Posted on: March 12, 2013

Measuring the Economic Impact of Apartment Communities

The effect of apartments on the national and local economies extends far beyond the construction stage. A new study illustrates multifamily's gross domestic product, both across the nation and in the neighborhood.

By **Jennifer Duell Popovec**

Credit: Justin Clemons

To those who live and breathe the multifamily business, IT's all about the bottom line. The economic impact of an apartment community is measured in net operating income, revenue and expense, debits and credits.

But if you stepped back to consider the economic contribution a new apartment community makes to its neighborhood—and further, the industry's impact on the national economy—you'd be astounded.

The first and most obvious factor is construction spending, and several studies quantify just how many jobs

Yet, the impact of these three elements—construction, operations, and resident spending—had never been fully measured, until now. A new study sponsored by the National Multi Housing Council (NMHC) and the National Apartment Association is the first to quantify the gross domestic product of the multifamily industry.

The study, *The Trillion Dollar Apartment Industry*, found that apartments contribute $1.1 trillion to the national economy and support 25.4 million jobs.

"People underestimate the economic impact that flows from apartment buildings," says Stephen S. Fuller, an academic researcher at George Mason University's Center for Regional Analysis who conducted the study.

"It's always that first splash of new construction that gets the attention," Fuller notes. "No one pays attention to ongoing maintenance or to the people who live in these properties. By not paying attention to them and the long-term effect they have, people underestimate their importance to the overall economy."

Multifamily construction contributed $42.5 billion to the national economy, and construction spending spurred $12.7 billion in personal earnings, while supporting roughly 324,000 jobs, in 2011. That's nothing to sneeze at. But resident spending on goods and services produces an economic contribution nearly 21 times greater than construction.

Apartment resident spending drove nearly 80 percent of apartments' total contribution to the national economy in 2011 and sustained nearly 90 percent of the total jobs supported by apartments. In 2011, the country's 35 million apartment residents contributed $885.2 billion to the national economy. Renter spending also generated $222.0 billion in additional personal earnings and supported 22.8 million jobs during the year.

"Renters spend more of their income locally than homeowners," Fuller points out. "These renter households generate a lot of jobs that ordinarily wouldn't be associated with the apartment industry."

Based on average spending and after-tax earnings, apartment residents had $628.5 billion in disposable income in 2011. Nearly three-quarters of that amount, or $421.5 billion, was spent on consumer goods and services produced in the United States.

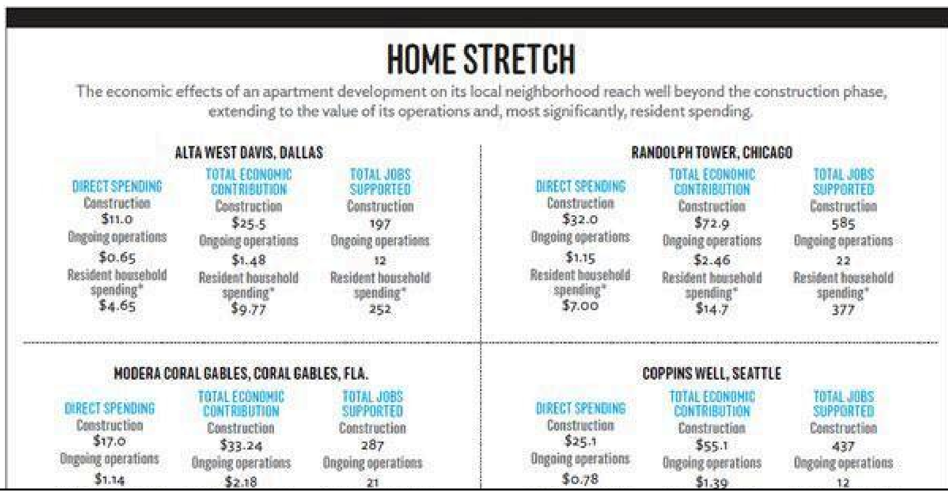
services; and entertainment. Roughly 70 percent of the dollars residents spent on those items stayed within the local economy.

In addition, the industry spent $67.9 billion on apartment operations in 2011. And that spending directly supported local employment and business activities across four main categories: utilities; repairs and maintenance; management; and building services, including materials and labor costs.

When the indirect effects of that spending are factored in, the operation and maintenance of the nation's entire stock of apartments had a total economic contribution of $182.6 billion in 2011.

So, why are all of these massive numbers important to you? All real estate is local, after all. But one aspect of the research is a local economic contribution calculator that developers can use to curry civic support and help in the entitlement process. And on the opposite page are four such calculations, tallying up sample developments' economic impact on their local communities.

"This research supports the idea that multifamily is critically important to the economy," Fuller says. "People who consider multifamily to be second class … to be undesirable in their communities … they have no sense that it's a major economic force."



HOME STRETCH

The economic effects of an apartment development on its local neighborhood reach well beyond the construction phase, extending to the value of its operations and, most significantly, resident spending.

ALTA WEST DAVIS, DALLAS

	DIRECT SPENDING	TOTAL ECONOMIC CONTRIBUTION	TOTAL JOBS SUPPORTED
Construction	$11.0	$25.5	197
Ongoing operations	$0.65	$1.48	12
Resident household spending*	$4.65	$9.77	252

RANDOLPH TOWER, CHICAGO

	DIRECT SPENDING	TOTAL ECONOMIC CONTRIBUTION	TOTAL JOBS SUPPORTED
Construction	$32.0	$72.9	585
Ongoing operations	$1.15	$2.46	22
Resident household spending*	$7.00	$14.7	377

MODERA CORAL GABLES, CORAL GABLES, FLA.

	DIRECT SPENDING	TOTAL ECONOMIC CONTRIBUTION	TOTAL JOBS SUPPORTED
Construction	$17.0	$33.24	287
Ongoing operations	$1.14	$2.18	21

COPPINS WELL, SEATTLE

	DIRECT SPENDING	TOTAL ECONOMIC CONTRIBUTION	TOTAL JOBS SUPPORTED
Construction	$25.1	$55.1	437
Ongoing operations	$0.78	$1.39	12

84 Lumber Expands Into the Multifamily Market

Alta West Davis, Dallas

Credit: Steve Hinds

The Oak Cliff submarket of Dallas has been overlooked and underinvested in for decades. Few multifamily developers venture into this South Dallas neighborhood, which has a reputation of being one of the more dangerous in the area. Yet, the submarket has begun a transformation, thanks in part to Atlanta–based Wood Partners' newest community, which replaces an old, crime-ridden apartment property. The 207-unit Alta West Davis is attracting new, more well-heeled residents to this infill neighborhood, says Todd McCulloch, a director at Wood Partners. It consists of a pair of three-story buildings featuring studio, one-, and two-bedroom units ranging in size from 650 to 1,200 square feet.

McCulloch says Alta West Davis' contribution to the local economy is multifaceted. "The most obvious contribution comes in the form of the additional taxes paid to the tax base," he notes. In addition, this particular area of Dallas features a bevy of local retailers and restaurants, which Alta West Davis residents overwhelmingly support.

"Longtime residents of Oak Cliff are very proud of their community and very committed to supporting local businesses, and the residents of Alta West feel the same," McCulloch says.

In addition to the resident spending and increased tax base, Wood Partners has brought jobs to Oak Cliff, an area traditionally lacking in opportunity. The firm has its own in-house leasing and property management team and contracts out landscaping to a local firm. "If not for this project, five people in this community would not have a job," McCulloch notes.

The neighborhood contains predominantly Craftsman or Prairie Style architecture, and Alta West Davis' design reflects the historic nature of the neighborhood, with a modern touch: The property is pursuing LEED Silver status.

Randolph Tower, Chicago

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you really want to make an impact, do a development during a period of time of incredible economic hardship," he suggests.

Renovation and construction costs for the 1920s-era high-rise reportedly exceeded $140 million. Prior to the rehab of the historic building, it contributed very little to the local economy. Even worse, it was a safety hazard—Chicago Loop pedestrians risked their lives simply by walking by the 45-story building since pieces of its terra-cotta façade had torn loose and crashed to the ground.

Randolph Tower features 313 apartment units ranging from 500 to 2,000 square feet. Holtzman says it leased up faster than any building in Village Green's recent history. "It leased without concessions and with rents that were a bit higher than pro forma," he notes. "We were setting the bar for the entire neighborhood."

Randolph Tower residents in market-rate units have an average income of $85,000, according to Holtzman. (Twenty percent of the units are set aside as affordable housing.) He says the residents are a boon to local merchants and restaurateurs who need nighttime traffic to supplement their daily patrons.

Since Randolph Tower was completed, two new apartment communities have been developed within just a couple of blocks of the historic structure. "I don't think those buildings would have been built without our project," Holtzman says.

Modera Coral Galbes

An underused site in downtown Coral Gables has found new life as a luxury mid-rise apartment community. The project, Modera Coral Gables, replaced a vacant art store along the city's Miracle Mile, a pedestrian-friendly entertainment and retail hub that is home to more than 200 shops and restaurants. The 237-unit

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Mill Creek Residential expects to spend close to $2 million annually to operate and maintain Modera Coral Gables, according to Parrott. That total includes payroll, utilities, repairs and maintenance, and other administrative expenses. However, it does not include taxes, which are a "meaningful portion" of the project's expenses, he notes.

Credit: administrator

With rents north of $2 per square foot, Parrott says the property will appeal to professionals with significant disposable income. He predicts that much of the demand will come from existing Coral Gables residents who are simply moving to a newer community. A greater portion will come from other parts of Miami, bringing additional income into Coral Gables.

Parrott expects residents of Modera Coral Gables to spend their disposable income locally, given the walkability of the project. "Modera Coral Gables is a true infill location," he explains. "There are so many options for dining, shopping, and entertainment for residents without getting in their car. There's no reason for them to spend money anywhere else."

Coppins Well, Seattle

Well-heeled professionals looking for luxury living in Seattle's First Hill area gravitate toward Coppins Well. The 17-story apartment tower was the first high-rise to be built in the infill neighborhood in more than 35 years. Developed by Vancouver, Wash.–based Holland Partners Group, the 237-unit property is situated just a few blocks east of the central business district and is next to Seattle's primary medical district, which includes Swedish, Virginia Mason, and Harborview hospitals. It sits on land that was formerly occupied by a vacant bank.

Given the lack of luxury living in the First Hill neighborhood prior to its development, Coppins Well has attracted an entirely new group of

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Residents pay nearly $3 a square foot to live in the building, according to Michael Voorhees, partner and regional vice president for Holland Partners Group's Puget Sound Region. The property attracts a variety of residents but caters primarily to medical employees, technology executives, and wealthy international - students.

"Our residents definitely have money to spend," Voorhees notes. "And because of the property's location, which is separated from downtown by Interstate 5, residents tend to stay in the neighborhood for staples and necessities."

The building employs five administrative professionals, four full-time maintenance people, and a full-time concierge. Additionally, it houses ground-floor retail, including a deli and a much-beloved Seattle institution, Top Pot Doughnuts, both of which have created new jobs in the community.

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