

## SECTION 3-6. ECONOMIC COMPONENT

3-6-1.

POLICY. A new community must be economically feasible in terms of economic base and potential for commercial, industrial and residential development such that a balanced new community of acceptable size can be completed at the site within a reasonable period of time, which will be, typically, from 15 to 30 years.

- a. Faster Growing Areas. Among the criteria by which feasibility will be determined in metropolitan and other faster growing regions are the following:
  - (1) Current and projected economic and demographic growth patterns and demand for supply of industrial, commercial, and residential properties for the region in which the project is located;
  - (2) The market area of the project and the growth and demand trends projected within this market area; and
  - (3) The advantages of the project, relative to other developments, including its location, the managerial and marketing skills and strategy associated with it, and its capacity to sustain a job base which, in turn, will generate demand for housing and commercial facilities.
- b. Rural and Slower Growing Areas. In the case of projects in rural and other areas (including those beyond the urbanizing portion of a metropolitan area) where, for economic or other reasons, advantage cannot be taken of existing growth trends, it is particularly important that there will be a large enough employment base to generate demand to sustain the projected growth rate of the new community. Feasibility will depend upon commitments made from industry and government public works projects; the basic conditions for industrial development; and the probable effectiveness of private and governmental efforts to attract stable industries and to overcome the major obstacles to economic development.

3-6-2.

DISCUSSION. The purpose of this Section of the Handbook is to provide an outline and general guidelines for preparing regional and market area analysis and for project analysis.

In the context of the New Communities program, economic feasibility means the forecast of the ability of the land development project to generate sufficient sales to meet the development pace required to amortize fully all debt (including Title VII debt) in the developer's proposed capital structure and to provide a reasonable additional margin of revenues for contingencies or return on equity investment. Adequacy of the proposed capital structure and projected cash flow is discussed in Section 3-7. The location, planning, and proposed marketing strategy must be such that the project can reasonably be expected to maintain a favorable competitive position in the market area over its entire development period.

The discussion below is organized in two parts: the regional and market area analysis covering the external economic factors relative to a project area; and the project analysis covering the relationship of these external factors to the potential of the selected site.

Invariably, rural or free-standing communities require a special set of studies. These are described in paragraph 3-6-6. Other situations may also arise which defy a standard format of study. Developers and analysts are encouraged to discuss such situations with the NCDC staff, but unless otherwise indicated by the staff, all studies should be conducted in the manner described in this Section. The following four common standards apply to all analyses:

- Clearly describe the methodology and assumptions;
- Specify sources of data and information (i.e., author, title, volume number, date, etc.);
- Use constant dollars for projections;
- In the final analysis, assume the most probable or comfortably achievable projections so that revenues are not exaggerated and costs are not understated.



a. Regional and Market Area Analysis.

(1) Definitions. A region, for the purpose of this analysis, is an area where jobs, residences, shopping and social activities are so highly interrelated that most daily activities of residents are carried out within the confines of its boundaries. In most cases, a region will consist of one metropolitan area, although a project might be located between two (or more) metropolitan areas. The region, in any event, is the area in which the project's impact will be felt and from which it will draw most of its growth. A market area is an area within a region where the above described interrelationships are most intense. Usually a market area is a growth sector of the region where the project will be located.

(2) Components of Analysis. The regional and market area analysis should consist of an economic base study and a market study. An economic base study should be made for both the region and the market area. Likewise, there should be a market study of both the region and the market area.

Because of the frequent unavailability of data and the nature of growth dynamics, a projection of market area potentials (separate from and in addition to the regional analysis) may be misleading or unreasonable. In such an event, the potential of a market area's growth may be expressed as a share of the region's growth. These methods of analysis by extrapolation should be confined primarily to projections of basic economic and demographic factors.

(3) Economic Base Study. In preparing an economic base study, it is expected that a survey of the existing literature will be made. Use of existing analyses is acceptable if the data incorporated into the base study is up-to-date, relevant, and employs a method of analysis consistent with the NCDC requirements. If existing studies are to

be used extensively as the basis for economic projections regarding the new community, the developer should discuss the suitability of these studies with the NCDC staff.

Key variables to be studied are the current and projected data on population, employment/unemployment, and income. These key variables are interrelated in that the migration of population depends on the level of employment; and the level of income in a region largely depends on the mix of industries in that region.

- (a) Employment/Unemployment Projections. This study should supply projections of employment using the standard categories and subcategories for manufacturing and non-manufacturing contained in the Standard Industrial Classification (See Summary of Current Business, U.S. Department of Commerce, for example). The details of the categorization should highlight the specialties of the region, while categories insignificant in the region may be lumped together. The study also should include a review of past and present employment/unemployment data, including data which dates back at least to 1960.

Further, the study should present a table showing:

1. Annual level of employment for the past five years by categories of employment;
2. Unemployment rates and labor force participation rates for each of the past five years;
3. A list and description of the major "basic employers," indicating the nature of their business, the level of current activity and the growth



outlook of industry groups, in general, and certain firms, in particular.

Projections of employment should be based on acceptable techniques or methods. If projections are based on the past trends or modification of these trends, indicate why the trends are expected to continue or change. Identify the forces which have contributed to the area's growth in the past and discuss the likelihood of such forces continuing, accelerating or diminishing. Identify, also, any new emerging economic opportunities. Other acceptable methods are "shift/share", "import/export" or "input/output" projections. Reference should be made to national, state-wide and regional employment studies conducted in recent years.

- (b) Population Projection. This study should supply a review and projection of population by age, race, and family size and it should indicate the past patterns of decennial population change, going back at least to 1950.

In preparing population projections, data from at least the two preceding decades should be studied. The analysis of the past data should include findings relative to growth rates, broken down into rates of natural increase and migration. The projections should reflect past trends. Population projections will not always show an uninterrupted upward trend. Recently, lower birth or fertility rates have become evident in census data, and these should be considered in population projections.

The relationship of population to employment, in terms of the migration

of population and the labor force participation rate, should be highlighted.

Should the participation rate be significantly different from present patterns, explanations should be provided. Reference should be made to other recent related studies in the region.

- (c) Projection of Income. Income should be projected in the following terms: (i) personal income of a region broken down into sources of income, such as wages, salaries, other labor income and transfer payment; (ii) per capita and per household income; and (iii) the distribution of residents' income, broken into deciles of income levels or other readily usable categories.

This study should review past patterns of change covering the decennial census periods, preferably dating back to 1950. The analysis of these past and present data should include the calculation of growth rates by various forms of income and their components, analysis and projection of market area household income and income distribution apart from the regional income studies. If the rate of per capita, or per household, income for the future is predicted to be significantly different from past trends, then clarify the difference by analyzing in detail (a) productivity changes and resulting wage rate changes, (b) projected mix of industries and their wage rates, and (c) the relationship of these changes to total personal income.

- (4) Market Study. Demand for housing, industrial, and commercial land in the region and market area should be studied. These demands are mainly the function of changes in population, employment and income. In addition to changes



in these key economic variables, existing levels of vacancy of dwellings as well as replacement and conversion of structures will affect the level of demand.

- (a) Housing Market Analysis. The product of this study should consist of the projected number of units by tenure and by physical type, such as single-family, townhouses, garden apartments, mid-rise and high-rise apartments. This quantitative demand should be broken down into price and rent range by size. Special attention should be given to demand for low and moderate income housing. See the discussion on housing mix in Section 3-5.

Key variables which determine housing demand and need are (i) increases in the number of households, (ii) differences between the existing and projected vacancy levels and (iii) the rate of conversion or demolition. Demand and need by types of housing and by price or rent classes are determined by shift factors and changes in household income and distribution.

Therefore, the analysis should consider the following key factors:

- Household growth--based on demographic projections and the projected changes in household size.
- Tenure shift--changing trends in preferences between owner or rental occupancy.
- Physical types--changing trends in preferences for types of housing.
- Vacancy rate change--adjusted demand because of the impact of vacancy rate change to be considered.
- Demolition and conversion--adjusted

demand because of demolition, obsolescence, rehabilitation, and conversion.

- Income and housing expenditure--the relationship of income distribution to housing expenditure.
- New housing price/rent ranges--relative to housing expenditures--the relationship of housing expenditure and housing construction cost to new housing price/rent range.
- Land value and housing price/rent--the historical and projected multiples of housing price/rent to residential lot value.

Projection of these key factors should consider past patterns of change. Therefore, past and projected factors should be quantified and highlighted in tables.

The share of housing demand in a market area in quantitative and qualitative terms may differ significantly from the share of the market area's population increase to the regional population. Consequently, the effects of household income differences, the rate of demolition and conversion, and vacancy rate differences between the region and the market area should be carefully considered.

- (b) Industrial Land Market Analysis. The product of this study should consist of industrial land demand in the region and the market area. Demand may be projected in large part from the increase in manufacturing employment.

The analysis of industrial land demand should take into consideration the existing over-supply or under-supply of industrial land and any new demand created by increases in the various



categories of manufacturing employment and selected non-manufacturing employment. Appropriate employment densities relative to these various employment categories should be projected, with land requirements projected accordingly.

- (c) Commercial Land Market Analysis. The product of this study should consist of the projected volume of land sales or space demand in square feet. Commercial use consists of general merchandise, apparel and furniture (GAF) or shopping goods sales space, non-GAF or convenience space, office space, and retail and services space not elsewhere classified.

Specifically, the analysis of commercial space demand should consider the following key factors:

- Disposability and disposable personal income--trends to be analyzed and projected;
- Expenditure patterns by major retail and service categories--the proportion of personal income to be spent on the various categories of retail merchandise and services. (Consider time trends, shift factors, and regional variations from the national average);
- Sales per square foot--present and projected.
- Office space by type--when considering office space demand, consider trends in office space construction; vacancy and replacement demand situation and outlook; new demand to be created by headquarters or regional space for both private and public sectors. These new demands should be related to the increase in employment and the increase in population.

Office space demand projections for a

market area deserve independent treatment because of the uneven distribution of such factors as headquarters space demand and replacement space demand. A market area projection should consider the increase of office-use employment in that market area.

- b. Project Analysis. This analysis calls for the same products specified in regional and market area analysis, i.e., projections of population, employment and demand for residential, industrial and commercial land. The techniques and methods of the project analysis are different in that a project draws its growth from regional and market area potential. Special criteria for rural communities are discussed in paragraph 3-6-6. The following analyses are recommended:

- (1) Location Analysis. The relationship of housing marketability and job base plays a key role in the development of new communities. The amount of housing and residential land that can be marketed depends on the number of jobs available within commuting distance. The further the time-distance to such job base, the more difficult it will be to attract residents. While a site in itself may be attractive, the area in which it is located may not have broad market appeal. Also, the price of finished lots as compared to the price of competitive lots will have a significant effect on marketability and pace.

In the case of a new-town-in-town, the internal job base generally is not the key factor. Instead, the level of amenities, lot prices, tax load, school quality, safety, and other central city problems take on increased importance.

The problems of rural communities are frequently quite different from the new-town-in-town situation, and are discussed in paragraph 3-6-6 in greater detail.

A new community within a growing region has



an advantage in its ability to attract job base and to market housing. The location of such a new community is usually beyond the fringe of present development in the building-line of a metropolis. Location at a distance from existing development may be necessary because of the cost of land acquisition and the availability of raw land in large enough parcels to permit new community development. This remoteness from existing development, however, poses special problems in marketability.

As in the case of ordinary suburban development, initial new community home buyers are often commuters to nearby employment centers. Also, most employees of firms located in new communities, at least in the initial years, will live outside the new community boundaries.

To substantiate plans for development, the following data and analyses is required:

- (a) Trends and existing patterns of metropolitan development (land use maps, aerial photos, or diagrammatic materials).
  - (b) Locations of major existing and proposed employment centers during the first phase. Number of jobs in each center and the time/distance relationship of the project site to such centers. (Superimpose the highway and street map over the map of major employment centers.)
  - (c) Locations of the major competing developments;
  - (d) Suitability for development of land presently vacant and beyond the fringe of metropolitan development in competing areas.
- (2) Competitive Analysis. "Competitive Analysis" is the process of determining the capture rates of specific market segments. This analysis involves a survey of competing developments existing and anticipated in the

region and market area throughout the development period. Generally, the following factors, relative to existing and future competitors, should be considered:

- (a) Location and type of competing developments;
  - (b) Quality of development in terms of the physical standards of development;
  - (c) Accessibility to the base of the market;
  - (d) Capabilities of developers;
  - (e) Product mix;
  - (f) Price structure;
  - (g) Marketing strategy;
  - (h) Size of development;
  - (i) Intangible qualities of development in terms of social appeal and acceptance.
- (3) Capture Rates. Capture rates change from year to year and from product to product. In beginning years, capture rates are usually low until such time as the creditability of a project has been established and a "critical mass" has been created sufficient to have a synergistic effect upon the development process.

Considerations which enter into capture rates for residential, industrial, and commercial development are not the same. Special considerations with respect to each market segment are discussed below:

- (a) Residential Capture Rate. The overall rate should be supported by the capture rates of specific housing types and price ranges. These depend on the number of competitors offering such a product and the quality of their development.



Knowledge of this competitive picture will help establish capture rates in the initial phase. For long-term competitive analysis, a hypothetical competitive environment should be established, assuming that competition will exist in all segments of the market.

Additional factors to be considered are: the number and quality of builders to be brought into the project, price advantage, the appeal of a new community, physical standards for development, racial integration, the services and standards of community recreation facilities, and the effect of zoning restrictions.

- (b) Industrial Capture Rate. Compared to the number of residential relocation decisions, industrial relocation decisions are fewer and more sporadic. Furthermore, because of the acceptance of long distance commuting, industries often enjoy greater locational freedom than in other components. Sophisticated and vigorous promotional efforts play a key role and, if fully described and analyzed, may be taken into account in projecting a capture rate.

Industrial employment increase is accommodated in two ways: on-site-expansion and relocation. Industries may be seeking new locations because of expansion, relocation from outside of the region or the birth of new firms or products. In the initial years, it is likely that the growth rate of industrial jobs will lag behind population growth rate. Projections departing from this probability will require special justification.

The availability of industrial land and the relative land price of existing and

proposed industrial parks in the market area should be surveyed and analyzed, as should qualitative differences among competitive developments. While most modern industrial parks are equipped with the essential infrastructure of industrial development (water, sewers, and roads), qualitative differences in the following attributes should be considered: access from expressways and major highways (i.e., four lane divided highways), visibility, identity, availability of large parcels, size of industrial parks, and zoning restrictions.

- (c) Commercial Capture Rate. The capture rates of shopping goods, convenience goods and services, local office uses, and regional and national office uses are determined by those factors peculiar to each use.

The techniques of projecting the capture rate for shopping goods, are advanced enough to quantify necessary variables and identify quantitative relationships, such as the application of a gravity model. Regardless of the method used, the significant factors affecting shopping goods sales factors are:

- Locations of competing shopping goods centers such as shopping centers, other major retail centers, and the CBD;
- Sizes of such competing centers;
- Distribution of population by zone and estimated shopping goods expenditures by zone;
- Driving time matrix of each center to each zone;
- Sales per square foot by each center.



For shopping center space scheduled to open beyond three to five years after the first year of the project, the competitive environment must be constructed by hypothesis, with all assumptions described in detail. Because of the uncertainty of future competition a conservative approach is recommended for shopping center space scheduled beyond three to five years.

This type of study may not be necessary when a project contains a small amount of shopping goods space supportable by less than 50 percent of shopping goods expenditures generated by on-site residents. Convenience goods and services space should be supportable by less than 70 percent of on-site residents' expenditures on such goods and services. Depending on the existing and probable future competition within five minute driving distance from the periphery of the project, the required percent of expenditures may be lower than 70 percent.

Local population-serving office space consists mostly of office space for professional services, and local financial, insurance and real estate services. Considerations for capture rates are analogous to those discussed in convenience shopping goods and services. Considerations for the capture of regional and national office space are analogous to those discussed in industrial space. Public and quasi-public spaces for local, State, and Federal governments should be looked upon as special opportunity spaces. Without specific reasons, pro rata capture of such space may not be assumed.

- (4) Comparative Analysis. The experiences of a number of new communities currently being

developed may be helpful when compared to the proposed project. However, project analysis based solely on such comparative study is rarely sufficient grounds for economic projections unless circumstances are almost completely parallel. Other developmental experiences are relevant only to the extent that factors leading to specific results can be described.

- (5) Development Pace. When competitive analysis and regional/market area projections are completed, the development pace can be derived from these two studies. The results are development pace by year for residential, industrial and commercial uses and their component subcategories.

Developers and analysts may choose to have many alternative projections of pace resulting from alternative capture rates and regional/market area projections. The pace of development most relevant to economic feasibility analysis is the "most probable" and "conservative" estimate, not the "optimistic" estimate.

- (6) Development Program. The development program for each development phase and the entire development period must be consistent with capture rate projections. The development program should contain:

- residential units and acres both for conventional and assisted units by tenure, types and year;
- industrial acreage by types and year;
- commercial acres and square footage by types and year;
- reserve acreage by year;
- population by year;
- employment by type and year.



The development program provides the basis for physical and social plans discussed in Sections 3-3 and 3-5.

- (7) Relationship of Development Pace to Development Strategy and Plan. There should be consistency between the various phases of the development plan and development pace. The development pace should not only be achievable in the market context, but also through the phased development plan. Often, marketing strategy calls for bringing merchandise to the market in a certain order. Such considerations will affect both development plans and development pace. The development plan may include a reasonable amount of land to be used for opportunity sites.
- (8) Relationship to Financial Plan. The development program and financial impact of alternative development paces should be reflected in the financial plan (see Section 3-7). The feasibility of the project and relative risk to the Federal Government may be determined only on the basis of the financial plan.
- (9) Maintenance of Economic Analysis Capability. Provision must be made to insure that the developer will continue to have the capability of assessing the changing market throughout the life of the project, since feasibility is not static.
- (10) Independent Consultants. It is critical that independent economic marketing and feasibility studies be undertaken. While the developer may wish to assume a pace of development other than that recommended by the economic consultant, the developer should adequately document his reasons if he rejects or modifies the consultant's conclusions.

3-6-3. PRE-APPLICATION PROPOSAL. Unless specifically instructed otherwise during the inquiry stage, the developer may assume that the following types of economic and market analyses are sufficient for a pre-application submission:

- a. Definition of regional and market areas;
- b. Location Analysis;
- c. Population Trends and Projections for these areas by natural and migration increase components (the analysis should include decennial census data through the most recent 20 years for which such data is available);
- d. Employment Trends and Projections for these areas by SIC categories (for trends of the past five years, local labor market area employment/unemployment data should be used);
- e. Housing Construction Trends and Short Term Projections for these areas (for past trends, housing permit data should be used; for short term projections, reference may be made to the area's most recent FHA Study);
- f. Special Housing Market Considerations which might alter the past trends (i.e., major expressways, airports, free ports, or a new resource discovery);
- g. Capture Rates, estimated on a preliminary basis, for population, employment, and housing increases.

3-6-4.

APPLICATION. In an application, the full range of analyses discussed in paragraph 3-6-2 should be included. Major headings are:

- a. Regional and Market Area Analysis
  - (1) Definitions of Region and Market Area
  - (2) Economic Base Study
    - (a) Employment/Unemployment Projection
    - (b) Population Projection
    - (c) Projection of Income
  - (3) Market Study
    - (a) Housing Market Analysis



(b) Industrial Market Analysis

(c) Commercial Market Analysis

b. Project Analysis

(1) Location Analysis

(2) Competitive Analysis

(3) Capture Rates

(a) Residential Capture Rate

(b) Industrial Capture Rate

(c) Commercial Capture Rate

(4) Comparative Analysis

(5) Development Pace

(a) Residential Pace

(b) Industrial Pace

(c) Commercial Pace

(6) Relationship to Other Marketing Strategy and Physical Plan

(7) Relationship to Financial Plan

(8) Continuity of Analysis

3-6-5.

PROJECT AGREEMENT AND MONITORING. The project agreement signed by the NCDC and the developer deal with the economic component of the plan in several ways:

- a. Liability for Failure to Meet Sales Projections. In general terms, the developer is not liable for the consequences of economic conditions which are beyond his immediate control and which occur after execution of the project agreement. Ordinarily, however, the developer does have a legal commitment to develop land according to the

schedules outlined in the project agreement for the first year and three-year development plans for industrial, commercial and residential properties, and to "use his best efforts" to sell this land for its intended use. If the developer has followed sound marketing strategy and has made every effort to meet the pace projected in the development plan, a failure to sell sufficient land to meet this pace would not in itself constitute a performance default. Results of operations which are so poor as to invoke the early-warning defaults described in Section 3-7 will, however, bring into play the remedies for financial default described in Section 2-15.

- b. Modification of Projections Based on Performance. The developer must submit to the NCDC on an annual basis a revised development plan and revised cash flow projections reflecting changes in pace and projected development expenditures and revenues caused by market performance during the preceding year. The amended plan should project land uses for one year, three-year, and, if necessary, ultimate year periods. To insure balanced development of the project, ratios of various uses of land proposed for development will be maintained as in the original plan. See Section 2-14 and paragraph 2-13-2 b.
- c. Development Strategy. Sections dealing with residential, commercial, and industrial development in the development plan will contain references to the marketing strategy which the developer agrees to follow, particularly with regard to industrial development. With permission of the NCDC, the developer may use a subsidiary or division with separate accounts to build housing, commercial centers, or industrial buildings if he is unable to find buyers or builders willing to purchase developed land.
- d. Monitoring. The developer's marketing performance is monitored on a continuing basis through the inspections, audits, financial statements, statistical reporting, and narrative and other reports described in paragraph 2-13-2.



RURAL AND DEPRESSED AREAS.

- a. General Policy. For sites beyond the urbanizing portion of a metropolitan area and beyond the influence of existing growth trends, it is particularly important that a large enough employment base be established to generate sufficient demand to sustain the projected growth rate of the new community. Project feasibility will depend upon commitments from industry and government public works projects, basic conditions for industrial development, and the probable effectiveness of private and governmental efforts to attract stable industries and to overcome major obstacles to economic development. These requirements will also apply to slow-growing metropolitan regions where normal growth is insufficient to support a viable new community.
- b. Discussion. In the new communities program, a finding of economic feasibility may rest upon potential for growth rather than upon a record of past economic growth. Thus, small town growth centers and free standing new communities may be approved under the Act, provided the developer can demonstrate a high probability of producing an economically viable community. It is desirable that commitments be sought either from industry or government early in the application process to undertake major job-generating activities, such as locating a governmental institution or a private plant, or the installation of major public works improvements in or near the project. A strong development organization with experience in economic or industrial development, management, and construction should be created.

Developers are encouraged to involve industry early in site location decision so that commitments can be achieved from project inception. "Company towns", where the community serves primarily to house the employees of a single plant or firm, are not assisted under the Act. Major firms undertaking development of new communities around their non-metropolitan plants must be prepared to provide a balanced community with

commitments from other industries in addition to their own.

Developers also are encouraged to work with Federal agencies to provide a resource or employment base or to provide technical and financial assistance for economic development. The Rural Development Act of 1972 requires Federal agencies to give "first priority to the location of new offices and other facilities in rural areas", and the President is required to report annually to Congress on the location of all new facilities.

- c. Pre-application and Application. Because economic feasibility is the most important single issue in determining project approval, considerable emphasis will be placed upon industrial location studies and market analysis during the pre-application stage.

In the full application stage the outline in paragraph 3-6-4 for economic feasibility and earlier discussion applies also to non-metropolitan new communities; but with the following change in emphasis. Establishing the basic characteristics of the region with regard to industrial location factors and determining a marketing strategy assume much greater importance than projections of economic or demographic growth, which may be negative or near zero. An understanding of the synergism of interrelating primary jobs, secondary jobs, and support facilities assumes greater importance, where demand must be generated within the project itself.

Prior to execution of a project agreement, the NCDC may require firm commitments for industrial or institutional location within the new community which will assure that the developer can meet employment goals for the initial years of development.

- d. Monitoring. Industrial potential, promotion and development will be carefully monitored by the developer and the NCDC staff. Satisfaction of initial projections for job-producing uses of land in the new community will be closely examined so



that the needs and problems likely to be faced by incoming industries and institutions can be anticipated.