedentary living habits contribute to poor health because they are a significant factor in the incidence of obesity and being overweight. With walking and biking in decline,

and dependence on automobiles continuing to rise, it is little wonder that the American people are leading the world in the incidence of obesity. It is said that physical activity is the single best indicator of a person's health. Yet 70% of adults are physically inactive.

Third, lack of pedestrian friendly features in a community becomes a factor leading to illness and even death.

- Research by CDC and others indicates that two of the main reasons given for not exercising are lack of structures or facilities such as sidewalks and parks, and fears about safety.

Taken a step further, a study of nearly 11,000 Atlanta area residents found that people living in highly residential areas tend to weigh significantly more than those in places where homes and businesses are close together. Each hour spent in a car was associated with a 6 percent increase in the likelihood of obesity and each half-mile walked per day reduced those odds by nearly 5 percent. Which leads us right back to the obesity and health issue.

What is the impact of these trends? They are all reinforcing the growing interest in returning to downtown. And for many, returning to downtown will include living there.

Consider this - approximately a fifth of all residential permits issued nationwide during the 1990s were for downtown developments. (www.builderonline.com)

The National Association of Realtors and Smart Growth America released a nationwide poll in fall 2004 on the kinds of communities people want to live in. The survey found that most Americans (55%) seek smart growth communities that have shorter commute times, sidewalks and places to walk by. Among those likely to buy a home in the next three years, 61% say that they would choose to live in this kind of community.

<http://smartgrowthamerica.org/nrasgareport.html>

A 1998 survey conducted by the Brookings Institution and the Fannie Mae Foundation found that one of the fastest growing segments of the nation's housing market is downtown housing. For example, Houston expects its downtown population to quadruple by 2010. Cleveland expects its to triple. Denver, Memphis, and Seattle all anticipate doubling the number of downtown residents in the next ten years.

The growth in downtown housing is not restricted to large cities. From the NC Main Street communities we have the following figures:

Elkin, population of 4100, reports 10 units of market rate housing; Burlington, Goldsboro and Hendersonville report 25 units; Waynesville has 31; Salisbury and New Bern each report 43 units; while Elizabeth City touts 75 units. Twenty Main Street communities reported having 371 units of market rate housing (most of it being upper floor, over the store).

So what accounts for the growing demand for downtown housing?

- Access. Downtowns usually have the largest concentration of jobs in a region, and downtown housing makes walking to work an attractive option. Even when downtown residents have to drive, reverse commuting is an attractive option.

- Amenities. Virtually every downtown has amenities not typically found in suburban neighborhoods - museums, waterfront parks, colleges, theatres, unique views, and interesting

architecture.

- Pedestrian Friendly Environment. Older downtowns are walkable. Senior citizens, in particular, like the option of being able to walk to church, the post office, or shopping. A growing number of cities have converted abandoned hotels, old schools, and vacant industrial buildings into housing for seniors and others. Those 20 Main Street towns also reported having 913 units of such housing in their downtowns.

So I think it is safe to say that housing will continue to be a factor in our downtowns in the coming years. In fact, I dare say it will be the single most important trend to watch. And with more people living downtown we can expect to see more demand for goods and services as well as all that implies. How fast that happens will depend on our willingness and ability to tap into these trends and others as well.

There are two recent phenomena that I want to bring to your attention in closing. The first is a book by Richard Florida, *The Rise of the Creative Class*. In this book he argues that the most successful cities in the coming decades will be those that attract the brightest and most creative people. These people – designers, software creators, artists, techies, job creators, and the like – want to live in places that are diverse, tolerant, open, alive, exciting, unique, and capitalize on their special qualities or sense of place. They are not following jobs; they are creating them and doing so in urban areas and downtowns. The cities that understand this will be able to attract this important economic driver.

The second is connected to the first. Michigan Governor Jennifer Granholm, in one of her first acts, created the Michigan “cool cities initiative.” She, too, understands that the future will be built around people with new ideas, new energy, and an openness to change.

“This is about creating hot jobs in cool neighborhoods...it’s about attracting and encouraging young people to live, work and shop in cool cities they help create.”

Both of these phenomena are about capturing the inherent uniqueness of place and building on it. It is not the sameness that every town offers – the same strip center stores, the same big boxes, the same houses. It is the things that define each place as special, and those are the history, culture as expressed through the built environment, and natural amenities.

Summary

So what is the economic value of downtown development? The economic implications are pretty clear, or should be by now. But beyond the economics, ultimately we want to create places where our citizens can and will want to live and raise their families.

We want them to invest in building our communities to their fullest potential; we want new people to come to our communities and bring ideas, and businesses and new investment; and we want to create wealth for those who live here and build the tax base so that we can offer better public services. Downtown development supports those goals.