Economic Impact Analysis

PREPARED FOR: FOUNTAIN PARK DEVELOPMENT
VILLAGE OF MUKWONAGO
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REDEVELOPMENT RESOURCES | 305 S. PATERSON ST. MADISON, WI 53703

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Executive Summary

This economic impact analysis undertook the task of determining the impact to the Village of Mukwonago of a new apartment community proposed for the north end of the Village by Teronomy Builders of Elkhorn, WI. With homeownership in decline among young adults and aging baby boomers, the rental market is strong. Mukwonago's growth in recent years and projected growth into the future, offers opportunity for apartment development at this time.

Many arguments against multifamily developments are not based in fact and have been addressed in this report. Apartment complexes do not stress the public school system, create traffic problems, put a burden on local infrastructure, negatively impact property values of nearby single family homes nor facilitate an increase in crime.

The impact of a new 410 unit apartment complex to the Village of Mukwonago is significant and would trigger approximately $85 million in economic impact, supporting over 750 jobs. Opportunity costs in foregone revenue, loss of development and risk for a lesser development are all important factors which should be taken into consideration by the Village Board prior to approval of this new development.

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Introduction

Teronomy Builders is a family owned and operated business which was founded in 1989 and has evolved into a full-service construction company specializing in the design-build of custom single-family homes and condominium planned developments. The company has developed apartment communities in Whitewater, East Troy, and Beloit, some of which include a mix of condominiums and single family homes.

Teronomy desires to develop a well-appointed apartment complex on a 21 acre site in Mukwonago, WI. The proposed project is poised to capitalize on emerging market opportunities by meeting the increasing demand for alternative housing choices.

This study has reviewed the development potential and its impacts for the community and the economy in the Village of Mukwonago, WI.

Current National Data on Homeownership vs. Renting

Current market dynamics appeal to multi-family developers and poise this development to meet the housing needs of two particular segments of the population – millennials and baby boomers.

According to the Brookings Institute, homeownership among adults age 28-32 has been declining since 2007[1]. Multiple theories about why this is occurring include 1) tougher loan standards; 2) student loan debt; and 3) a lack of affordable single family homes[2], in addition to increased fear from watching their parents struggle with mortgage values on existing homes.

Renter growth is now at the highest level in 30 years, and families or married couples age 45–64 accounted for about twice the share of renter growth as households under age 35, according to a new study by the Joint Center for Housing Studies at Harvard University. In addition, households in the top half of the income distribution, although generally more likely to own, contributed 43 percent of the growth in renters[3].

That empty-nesters whose children have grown up and gone to college or work are downsizing by selling their suburban homes and moving into apartments is old news; the magnitude of this trend is what's surprising developers[4.]

As an ex-urban community located at the crossroads of an interstate and major state highway, the characteristics of the local population are now mirroring national trends.

1- Brookings Institute, Reconsidering the Conventional Wisdom on Student Loan Debt and Home Ownership, http://www.brookings.edu/research/papers/2014/05/08-student-loan-debt-and-home-ownership-akers

2- The Washington Post, Housing recovery missing key group: young first time buyers http://www.washingtonpost.com/realestate/housing-recovery-missing-key-group-first-time-buyers/2014/09/11/4afd4df6-182a-11e4-85b6-c1451e622637_story.html

3- CNBC, Wealthier Baby Boomers Shun Home Ownership, http://www.cnbc.com/2015/06/24/wealthier-baby-boomers-shun-homeownership.html

4- Multi-Family Executive, Empty Nesters Flock to Apartment Living, http://www.multifamilyexecutive.com/design-development/empty-nesters-flock-to-apartment-living_o

Myth-busting

The economic impact of this development alone is significant enough to convince decision makers to give an approving nod to those interested in investing their own time and money to make it happen. However, several concerns have surfaced and should be addressed with support from research done on the very topic of opposition to multifamily rental housing.

Concerns including 1) decrease in single family home values, 2) increase in crime, 3) overburdening of public schools and municipal services and, 4) traffic congestion are all addressed in a report by Mark Obrinsky and Debra Stein at the Joint Center for Housing Studies, Harvard University[5].

Their study highlights research that concludes "working communities (those with high labor force participation rates) with multifamily dwellings actually have higher **property values** than other types of working communities. In other words, the average value of owner-occupied houses was highest in working communities with the most multifamily units. In fact, among working communities, the high multifamily areas had the highest home values, the mixed-stock areas the next highest and the single family areas had the lowest.[6]"

Regarding concerns about the possibility of **increased crime**, apartment residents are more likely to be social with their neighbors; equally likely to be involved in social groups (like sports teams, book clubs); identify closely with their community and neighborhood and are as interested in politics and national affairs as homeowners[7]. Also when police data is analyzed on a per unit basis, the rate of police activity in apartment communities is no worse than in single family subdivisions and in many cases is lower than in single family areas[8].

The perceived burden an apartment complex places on public schools and municipal services is another area where research shows a much softer impact for multi-family than single family home neighborhoods. Apartment owners often pay more in property taxes than the owners of single family homes. Also on average considering new construction only, 100 single family owner-occupied houses include 91 school aged children where 100 apartment units average just 38 children, so it might be more accurate to say that apartment building owners are subsidizing the public education of the children of homeowners, than the reverse. However, from a funding perspective, every student is important to the local school district and any increase student population is planned for by the district.

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[5]-Overcoming Opposition to Multifamily Rental Housing, Mark Obrinsky and Debra Stein, Joint Center for Housing Studies, Harvard University, March 2007 ©

[6]-Alexander von Hoffman, Eric Belsky, James DeNormandi, and Rachel Bratt, "America's Working Communities and the Impact of Multifamily Housing", Cambridge, MA: Joint Center for Housing Studies, 2004.

[7]-NMHC tabulations of micro-data from the General Social Survey. See: Jack Goodman, "Apartment Residents as Neighbors and Citizens," *Research Notes,* Washington D.C.: National Multi-Housing Council, June 1999.

[8]-Elliott D. Pollack and Company, "Economic & Fiscal Impact of Multifamily Housing" Phoenix: Arizona Multihousing Association 1996, Part III.

With other types of infrastructure, high density development is actually more efficient on municipal services than low density development, including sewer, water, police and fire departments[9].

Traffic from single family home neighborhoods is higher than that of apartment dwellers due to more vehicles per household, proximity to services and shopping which requires more trips, and access to fewer alternate modes of transportation. Interestingly, single family home owners use their cars more often than apartment residents use theirs. On average, cars in single family houses make 18% more trips during the week, 31% more trips on Saturday and 41 % more trips on Sunday than cars owned by apartment residents[10]. Traffic concerns are addressed more fully in a separate report by another entity.

Measuring the Economic Impact of Apartment Communities

The impact of a new apartment community on a local economy is significant and comes from a variety of angles and sources. The most obvious source is **construction spending**. This is easily measured and the impact is a one-time boost in terms of dollars and jobs. The financial contribution of **ongoing operations** and **resident spending** round out the contributors of revenue and jobs to the local economy. Operational spending on utilities, repairs and maintenance, management and building services including materials and labor costs directly supports local employment and business activities.

Renters spend more of their income locally than homeowners. Apartment residents spend a significant portion of their available dollars on housing, food and transportation – their three largest expenditures - followed by utilities, fuels, and public services; apparel and services and entertainment. Roughly 70% of the dollars residents spend on those items stayed within the local economy[11].

Apartment resident spending drove nearly 80% of apartments' total contribution to the national economy in 2011 and sustained nearly 90% of the total jobs supported by apartments. In 2011, the country's 35 million residents contributed $885.2 billion to the national economy.

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[9]-All figures are NMHC tabulation of data from the American Housing Survey. See Research Notes, "Apartments and Schools," NMHC, March, 2014, available at https://nmhc.org/Content.aspx?id=8490

[10]-Institute of Transportation Engineers, *Trip Generation*, *7th Edition,* (Washington, D.C. 2003), Volume 2.

[11]-Measuring the Impact of Apartment Communities, Multifamily Executive Magazine, www.multifamilyexecutive.com/property-management/apartment-trends/measuring-the-economic-impact-of-apartment-communities-o

The Local Market

Renters originally from Mukwonago and north of Mukwonago are already finding a place to call home, and it's not in Mukwonago. Teronomy Builders developed two residential apartment developments in East Troy, WI and both are occupied by a significant number of residents employed in Mukwonago and northward. In the Wildwood Apartments, 54% of the 128 adult residents work in either Mukwonago or north of Mukwonago. In the Honey Creek apartments, over 48% of the 279 adult residents work in Mukwonago or north of Mukwonago. This is notable since these residents may prefer to live in Mukwonago but possibly could not find the housing option they desired. This also speaks to opportunity costs of not allowing this development in Mukwonago. Residents will seek out the best option to meet their needs whether it's in the Village or elsewhere.

The average household income of the residents in these existing apartment developments is $60,309 - $63,415. This is interesting in that the average age in the Honey Creek apartments is 39.68 years old and the average annual household income is the higher income at $63,415. The average age of residents in the Wildwood Apartments is 43.8 years, and the average annual household income is $60,309.

According to Census Bureau reported in the Comprehensive Economic Development Strategy (CEDS) recently published by Southeast Wisconsin Regional Plan Commission (SEWRPC), Mukwonago has experienced 200% or more population growth from 1970 to 2000. Population projections by county from 2000 – 2035 has Waukesha County's population increasing by 23.8%, from 360,767 to 446,768, or a total of 86,001 residents in the next 20 years. In the seven county region served by SEWRPC, Mukwonago is one of the few communities which saw such a significant growth over the past 40 years. It stands to reason that a good portion of residential growth can be expected in the next several years[12].

[12]-Comprehensive Economic Development Strategy for Southwestern Wisconsin, 2015-2020, Prepared by the Southeastern Wisconsin Regional Plan Commission, The Milwaukee 7 Regional Economic Development Partnership and the Southeast Wisconsin Regional Economic Partnership, August 2015

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Economic Impact of 410 New Apartment Units

Fountain Park Apartment Homes

MUKWONAGO, WI

Apartment Construction	
Construction dollars to be spent [13]	$32,652,904
Direct jobs	187
Total economic contribution [14]	68,244,569
Total jobs supported	594

Apartment Operations	
Operations dollars to be spent [15]	1,514,921
Direct on-site jobs	11
Total economic contribution	2,921,266
Total jobs supported	15

Apartment Residents	
Spending power (discretionary spending)	7,487,475
Direct jobs supported	67
Total economic contribution	14,047,252
Total supported jobs	169

TOTAL Economic Impact	**$85,213,087**
TOTAL Jobs Supported [16]	**789**

Chain of Effects

- Direct – directly affected by business activity/development, in this case apartment construction and ongoing operation. Total: $34,167,825
- Indirect – secondary turn-over of dollars generated by business resulting from expenditures by recipients of direct impact dollars Total: $36,998,010
- Induced – impacts created by household spending of those directly housed in the development, and those employed as a result of the development. Total: $14,047,252

[13]-Received from Teronomy Builders
[14]-Multiplier effect is generally 2-3x construction spending. Wisconsin index is 2.09x. Source: National Multifamily Housing Council (NMHC) along with the National Apartment Association (NAA).
[15]-Operations calculated at just over $3600/unit which is on par with comparable operation costs statewide taking into account the level of amenities proposed for this development.
[16]-Jobs supported derived on formula derived from NMHC and NAA standards, in keeping with Wisconsin index.

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Opportunity costs

There are several areas in which costs can be quantified if the Fountain Park Apartment Homes development were not to be developed in the end, as proposed. The Village of Mukwonago's Financial Impact Summary identifies several opportunity costs which would reflect directly on the municipality:

Tax revenue (annual)	$282,100 – 512,500
Impact and sewer connection fees	1,619,896 – 1,994,872
Permit fees	211,068 – 289,740
Utility revenue	119,880 – 147,044

If no development occurred, or if single family homes were constructed on the site identified by Teronomy Builders forgone tax revenue (including other taxing jurisdictions): **$2,232,944 – 2,944,156**

Additionally, 789 jobs would not be supported.
Over $14 million in induced impact would not be felt in the community.

This development would likely go to a neighboring community and that community would see the benefits of the residential development, the job creation and the future business attraction impact. Mukwonago's loss would be another community's gain. This will have ripples effects including lost retail and commercial development.*

Local employers will have to work harder to attract workforce and their employees will have to travel farther to get to work.

Another opportunity cost that is difficult to quantify is that due to the comprehensive plan/ future land use, a similar but lower value development could also be proposed in the future for this same site.*

Single family home sales would feel the effects of not having a ready-buyer market which would otherwise be created when even a fraction of the apartment residents would move out and up to a single family home. Likewise it will be more difficult to find buyers for the single family homes of empty nesters as they seek out different options to enjoy their golden years, most likely outside of Mukwonago.

Sales Tax opportunity cost

The county receives .5% of the 5.5% total sales tax collected on taxable goods. If 25% of the disposable income was spent on taxable goods in the county, the opportunity cost, or potential lost revenue to the county would be approximately $30,000 in lost tax revenue. The loss of local sales will also affect retailers, grocers, gas stations, and restaurants in the area.

Future development

Retailers and commercial businesses depend on population density and traffic counts for a significant portion of what drives their location decisions. "Heads in beds" is a familiar term which describes the necessary population density required for a certain store to choose a location for their next site. With nearly a 10% increase in population, Mukwonago will show up on the radar of new and different retailers and commercial businesses. Should this development not occur, the retailers and restaurants will likely follow the development to the next community.

*Difficult to quantify but impactful to the overall economy.

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Conclusion

From the analysis presented, it is clear the development is an economic “win” for the Village of Mukwonago. Rewards far outweigh the risks for not only the Village itself, but for employers, retailers and commercial businesses and the public school district.

Teronomy Builders have conceived of a well-appointed apartment community which appears to have significant benefits to the community from an economic aspect. Generating over $85 million in economic impact, almost $3 million directly to the Village, nearly $.5 million in tax base which is ongoing in perpetuity, this proposed development is about as good as it gets for a 21 acres site appropriately zoned for this use.