

Economic impact of construction and ongoing operation of the proposed Hope Point Tower

A report to the I-195 Redevelopment District Commission

Appleseed

July 13, 2017

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The Fane Organization, a New York City-based developer of residential and commercial real estate, is proposing to develop a 45-story, 548,456 square-foot residential building called Hope Point Tower in the I-195 Redevelopment District in Providence, Rhode Island. The project would include:

- 400 rental apartments
- 116 condo units (including 109 apartments and 7 townhouse units)
- 317 parking spaces
- 12,072 square feet of indoor retail space and 965 square feet of seasonal outdoor retail space

This report assesses the impact of construction of Hope Point Tower and its ongoing operations on Rhode Island’s economy. The report was prepared by Appleseed, a consulting firm with more than twenty years’ experience in conducting economic impact studies.

The impact of construction

The Fane Organization estimates that (as shown below in Table 1) the development of Hope Point Tower will cost a total of \$220,337,966.

Table 1: Hope Point Tower estimated total project cost (in \$ thousands)

Component	Estimated cost
Land and building acquisition	\$3,520.0
Construction (hard cost)	\$142,485.0
Soft costs	\$74,333.0
Total	\$220,338.0

For purposes of this analysis, we exclude from this total certain expenditures (such as the cost of land acquisition, interest paid during construction, condo sales concessions and operating reserves) that do not have a direct, current impact on economic activity in Rhode Island. After excluding such items, we estimate that the project’s hard and soft costs will total approximately \$200.1 million. Using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), Appleseed estimates that direct expenditures of \$200.1 million will directly and indirectly generate:

- 1,535 person-years¹ of work in Rhode Island;
- \$85.7 million in earnings (in 2019 dollars);
- Approximately \$273.6 million in statewide economic output²; and
- A one-time increase of \$143.8 million in Rhode Island’s GDP.

These impacts are summarized below in Table 2. The project’s *direct impact* is the impact of the company’s direct spending on design and construction. Its *indirect impact* is the effect of spending by contractors for goods and services (insurance, construction materials, etc) purchased from other Rhode Island businesses.

Table 2: Direct and indirect impact of Hope point Tower construction spending (employment in person-years; income, value-added and output in millions of 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	958	\$58.2	\$98.1	\$198.9
Indirect Effect	577	27.5	45.7	74.7
Total Effect	1,535	\$85.7	\$143.8	\$273.6

In addition to the impacts cited in Table 2, direct expenditures of \$200.1 million would directly and indirectly generate a projected one-time increase of approximately \$8.515 million in taxes paid to the state during construction. This increase would include approximately:

- \$3.491 million in state sales and use taxes paid on construction supplies and furnishings (unless granted an exemption from state sales and use tax from the Rhode Island Commerce Corporation);
- \$3.215 million in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$1.403 million in state sales taxes paid on those workers’ taxable household spending; and
- \$406,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

¹ A person-year is equivalent to the time worked by one person who is employed full-time for a year. For example, it could represent the work of two people who are each employed full-time for six months; or the work of one person who is employed half-time for two years. In this case, the construction period is expected to last two years; 958 direct person-years of employment over two years would thus be the equivalent of having 479 workers employed full-time in construction and related industries for two years.

² Output is a measure of the total sales by Rhode Island companies (including the “sale” of labor by Rhode Island households) generated by the project.

Most of the activity reflected in Table 2 is expected to occur between mid-2018 and mid-2020. The anticipated wage rates for construction jobs are shown below in Table 3. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

Table 3: Anticipated wages during construction

Occupation	RI median hourly wage ³
Architect	\$42.50
Construction manager	\$50.86
Carpenter	\$22.42
Electrician	\$25.26
Plumber	\$24.84
Painter	\$18.69
Laborer	\$18.68

Fringe benefits associated with these jobs are expected to be in accordance with industry norms, with the cost of such benefits generally ranging between 22 and 28 percent of wages. Workers who fill these jobs are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

The impact of ongoing operations

After it is completed and occupied, Hope Point Tower will also contribute to Rhode Island’s economy through its ongoing operations. The Fane Organization estimates that in the property’s first stabilized year of operation (assumed here to be 2021), operating expenses at Hope Point Tower will total \$2.507 million (excluding real property taxes).

Appleseed estimates (as shown below in Table 4), that in 2021 this spending will directly and indirectly support:

- 22 FTE jobs in Rhode Island;
- Approximately \$901,000 in annual earnings (in 2021 dollars);
- Approximately \$3.143 million in annual statewide economic output; and
- An increase of approximately \$1.858 million in Rhode Island’s annual GDP.

Table 4: Direct and indirect annual impact of building management, operations and maintenance (employment in FTE; income, value-added and output in millions of 2021 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	19 ⁴	\$0.693	\$1.450	\$2.406
Indirect Effect	3	0.208	0.408	0.737

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

⁴ In addition to direct employment in building management, operations and maintenance, this estimate includes direct employment with contract service providers.

Total Effect	22	\$0.901	\$1.858	\$3.143
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In addition to the operating expenses of the building itself, Hope Point Tower will contribute to Rhode Island's economy through the operations of tenants occupying the building's 12,072 square feet of indoor commercial space and 965 square feet of seasonal outdoor space. Two alternative scenarios were used to assess the impact of tenant operations – one in which restaurants occupy most of the proposed commercial space, and a second in which more space is occupied by retailers.

In the first scenario, we assume that:

- 25 percent of the indoor space will be occupied by a food and beverage retail business;
- 37.5 percent will be occupied by one or more fast-casual restaurants; and
- 37.5 percent of the indoor space, and all of the seasonal outdoor space, will be occupied by a full-service restaurant.

In the second, we assume that:

- 25 percent of the indoor space will be occupied by a food and beverage retail business;
- 35 percent will be occupied by other neighborhood retail businesses;
- 20 percent will be occupied by a fast-food restaurant; and
- 20 percent of the indoor space, and the seasonal outdoor space, will be occupied by a full-service restaurant.

As shown below in Table 5, Appleseed estimates that under the first scenario, tenant business operations would in 2021 directly and indirectly account for:

- 63 FTE jobs in Rhode Island;
- Approximately \$1.842 million in annual earnings (in 2021 dollars);
- Approximately \$5.466 million in annual statewide economic output; and
- An increase of approximately \$3.251 million in Rhode Island's annual GDP.

Table 5: Direct and indirect annual impact of ongoing operations of tenant businesses, Scenario 1 (employment in FTE; income, value-added and output in millions of 2021 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	57	\$1.430	\$2.495	\$4.212
Indirect Effect	6	0.412	0.756	1.254
Total Effect	63	\$1.842	\$3.251	\$5.466

As shown below in Table 6, Appleseed estimates that under the second scenario, tenant business operations would in 2021 directly and indirectly account for:

- 49 FTE jobs in Rhode Island;
- Approximately \$1.376 million in annual earnings (in 2021 dollars);
- Approximately \$3.223 million in annual statewide economic output; and
- An increase of approximately \$1.994 million in Rhode Island’s annual GDP.

Table 6: Direct and indirect annual impact of ongoing operations of tenant businesses, Scenario 2 (employment in FTE; income, value-added and output in millions of 2021 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	44	\$1.115	\$1.509	\$2.436
Indirect Effect	5	0.261	0.485	0.787
Total Effect	49	\$1.376	\$1.994	\$3.223

Workers who fill building services, restaurant and retail jobs at Hope Point tower are expected to be drawn primarily from Providence or from other nearby communities.

In addition to the impacts shown in Tables 4, 5 and 6, building and tenant business operations would directly and indirectly generate an increase in taxes paid annually to the state. Under the first scenario (that is, with restaurants occupying 75 percent of the project’s indoor commercial space, and retail stores 25 percent), these taxes would total approximately \$428,000, including:

- \$267,000 in state sales taxes paid on restaurant bills and taxable retail sales;
- \$103,000 in state personal income taxes paid by Rhode Island workers employed in the management and operations of the building or by its tenant businesses, or whose jobs are indirectly attributable to building and tenant operations;
- \$45,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$13,000 in state business corporation taxes directly or indirectly attributable to building and tenant business operations.

Under the second scenario (with restaurants occupying 40 percent of the project’s indoor commercial space, and retail stores 60 percent), these taxes would total approximately \$287,000, including:

- \$154,000 in state sales taxes paid on restaurant bills and taxable retail sales;
- \$85,000 in state personal income taxes paid by Rhode Island workers employed in the management and operations of the building or by its tenant businesses, or whose jobs are indirectly attributable to building and tenant operations;
- \$37,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$11,000 in state business corporation taxes directly or indirectly attributable to building and tenant business operations.