

NIU CENTER FOR GOVERNMENTAL STUDIES

**Economic Impacts of the
Construction of a Mixed Use
Development in Downtown
Batavia**

**With Estimates of Economic Activity
Associated with Potential Tenants**

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Introduction

A mixed-use redevelopment project has been proposed in downtown Batavia. As planned, the project will include 185 residential units (92 one-bedroom and 93 two-bedroom), nearly 14,000 square feet of commercial space, and two levels of parking. Construction costs are estimated to be \$43 million. It will be located on the block north of East Wilson Street between North River Street and Washington Street. The space currently contains a city parking lot, a former church, and two office buildings.

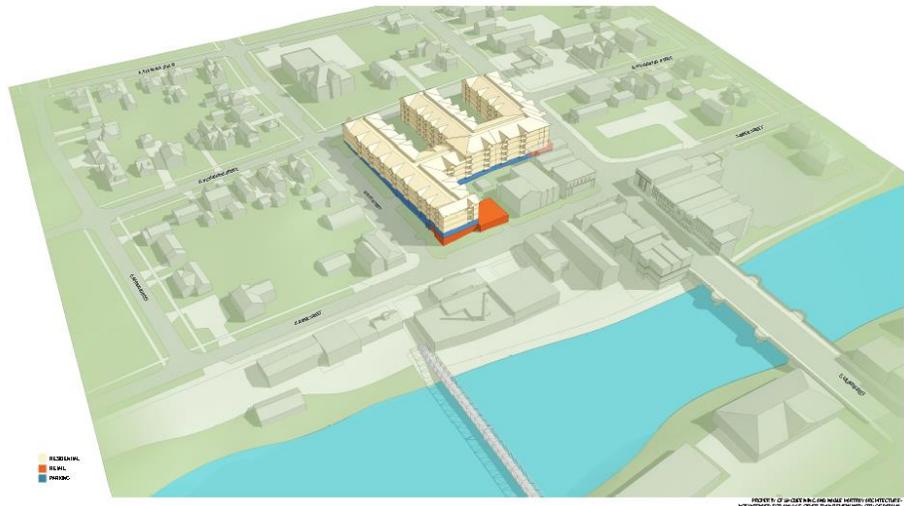
The residential units are expected to be occupied by households with

annual incomes between \$75,000 and \$135,000. These new households will generate additional spending in the downtown Batavia neighborhood. To the extent that the new development attracts residents to live in Batavia (as opposed to other cities in the region), that spending will generate new economic activity and tax revenues in the city. However, the extent of this new activity cannot presently be predicted.

The commercial space will be divided between a variety of different uses. Office/personal services will occupy about 5,350 square feet. A variety of retail outlets will be housed in about 5,000 s.f. Finally, a 3,500 s.f. restaurant is expected to locate in the new building. Similar to the spending associated with the residents of the building, economic activity in the commercial space will be new to the neighborhood/city to the extent that it can attract shoppers/diners that would have spent their money in other areas.

This report will include two main sections. First the *economic impacts* of the construction phase of the project will be estimated for Kane County. Construction represents economic activity that clearly would not exist without the project. Thus, jobs, payroll, and associated economic activity that result from construction are new to the region, generated because of the development.

The second section will estimate *economic activity* associated with the development. It will include two parts. Expected spending patterns based on a projected profile of residential tenants will be presented. The second part will examine economic activity associated with potential commercial tenants of the building.



Economic Impacts of Construction

Construction of the mixed-use building is expected to cost \$43 million, inclusive of the residential, commercial and parking portions. The project will occur over a three year period. This construction activity will generate additional jobs and activity in the surrounding region (the multiplier effect). These impacts occur as construction employees spend their earnings in the local economy and construction companies purchase inputs.

The economic impacts presented in this report are countywide (Kane) estimates. It can be assumed that the majority of the impacts will be felt in the region surrounding the facility. However, some impacts will be felt in other parts of the state near the locations of specialized suppliers.

The Economic Multiplier Effect

Jobs are created through the multiplier effect in two ways. First, the construction firm buys inputs from local businesses such as office supplies, accounting services, and raw materials. Second, construction employees spend their earnings on local goods and services. Each of these generates new jobs at businesses in the region.

Table 1 displays total economic impacts from construction spending. About 40 percent of the construction spending will occur in each of the first two years. The remaining 20 percent will be completed in the third year.

Table 1. Economic Impacts of Construction Expenditures in Kane County

Employment	Year 1	Year 2	Year 3	Total
Direct Effect	82	82	41	205
Indirect Effect	78	78	39	196
Total Effect	161	161	80	402
Payroll	Year 1	Year 2	Year 3	Total
Direct Effect	\$ 5,910,689	\$ 5,910,689	\$ 2,955,345	\$ 14,776,723
Indirect Effect	\$ 3,435,166	\$ 3,435,166	\$ 1,717,583	\$ 8,587,915
Total Effect	\$ 9,345,855	\$ 9,345,855	\$ 4,672,928	\$ 23,364,639
Output	Year 1	Year 2	Year 3	Total
Direct Effect	\$ 17,200,000	\$ 17,200,000	\$ 8,600,000	\$ 43,000,000
Indirect Effect	\$ 9,702,597	\$ 9,702,597	\$ 4,851,299	\$ 24,256,494
Total Effect	\$ 26,902,597	\$ 26,902,597	\$ 13,451,299	\$ 67,256,493

Source: CGS summary of IMPLAN model output

Direct employment at the construction site will be just over 82. These will be full year jobs during the first two years of the construction phase and the project will be wrapped up in the middle of the third year. Total employment resulting from the project will be more than 400 person-years. One person holding a construction job for three years is counted as three person-years. These jobs will have a total payroll, including benefits, of about \$23.4 million. Total economic activity (including the multiplier effect) generated by the project will be over \$67 million.

These impacts are temporary, one time effects due to the nature of construction projects. As the building reaches completion, these impacts will diminish.

Potential Expenditures of Residential Tenants

The approach to estimating expenditures of residential tenants is based on a potential ‘typical household’ that might be likely to move in to the different units in the building. There will be 92 one-bedroom units and 93 two-bedroom units. Based on rents projected to be received for the units, the residents are expected to have higher than average incomes.

The U.S. Bureau of Labor Statistics publishes consumer expenditure data for a variety of household types. Three types of households were used as a basis for estimating expenditures of potential residents of the new development. For one-bedroom units, it is estimated that about half will be occupied by single residents and half by households consisting of a couple with no children. These household types are used to estimate spending patterns. Average spending for families with annual earnings between \$120,000 and \$150,000 was used for two bedroom units.

Table 2 displays U.S. Bureau of Labor Statistics (BLS) consumer expenditure data for the three hypothetical households. Household A (single resident) earns just under \$75,000 annually, Household B (couple, no children) about \$84,000 and Household C (family) more than \$133,000. The largest expenditure categories for all are housing and transportation. Categories that are most likely to contain expenditures in the local neighborhood include food (at home – groceries, and away – restaurants), apparel and services, entertainment, personal care, and reading.

Table 2. Potential Expenditures Patterns of Residential Tenants

	Household A (46 units)	Household B (46 units)	Household C (93 units)
Income before taxes	\$74,742	\$82,947	\$133,145
Average annual expenditures	\$57,977	\$63,462	\$92,162
Food	\$7,679	\$7,491	\$10,722
Food at home	\$4,474	\$4,168	\$6,054
Food away from home	\$3,205	\$3,323	\$4,668
Housing	\$19,178	\$19,358	\$27,921
Apparel and services	\$1,984	\$1,880	\$3,222
Transportation	\$9,804	\$11,128	\$15,950
Healthcare	\$4,130	\$6,549	\$7,155
Entertainment	\$3,110	\$3,381	\$4,884
Personal care products and services	\$829	\$808	\$1,176
Reading	\$123	\$159	\$181
Education	\$756	\$1,076	\$2,272

Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, September, 2015

Table 3 displays total potential annual expenditures of residential building inhabitants. These figures are obtained by multiplying the average expenditures in Table 2 by the number of each type of unit in the proposed building. Residents will have the potential to spend about \$750,000 each on eating at restaurants and entertainment. Apparel expenditures may approach \$480,000. Total expenditures in all categories could be over \$14 million.

Table 3. Potential Aggregate Expenditures of Residential Tenants

	Household A (46 units)	Household B (46 units)	Household C (93 units)	TOTAL
Average annual expenditures	\$2,666,942	\$2,919,252	\$8,571,066	\$14,157,260
Food				
Food at home	\$205,804	\$191,728	\$563,022	\$960,554
Food away from home	\$147,430	\$152,858	\$434,124	\$734,412
Housing	\$882,188	\$890,468	\$2,596,653	\$4,369,309
Apparel and services	\$91,264	\$86,480	\$299,646	\$477,390
Transportation	\$450,984	\$511,888	\$1,483,350	\$2,446,222
Healthcare	\$189,980	\$301,254	\$665,415	\$1,156,649
Entertainment	\$143,060	\$155,526	\$454,212	\$752,798
Personal care products and svcs	\$38,134	\$37,168	\$109,368	\$184,670
Reading	\$5,658	\$7,314	\$16,833	\$29,805
Education	\$34,776	\$49,496	\$211,296	\$295,568

Source: CGS calculations based on Bureau of Labor Statistics data and developer plans.

There is no geography attached to the BLS data. The location of spending cannot be determined, especially for potential future spending estimates. Some of this spending will occur in the local neighborhood while other purchases will be made elsewhere.

To a certain extent, the construction of these new housing units will attract households to Kane County that wouldn't otherwise locate there. A 2014 report¹ examining housing stock in the Fox River valley suggested that this type of housing will be in short supply in Batavia. According to the report, "Because of population growth expected across the income spectrum, there may be unmet demand for [housing appropriate for] renters earning more than \$75,000" (p. 13). Specific to Batavia, the report states "If Batavia's rental housing stock does not keep up with the projected increases in demand, there could be a shortage of units affordable to households earning more than \$100,000 annually" (p. 36).

¹ Chicago Metropolitan Agency for Planning (2014). *Homes for a Changing Region. Implementing Balanced Housing Plans at the Local Level: Batavia, Geneva, North Aurora, and St. Charles.*

While it is impossible to predict future location decisions of individual residents, these findings indicate that the development in downtown Batavia will attract some to move to Batavia, rather than other parts of the region. These households will represent new income in the area and thus, contribute to growing the economy. If this is the case for about two-thirds of the residents, the result will be about \$9.4 million in additional household income in Batavia. Table 4 displays the Kane County economic impacts resulting from an influx of \$9.4 million annually.

Table 4. Potential Economic Impact of Additional Household Income

Employment	52
Payroll	\$2,253,323
Output	\$6,837,653

Source: CGS summary of IMPLAN model output

Potential Sales of Commercial Tenants

Projecting economic activity associated with commercial tenants is more difficult than residential. Various types of retail outlets can generate vastly different total sales figures from the same sized space. This analysis presents potential activity associated with the types of retail outlets that typically locate in downtowns.

It is expected that the 5,000 square feet (s.f.) of retail space will be divided into three stores, and 3,500 s.f. will be occupied by a full-service restaurant. Table 5 includes information for three potential commercial tenants and a restaurant. Stores in the personal care and health sector sell products that may include drugs, health supplements, beauty supplies, or eyeglasses. Women’s clothing stores tend to be slightly larger than the other types of retailers considered.

According to BizStats.com, personal care and health stores average about \$400 in annual sales per square foot. A typical retailer in this sector with 1,500 s.f. of space would generate about \$600,000 in annual sales. Total payroll for all employees in a store of this size would be about \$145,000.

A women’s clothing store might be expected to generate annual sales of about \$300 per s.f. Thus, annual sales at a 2,000 s.f. outlet could be \$600,000. Total payroll for a store of this size would be about \$136,000.

The third potential retailer examined is a bookstore. Bookstores average about \$200 per s.f. in annual sales. A 1,500 s.f. bookstore operating at the industry average would have sales of about \$300,000. Employees of the bookstore would earn a total of \$57,000.

Full service restaurants bring in about \$350 per s.f. each year. Based on this average, a 3,500 s.f. eatery would expect about \$1.225 million in total receipts. Restaurants are more labor intensive than retail stores. The hypothetical restaurant would likely pay employees a total of \$531,000.

Table 5. Potential Sales of Commercial Tenants

	Size (s.f.)	Sales/s.f.	Gross Sales	Payroll
Personal Care & Health	1,500	\$400	\$600,000	\$145,080
Clothing - Women’s	2,000	\$300	\$600,000	\$136,260
Books	1,500	\$200	\$300,000	\$57,390
Total Retail	5,000		\$1,500,000	\$338,730
Restaurant	3,500	\$ 350	\$1,225,000	\$ 531,038

Source: CGS calculations based on BizStats.com data

Total potential sales at three hypothetical retailers and a restaurant could be in excess of \$2.7 million annually. Employees of the businesses might be expected to earn nearly \$870,000. Naturally these figures will vary based on the industry and performance of the actual tenants.

Finally, as with the household expenditure estimates above, these are economic *activity* estimates, not economic *impacts*. The generation of economic impact (meaning new activity in the region) requires that these businesses attract new shoppers from out of the region or cause local residents to shop here rather than shopping outside of the region. If these businesses simply move from another local storefront or attract customers currently shopping at local businesses, there is likely no new economic activity within Batavia or Kane County.

Summary

The proposed mixed-use development in downtown Batavia will impact the economy of the neighborhood and Kane County. Some impacts, mainly related to the construction of the building, are obvious and relatively easy to quantify. Other impacts related to the economic activity of residents and commercial tenants is difficult to predict because those predictions rely on future factors that cannot be foreseen.

The temporary economic impacts of the construction phase will be significant. About 400 jobs will result from the project. Persons filling those jobs will earn nearly \$23.4 million. Economic activity will increase by more than \$67 million in Kane County.

Once complete, residential tenants will potentially have annual expenditures of over \$14 million. While the majority of this spending will go towards housing, transportation, and healthcare, significant expenditures will occur in retail and service sectors that are present in Batavia. For example building residents will likely spend almost \$750,000 eating at restaurants. A similar amount could be spent in entertainment venues.

Sales at potential commercial tenants of the building could be in the neighborhood of \$2.7 million. This includes retail store sales of about \$1.5 million and restaurant receipts of \$1.2 million. Employees of these business may earn a total of nearly \$870,000.

While the jobs and economic activity generated during the construction phase will clearly be new to Batavia, the activity related to building tenants is less clear. To the extent that the building houses residential and commercial tenants that simply move from another part of the city, it will not generate new economic impacts. However, because this project is somewhat unique to the city, there will likely be some incremental increase in economic activity in Batavia as the result of the development.

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