

Strengthening Local Economies with Medium Density Housing: A New Approach to Industrial Development

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Motivation and Issues

- Outgrowth of work being conducted through Farmingdale Business & Economic Research Center & NY Sea Grant
- Recently completed 2 projects evaluating the economic impact of IDA supported projects
- Underlying question: Are government subsidies to firms an effective growth strategy?
- Draw upon recent reports

Industrial Development Agency and local growth

- Public benefit corporation – authorized by IDA Act of 1969
- Over 115 active in NYS
- “Promote, develop, encourage & assist in acquiring, constructing, improving, maintaining or equipping certain facilities, thereby advancing the job opportunities, health, general prosperity & the economic welfare of the people of New York.”
- Primary tools used: tax saving incentives & fast-track permit processing to attract businesses and promote sustainable economic growth

Issues facing LI

- Manufacturing employment 1/1990-12/2018: Dropped from 13% to 5.13%
- Restrictive zoning that limits rental housing & high housing costs – housing costs represent 35% or more of household income for 32% of the population (50% or more for 19% of population, & 35-49% for 13%)
- Nassau County: (2012-2019) Drop in 20 to 44 year old population by 9.3 %. 35-44 range fell by 26.9% (Schnirman, 2019)
- Employment growth in low wage sectors such as recreation

Growth constraints & housing

- Housing costs affect the decision of college educated individuals to migrate into more costly areas, even when greater amenities and higher wages are accounted for (Plantinga et al 2013)
- Investment in housing supports economic development through both economic and social channels (Harris & Arku, 2006)
- Restrictive housing policies reduces growth rates (Glaeser & Gyourko, 2018; Gyourko & Molloy, 2015; Herkenhoff et al (2018))

IDA Projects and Economic Development

- IDA project consists of several components:
 - Induce firms to move into the town/county: Industrial/Manufacturing, but expanded to other areas as well
 - Offer support in several ways: Tax abatements, tax exemptions, bond financing for improvements, consolidate properties
 - Firms pay PILOTs, lease payments
 - Each project is negotiated individually – term, requirements for number of jobs created and maintained, etc.
- IDA projects should bring new resources to a community

LI industrial development

- IDAs have become an important force in county & town development policy
- Controversy in the community over types of projects that have been supported & their effectiveness (changing the character of local downtowns, employment effects, impact on schools & taxes)
- General precondition for IDA support:
 - Minimum level of the new units constructed offered as “affordable housing” (from 10 to 25 percent of all units)
 - Create some predetermined number of direct fte employment
- Aside from the “affordable housing” units, new apartments tend to cost \$2500 & above.
- Generally create limited direct employment of between 2 to 8 fte employees

Analysis of Town of Babylon

- Use Computable General Equilibrium model developed as part of a grant-funded project from NY Sea Grant
- Standard assumption – optimizing behavior, trace impacts through effects on output, prices, sales, employment, income & revenue
- Production specified as Leontieff-CES function
- Quantities & prices adjust to clear markets
- Model calibrated using 2014 SAM tables produced through IMPLAN
- 9 aggregated production sectors (construction, real estate, wholesale & retail trade & services, utilities, manufacturing, miscellaneous, processed food, agriculture, & mining & quarrying) producing 9 commodities; 3 value-added sectors (labor, capital, & indirect business taxes); 2 government sectors (combined state & local government & federal government); 9 household categories (classified by income level); a savings-investment account; & two accounts for imports & exports to the RUS & ROW.

Housing projects in the analysis

Table 1: Basic information Residential/Residential Mixed projects, 2011-2015

	City	Total Project Amount	No of Apartment Units	Benefited Project Amount	Year Approved
New Frontier II LLC	Amityville	121,805,000	500	106,805,000	2015
WR Communities - A	Wyandanch	37,919,858	287	28,732,577	2013
WR Communities – B	Wyandanch	38,960,138	288	27,334,286	2013
Copiague Commons	Copiague	33,563,857	91	25,786,823	2015
Andress Plaza	Amityville	1,750,000	51	1,502,750	2015
	Sum:	233,998,853	1,217	190,161,436	

Data source: Town of Babylon IDA and Town of Babylon Purchasing Department

Economic impacts

- Two phases
 - 1) the impact from construction,
 - 2) the benefits of operation.
- Direct impacts of construction are equal to the total amount of investment (\$234 million)
- Operational impacts are the result of ongoing activities, which include further round-by-round operations after the construction phase.
 - Created by the economic activities generated from the operational revenue, taxes paid, spending on salaries of employees, spending on utilities, the cost of facility maintenance.
 - Operational impacts mainly arise from new residential consumption, including food, housing, apparel and services, transportation, healthcare, entertainment, education, & personal insurance.
 - Consumer spending data by BEA, total consumption is estimated as \$116 million & \$58 million per year under the assumption of 100% & 75% occupancy in the study area (Table 2).

Residential consumption

Table 2: Basic information Residential/Residential Mixed projects, 2011-2015

IMPLAN Sector ID	Sectors	Assumptions	Total Consumption (\$Million)	
			Full	75% Use
400	Food	6,759	16.45	12.34
440	Housing	17,798	43.32	32.49
403	Apparel and services	1,786	4.35	3.26
412	Transportation	9,073	22.08	16.56
484	Healthcare	4,290	10.44	7.83
496	Entertainment	2,728	6.64	4.98
474	Education	1,236	3.01	2.26
438	Personal insurance	5,726	9.38	7.04
	Total:	49,396	116	87.00

Baseline values for Babylon

Table 3. Estimated Baseline Values in the sectors, Town of Babylon.

Sectors	Jobs	Output (\$Million)
Construction	9,497	1,731.88
Real Estate	3,252	473.86
Wholesale and retail trade & services	59,505	8,656.05
Utilities	102	115.29
Manufacturing	10,404	3,703.71
Miscellaneous	14,614	1,883.29
Processed food	675	154.04
Agriculture	28	6.34
Mining and quarrying	15	5.78
Total	98,093	16,730.23
Labor Income		4,771.30
Gross household income		4,212.68
Federal government revenue		2,495.79
State government revenue		3,879.37
Federal indirect taxes		81.01
State indirect taxes		726.68
GDP		9,509.31

Data source: Estimated according to the IMPLAN's dataset.

Construction phase impacts

Table 4 Change of economic impacts from Baseline Values under the construction phase.

Sectors	Price	Job		Value of output	
	%	Value	%	Value(\$Million)	%
Construction	7.79	2,614	27.53	360.15	20.80
Real Estate	0.58	14	0.44	4.49	0.95
Wholesale and retail trade & services	0.37	521	0.87	79.41	0.92
Utilities	0.12	1	1.18	0.82	0.71
Manufacturing	0.13	-47	-0.45	-5.53	-0.15
Miscellaneous	0.12	6	0.04	2.95	0.16
Processed food	0.04	0	0.03	0.26	0.17
Agriculture	0.01	0	0.04	0.01	0.10
Mining and quarrying	0.00	0	0.01	0.01	0.10
Total		3,110		442.56	
Labor Income				126.34	2.65
Gross household income				174.27	1.06
Federal government revenue				21.83	0.56
State government revenue				38.73	1.55
Federal indirect taxes				1.01	1.25
State indirect taxes				9.06	1.25
GDP				266.07	2.80

Table 5 Change of economic impacts from Baseline Values under the operation phase.

Sectors	Price	Job		Value of output		
	%	Value	%	Value(\$Million)	%	
Economic Impact of a "Normal" Year of Operations (Full Use)						
Construction	0.14	6	0.06	2.22	0.13	
Real Estate	0.20	14	0.44	1.77	0.37	
Wholesale and retail trade & services	0.30	592	1.00	77.08	0.89	
Utilities	0.01	-3	-0.42	-0.45	-0.29	
Manufacturing	0.00	0	-0.05	0.06	0.05	
Miscellaneous	0.02	-59	-0.57	-13.02	-0.35	
Processed food	0.04	32	0.22	4.16	0.22	
Agriculture	0.00	0	-0.04	0.00	-0.01	
Mining and quarrying	0.00	0	-0.02	0.00	-0.01	
Total		583		71.82		
Economic Impact of a "Normal" Year of Operations (75% Use)						
Construction	0.10	4	0.05	1.66	0.10	
Real Estate	0.15	11	0.33	1.33	0.28	
Wholesale and retail trade & services	0.22	444	0.75	57.81	0.67	
Utilities	0.01	-2	-0.32	-0.34	-0.22	
Manufacturing	0.00	0	-0.04	0.05	0.04	
Miscellaneous	0.01	-44	-0.43	-9.76	-0.26	
Processed food	0.03	24	0.17	3.12	0.17	
Agriculture	0.00	0	-0.03	0.00	-0.01	
Mining and quarrying	0.00	0	-0.02	0.00	-0.01	
Total		437		53.86		
Economic Impact of a "Normal" Year of Operations (Full Use)						
Labor Income				22.24	0.47	
Gross household income				30.73	0.28	
Federal government revenue				7.27	0.29	
State government revenue				8.66	0.22	
Federal indirect taxes				0.62	0.77	
State indirect taxes				5.59	0.77	
GDP				51.40	0.54	
Economic Impact of a "Normal" Year of Operations (75% Use)						
Labor Income				16.68	0.35	
Gross household income				23.04	0.21	
Federal government revenue				5.45	0.22	
State government revenue				6.50	0.17	
Federal indirect taxes				0.47	0.58	
State indirect taxes				4.19	0.58	

Impacts of operation

- Under the assumption of 100% occupancy
 - Total employment & value of output estimates are 583 jobs & \$72 million annually.
 - Most of the impacts arise through the trade & services sectors in which there are 592 jobs & \$77 million in outputs, followed by processed food, construction, & real estate. More substitution effects appear in other sectors such as utilities, manufacturing, miscellaneous, agriculture, mining & quarrying.
 - Operations lead to increases of regional GDP of 0.54 percent annually, with a 0.47 percent increase in labor income & 0.28 percent increase in household income.
 - Government revenue increased by 0.29 percent in federal & 0.22 percent in state revenue, & is associated with a 0.77 percent increase in indirect taxes.
- More realistic assumption of 75% occupancy leads to estimates of output increases by \$54 million & 437 jobs generated.
- GDP contribution is about 0.41 percent per year with the increase in household income by 0.22 percent.

Conclusions

- CGE simulation suggests that these projects have a positive impact on the region & the economic well-being of these communities.
- Greatest economic impact arises during the construction phase
- Employment impacts are much more muted once they become operational.
- The analysis assumes that these developments are attracting new residents to the community, not simply drawing existing residents out of existing housing.
- Many renters in towns like Babylon live in unregistered apartments in single-family homes, or also may be family members that are still living at home (college graduates that have returned home & work in the NY metro area).
- From a public policy point of view, new housing options likely have a very positive impact on towns like Babylon by alleviating housing shortages & may help to create a more vigorous community.
- Other types of projects could though produce far greater operational impacts in terms of employment & income than housing.