

Post COVID Economic Impact on Local Governments

New England GFOA 2023 Spring Seminar

APRIL 28, 2023

PRESENTATION BY:

RKG ASSOCIATES, INC.



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For over 40 years, RKG Associates has helped thousands of clients understand *their* potential, address *their* needs, and create strategies that fit *their* community and goals.

RKG

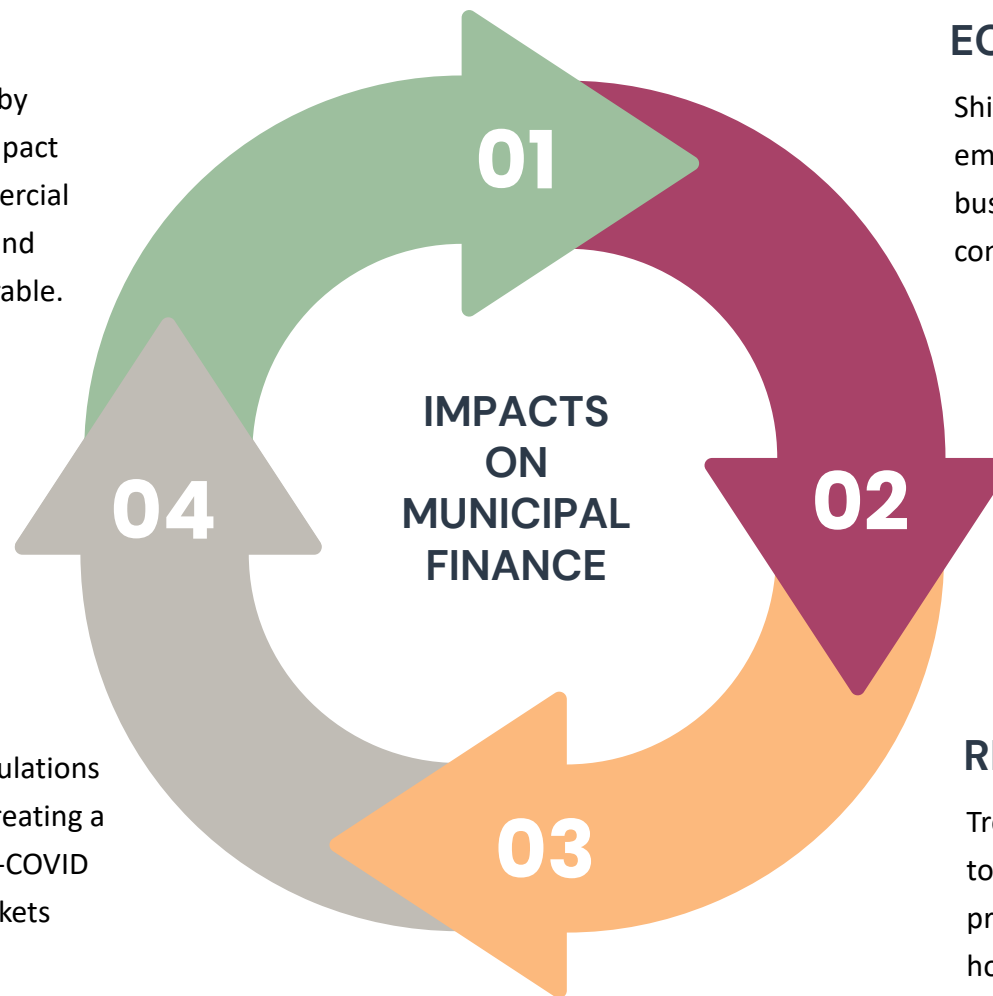
- 11 full time staff.
- National consulting firm
- Focused on economic development, real estate, and general planning
 - Market Analytics
 - Industry & Occupations
 - Workforce & Skills
 - Supply Chains
 - Land Planning
 - Fiscal Impact
 - Economic Impact

DEMOGRAPHICS

Shifts in total population, population by age, education, and income can all impact the ability to attract and retain commercial activity, replace an aging workforce, and ensure our communities remain desirable.

ECONOMICS

Shifts in the economy can indicate favorable employment conditions, the ability to support business growth, household spending, and monetary conditions for lending, bonding, and investing.



PUBLIC & PRIVATE SECTOR ACTIONS

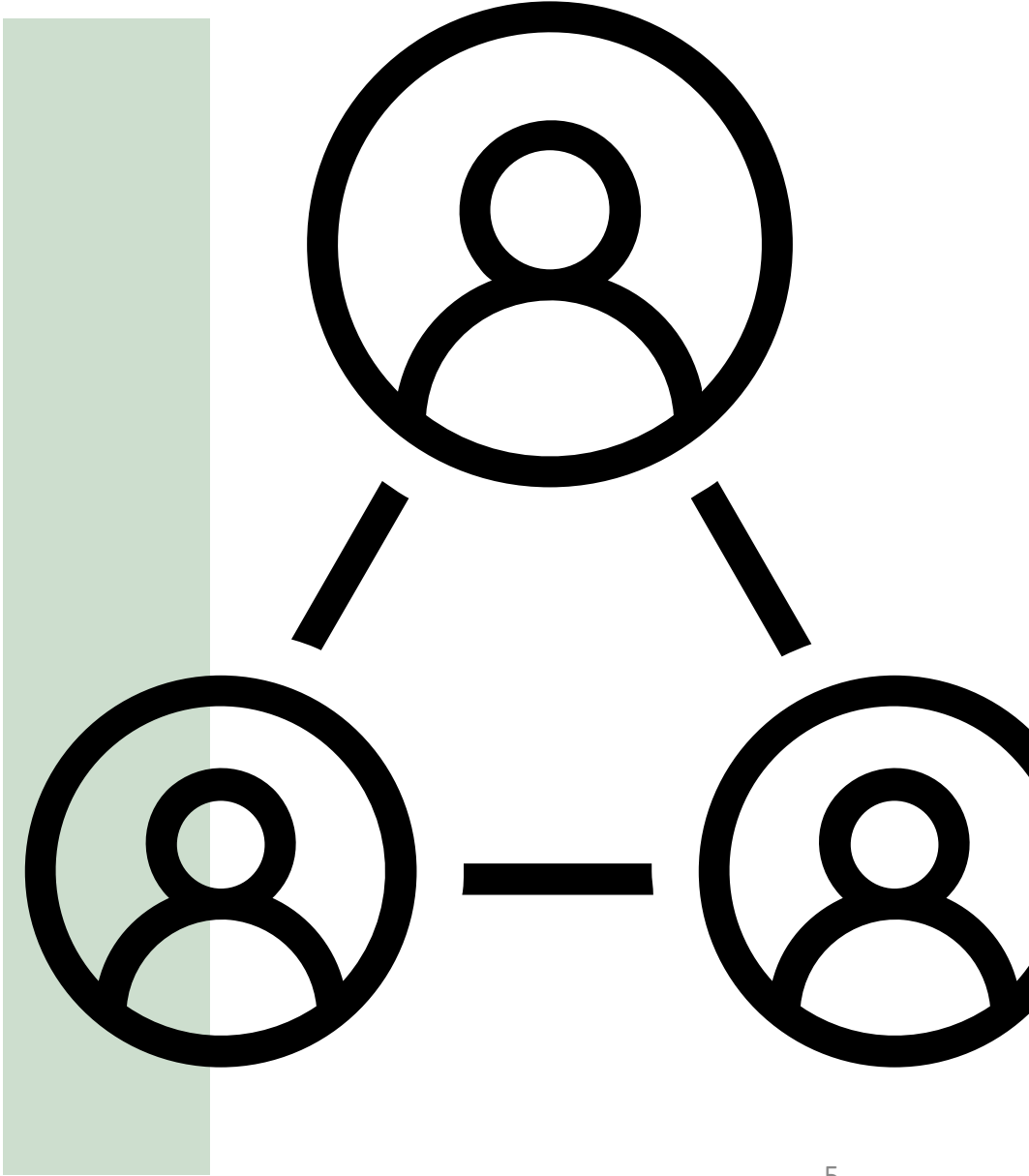
The alignment of public policy and regulations and private actions are important to creating a flexible environment, particularly post-COVID as demographics, economics, and markets continue to fluctuate and adjust.

REAL ESTATE

Trends in real estate are helpful to understand to predict where markets are heading, how property owners may reposition assets, and how that might impact valuation and taxation.

01

Demographics

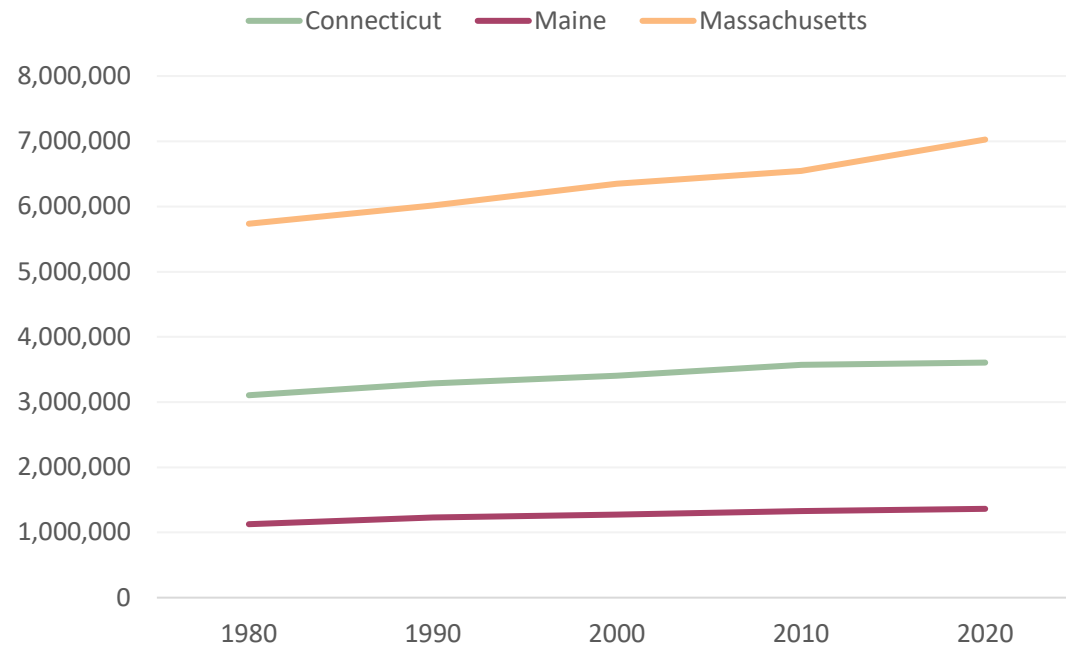


New England continues to be a region that is growing, although not nearly as fast as many other regions across the US.

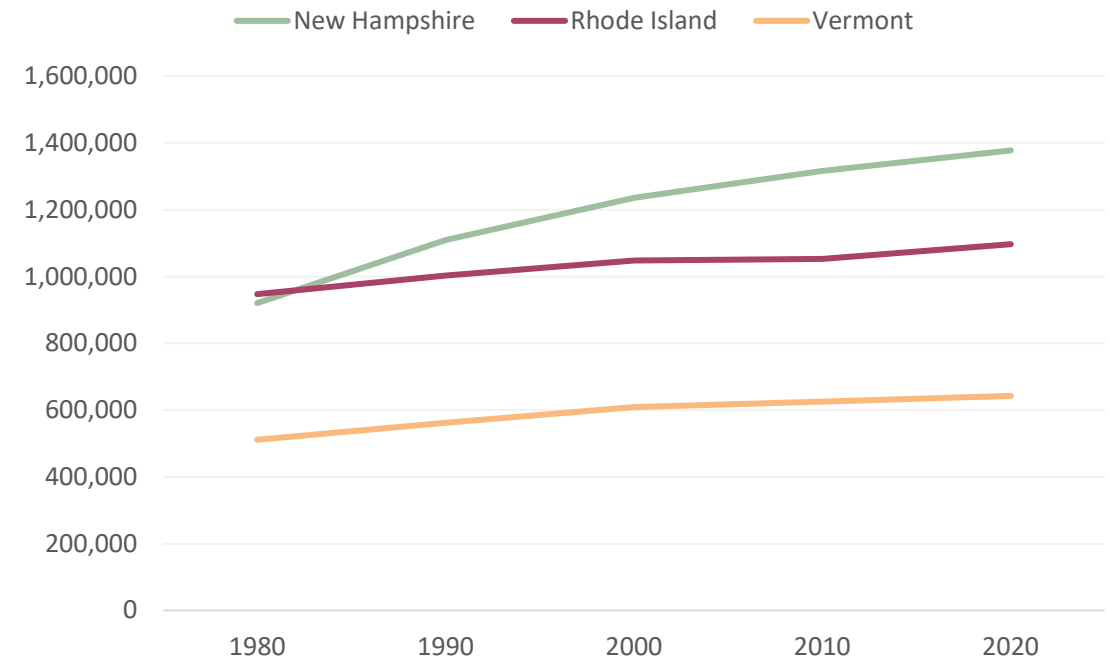


New England's total population has grown by 22% over the past 40 years, most driven by growth in Massachusetts. However, the type of population growth differs by state. Some driven by natural population increase, others driven by domestic and international migration patterns.

Population Change 1980 - 2020
Larger New England States; Decennial Estimates



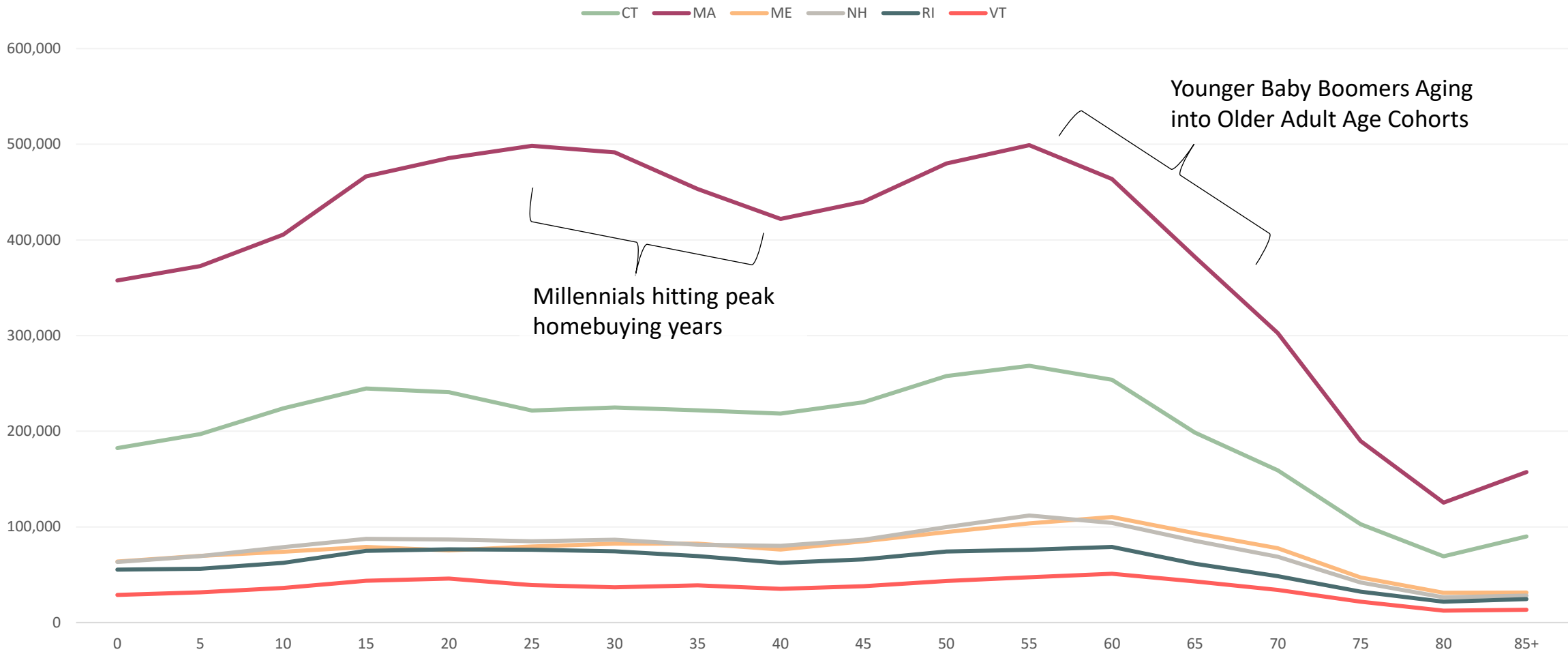
Population Change 1980 - 2020
Smaller New England States; Decennial Estimates



Most New England states follow the same population peaks and valleys. We are really seeing the impacts of the Baby Boomers and Millennials on demographic and economic changes.



New England Population by Age



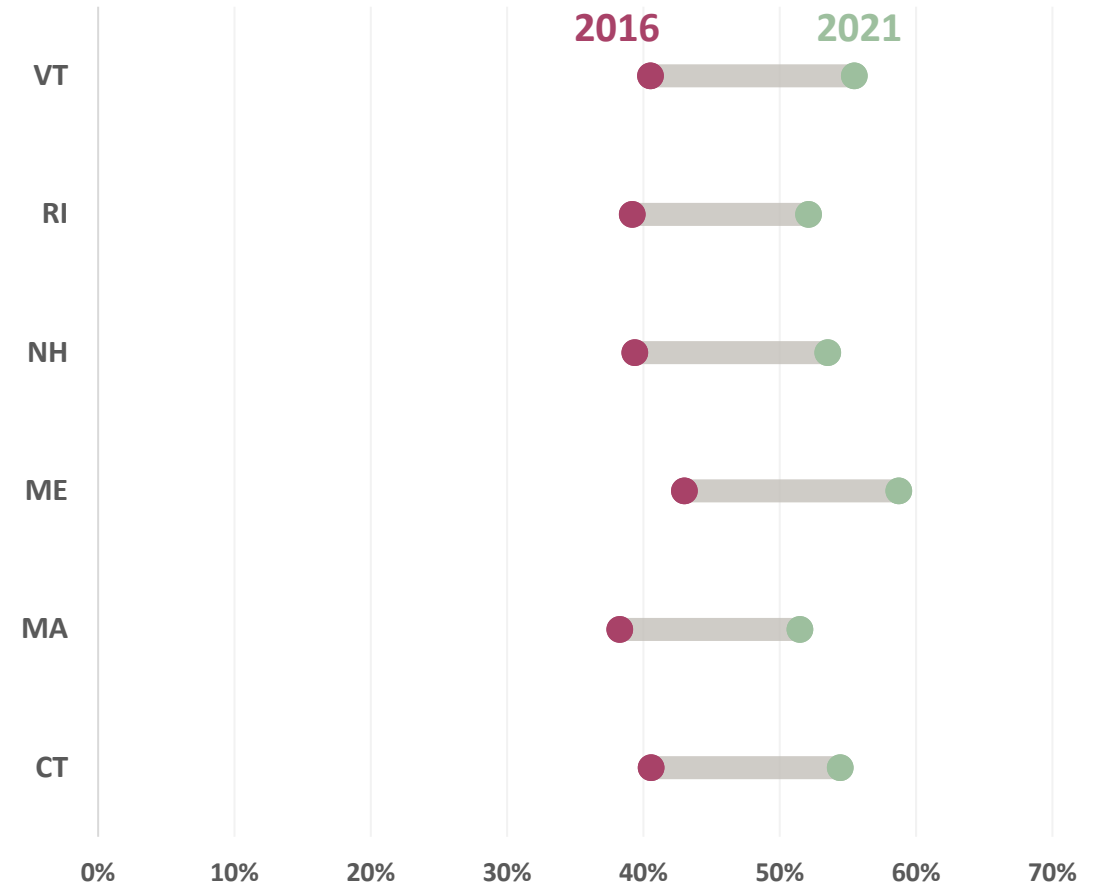
Source: ACS Public Use Microdata Sample 2017 - 2021

The impact of those hitting 65+ years of age is illustrated through the age dependency ratio.

$$\text{Age Dependency Ratio:} = \frac{\text{Under 16 + Over 65}}{\text{Age 16-64}}$$

Without attracting younger workers to the region, our economies are likely to suffer. The impact of the combined high cost of living plus limited housing choices hurts our ability to compete for employees and attract and grow employers over time.

New England Age Dependency Ratio
Change in Age Dependency Ratio Over Past Decade



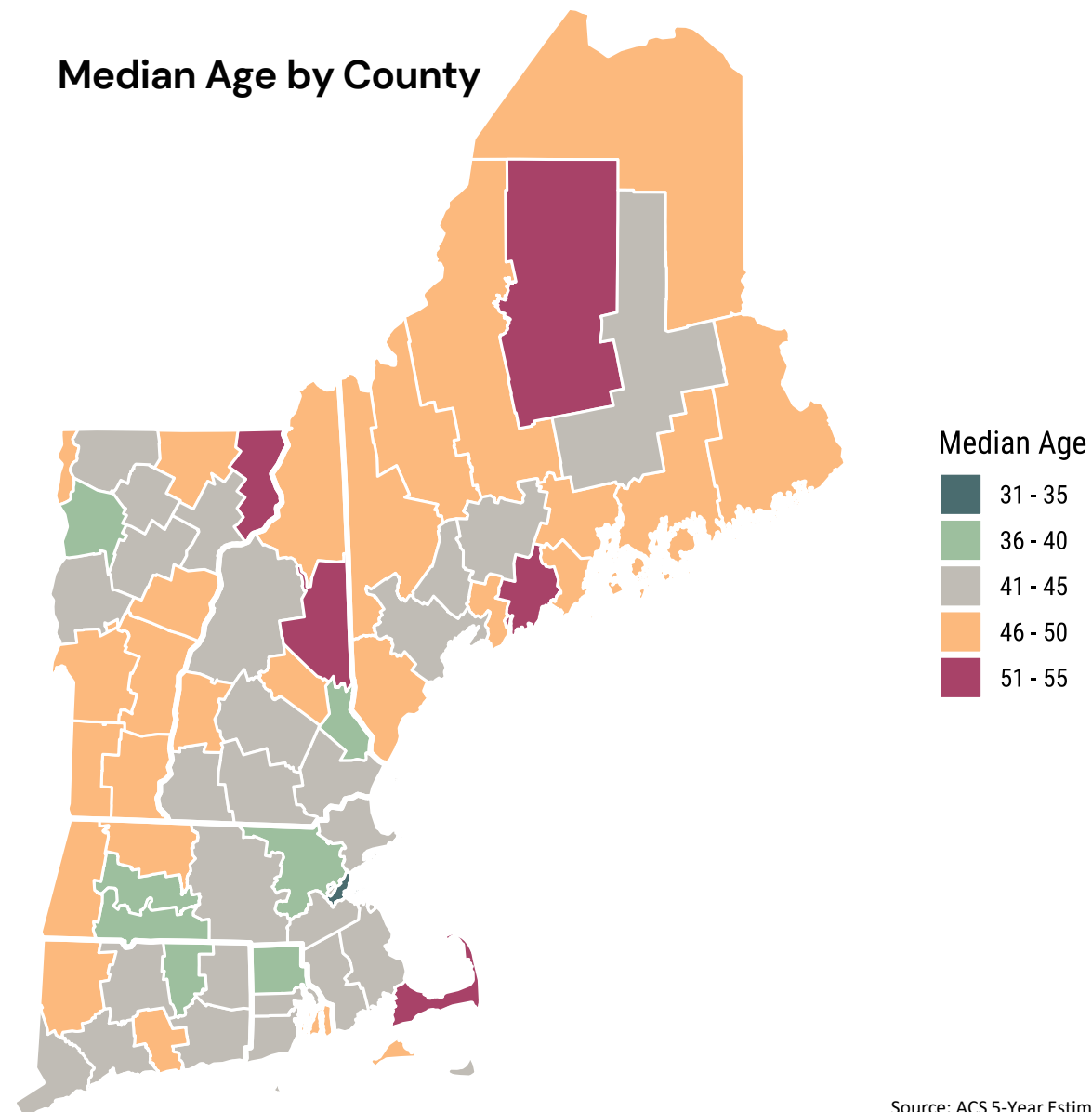
Source: ACS Public Use Microdata Sample 2012 - 2021

Older residents are also not evenly distributed across New England.

Higher proportions of older adults are typically found in more rural locations such as upstate and coastal Maine, upstate New Hampshire, and Western Massachusetts and Connecticut.

These locations may continue to struggle with attracting younger people to fill jobs, attract business or start businesses, and maybe even filling housing vacancies left by those who can no longer live independently.

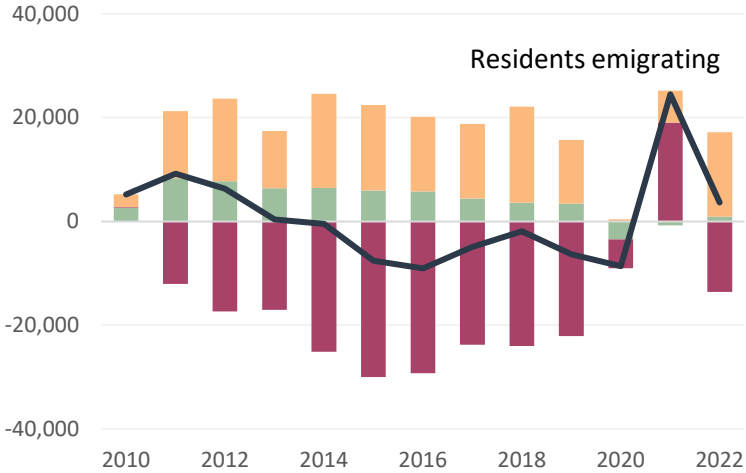
Median Age by County



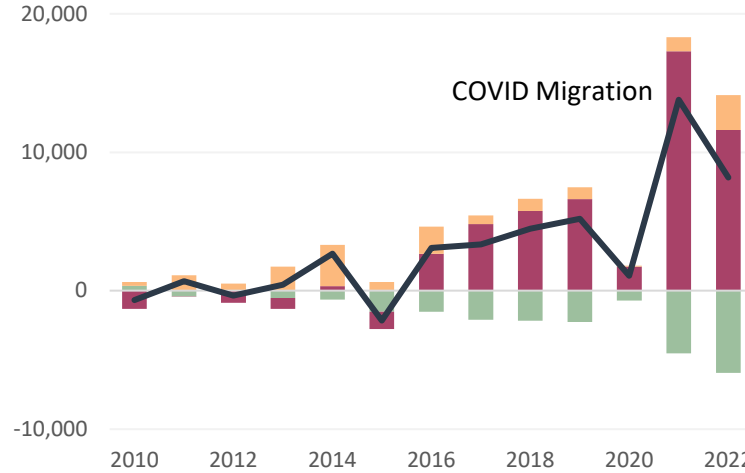
Population change is also shaped by who is coming and from where. Across New England, that story is different for each state. The impacts of COVID were also different for each state.



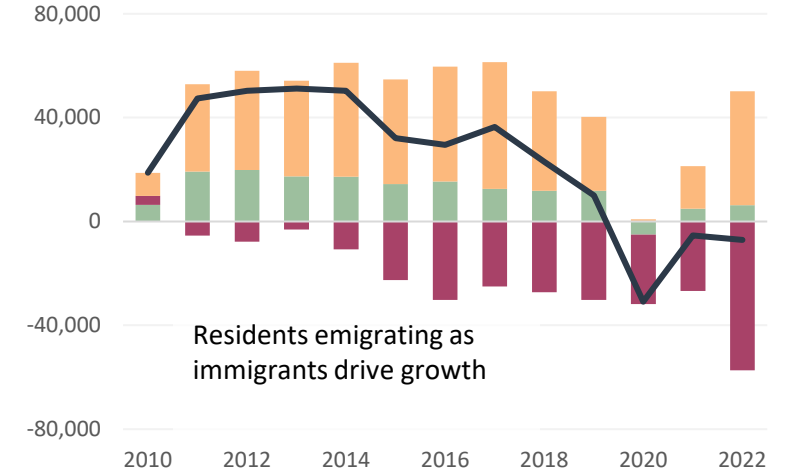
Connecticut



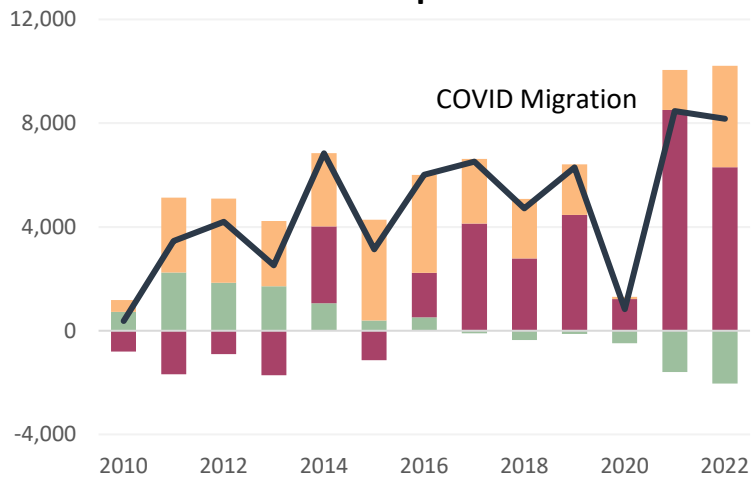
Maine



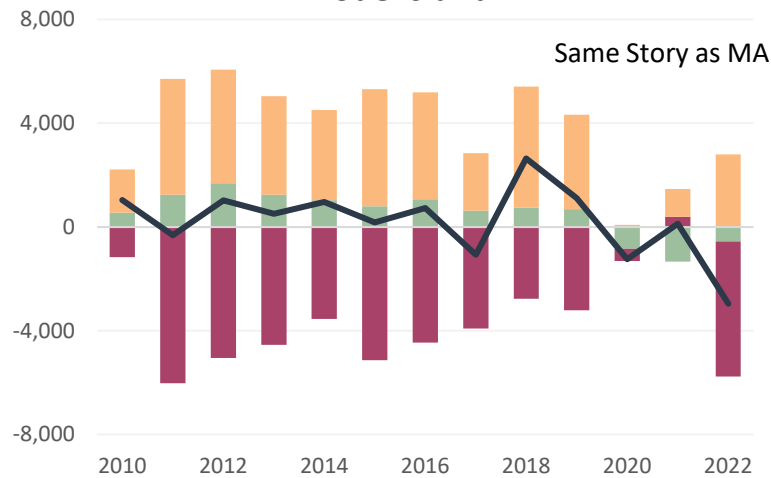
Massachusetts



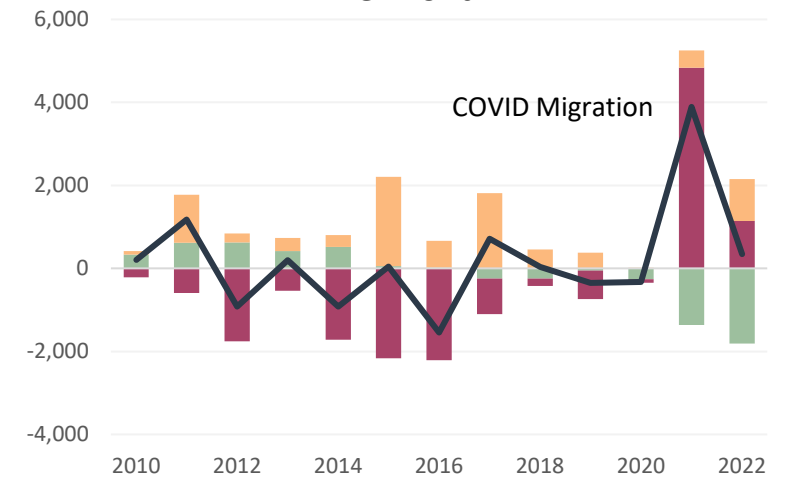
New Hampshire



Rhode Island



Vermont



■ Natural (Births – Deaths)
 ■ Domestic Migration
 ■ International Migration
 — Net Change

Source: US Census Bureau 2010 - 2022 Population Estimates

Between 2021 and 2022, migration patterns shaped new population growth/replacement in many parts of Maine, New Hampshire, and Vermont.

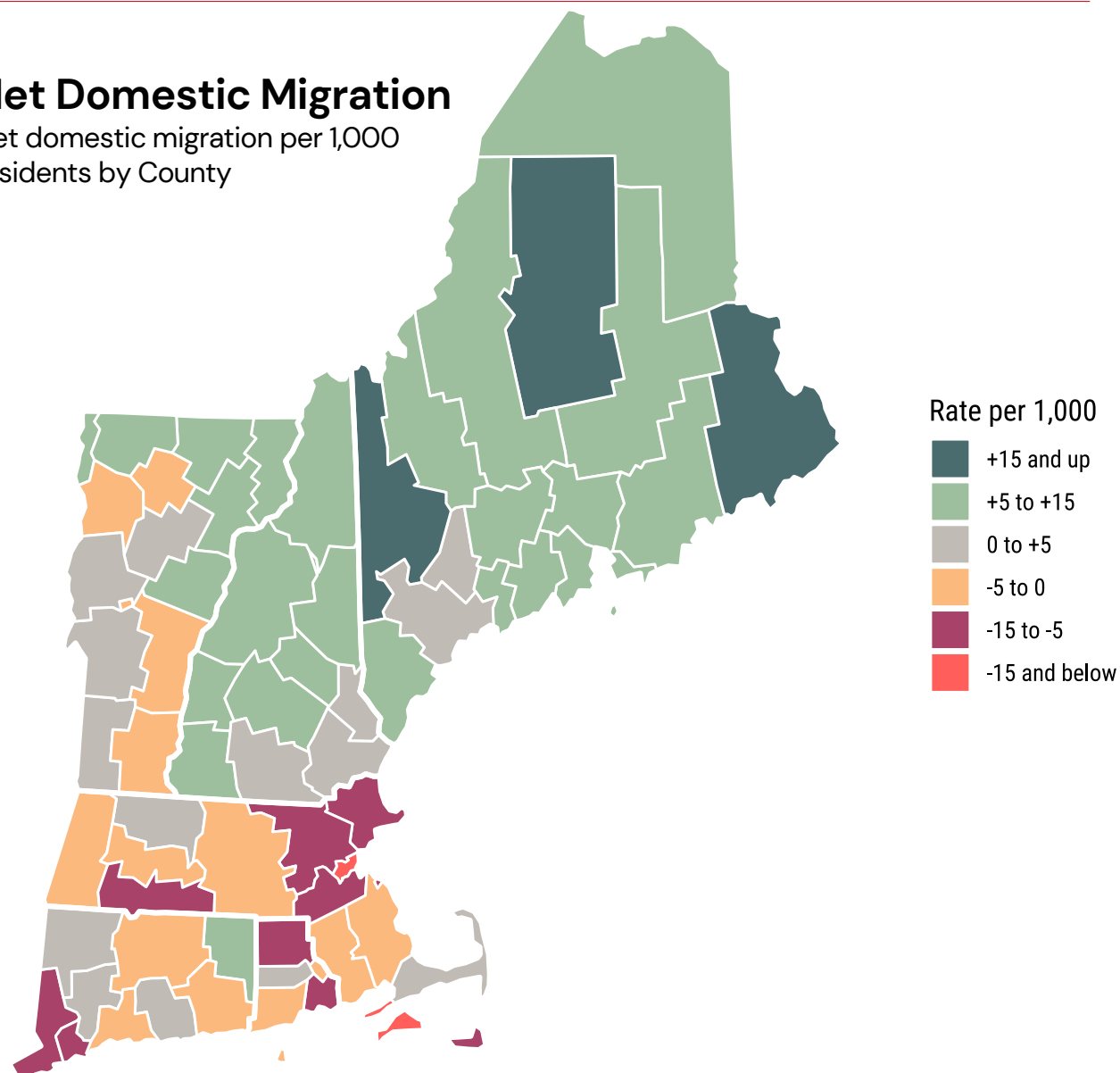
Residents living in higher cost locations, mostly urban in context, moved away to less populated lower cost markets. This was made possible by the rapid changes and acceptance of remote and hybrid work environments.

Some of these changes are also reflective of early retirements and moves to new locations.

The movement of higher income households or those coming with cash from recent sales drove the cost of housing and housing availability changes we saw during and after COVID.

Net Domestic Migration

Net domestic migration per 1,000 residents by County



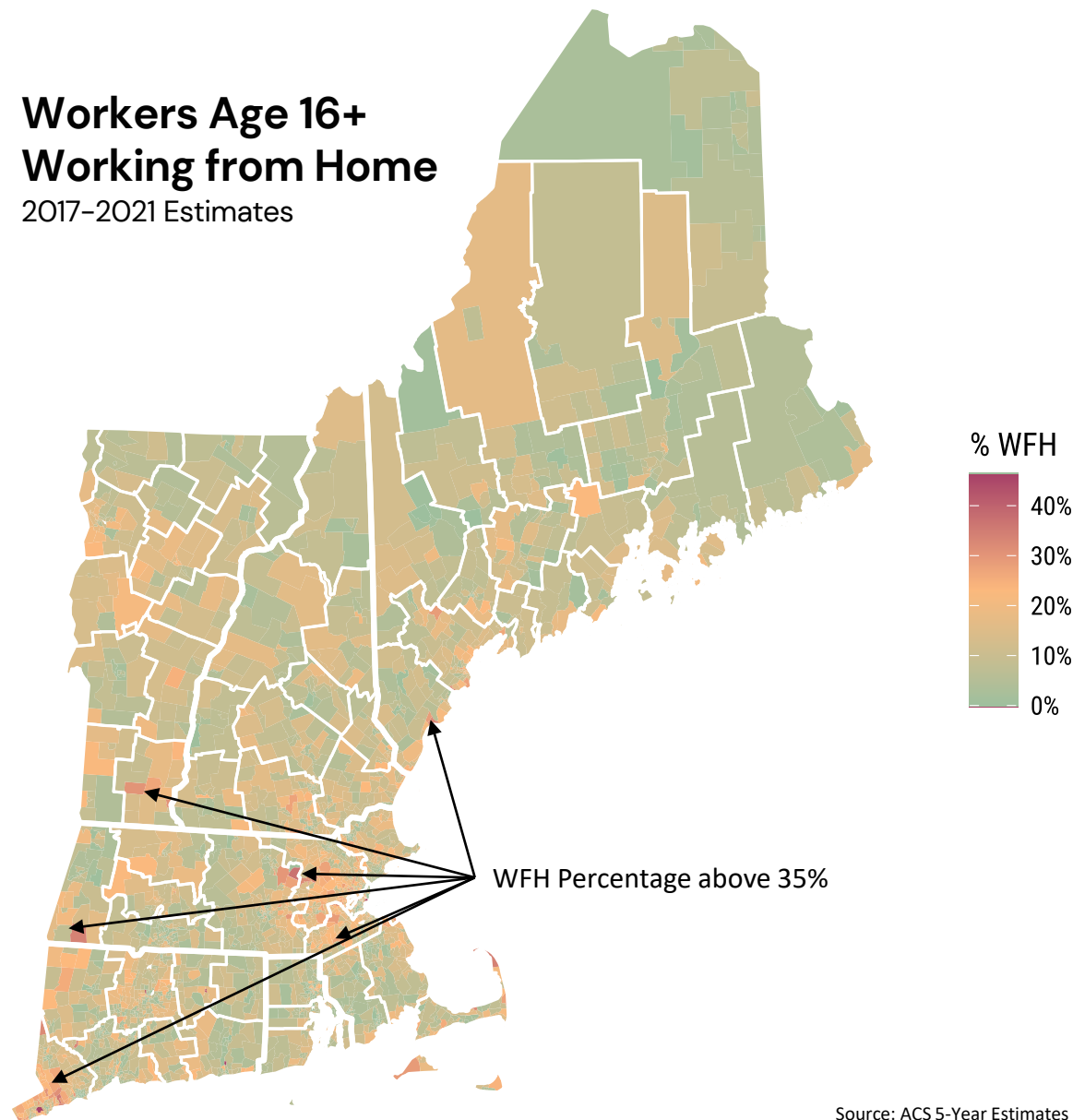
Source: US Census Bureau 2022 Population Estimates

Data on work from home percentages related to the pandemic are just becoming available.

From the data, we can see higher percentages in urban locations around Boston, Portland, and Stamford.

There are also higher percentage locations in Central and Western Massachusetts, Northwestern Connecticut, Southcentral Vermont, and parts of Coastal Maine.

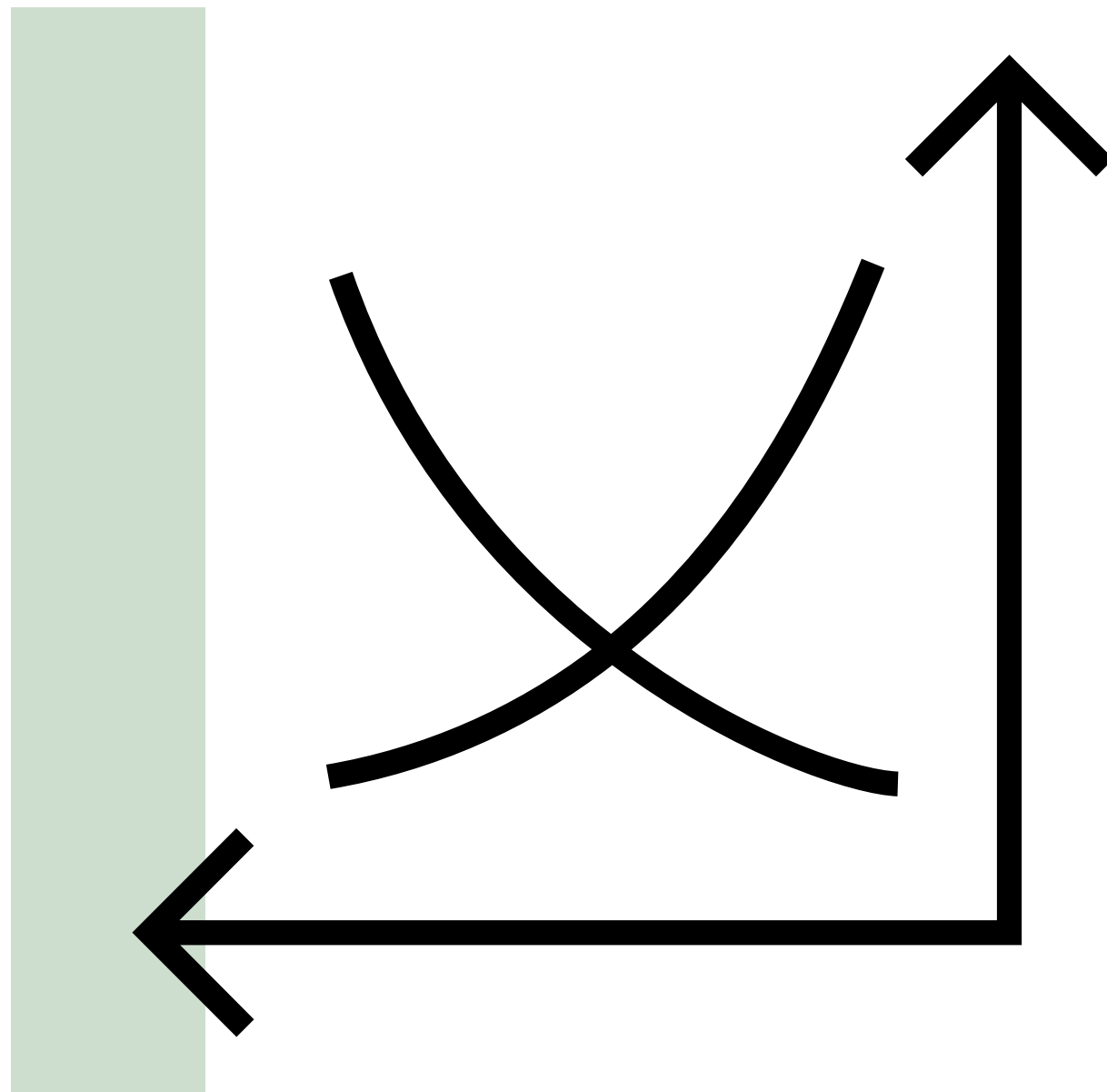
Workers Age 16+ Working from Home 2017-2021 Estimates



What impacts do these trends have on our workforce and ability to compete for jobs?

02

Economics

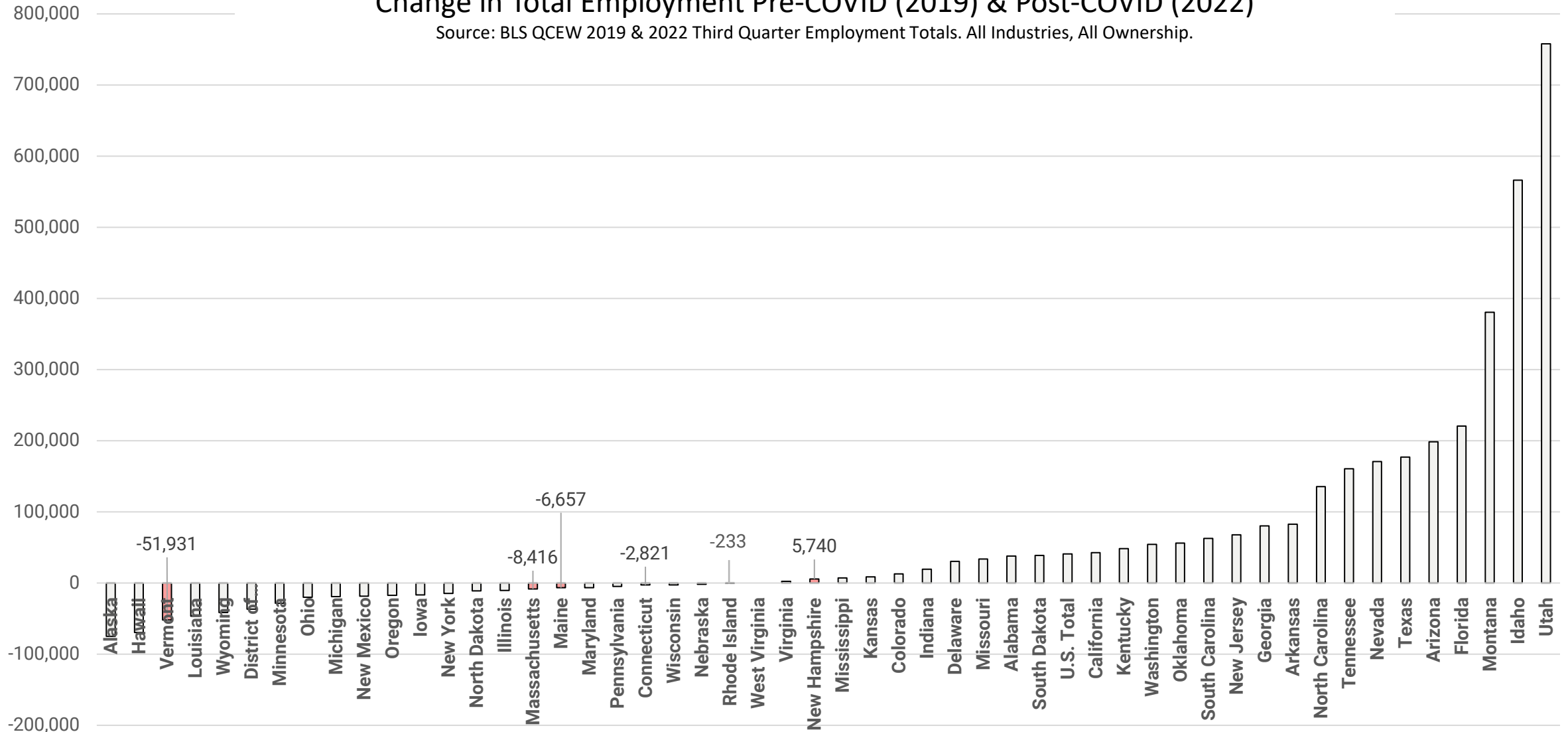


Job recovery in New England continues to lag states in the west and south with the exception of New Hampshire.



Change in Total Employment Pre-COVID (2019) & Post-COVID (2022)

Source: BLS QCEW 2019 & 2022 Third Quarter Employment Totals. All Industries, All Ownership.

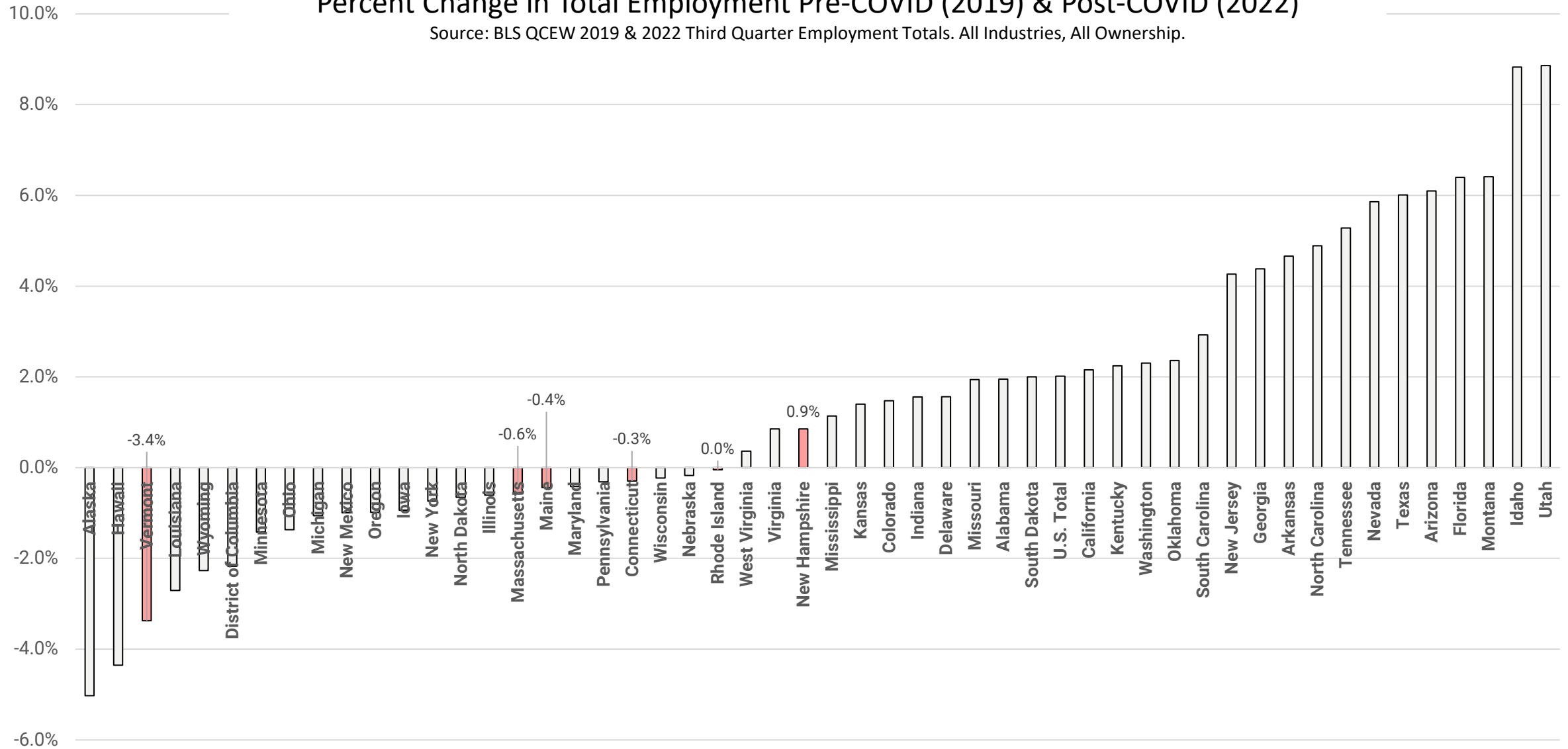


Most states in New England are nearing full job recovery to pre-pandemic levels, although Vermont continues to lag.



Percent Change in Total Employment Pre-COVID (2019) & Post-COVID (2022)

Source: BLS QCEW 2019 & 2022 Third Quarter Employment Totals. All Industries, All Ownership.

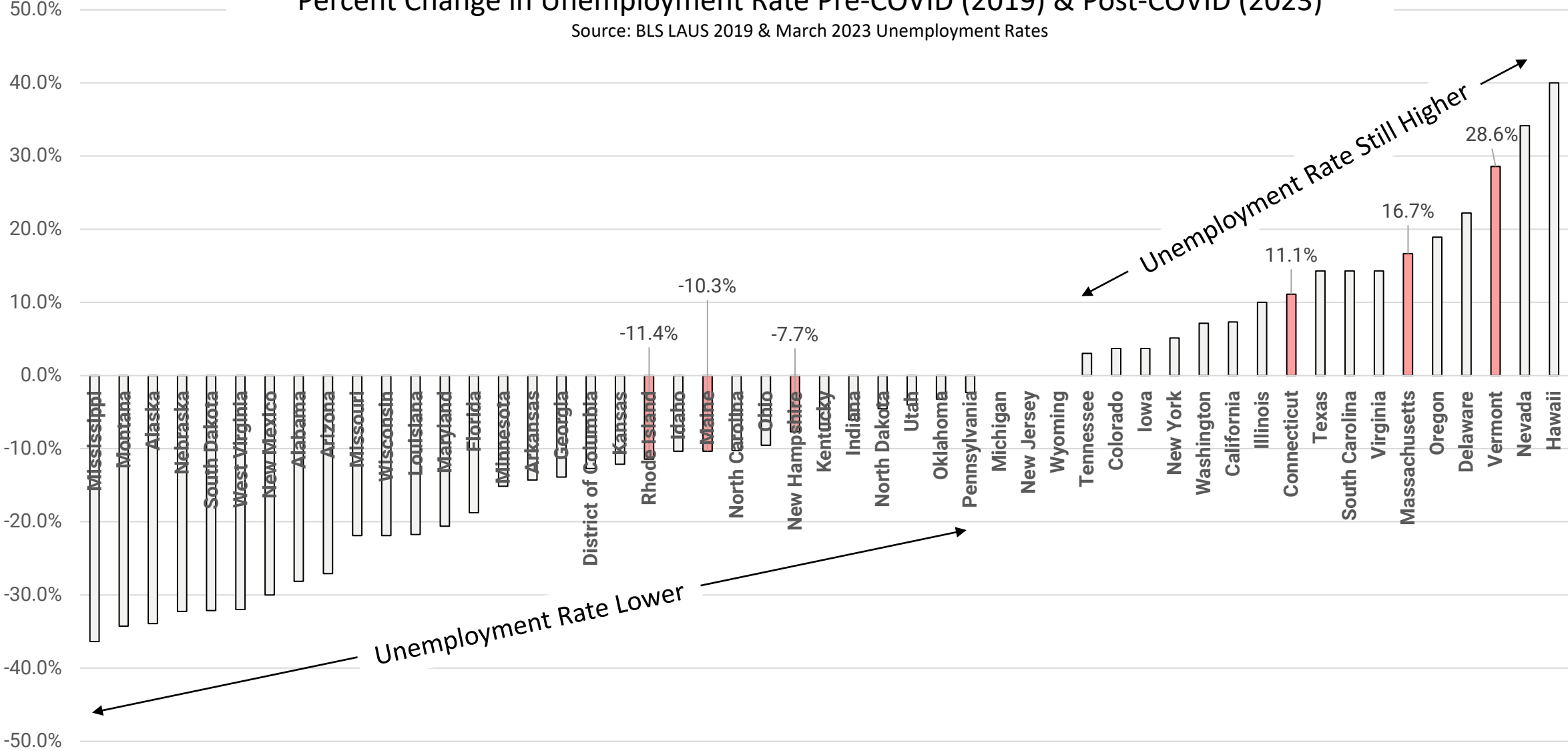


Labor market continues to be very tight and, in most states, tighter than it was prior to the pandemic. Unemployment may remain higher in some states due to people re-entering the workforce looking for jobs.



Percent Change in Unemployment Rate Pre-COVID (2019) & Post-COVID (2023)

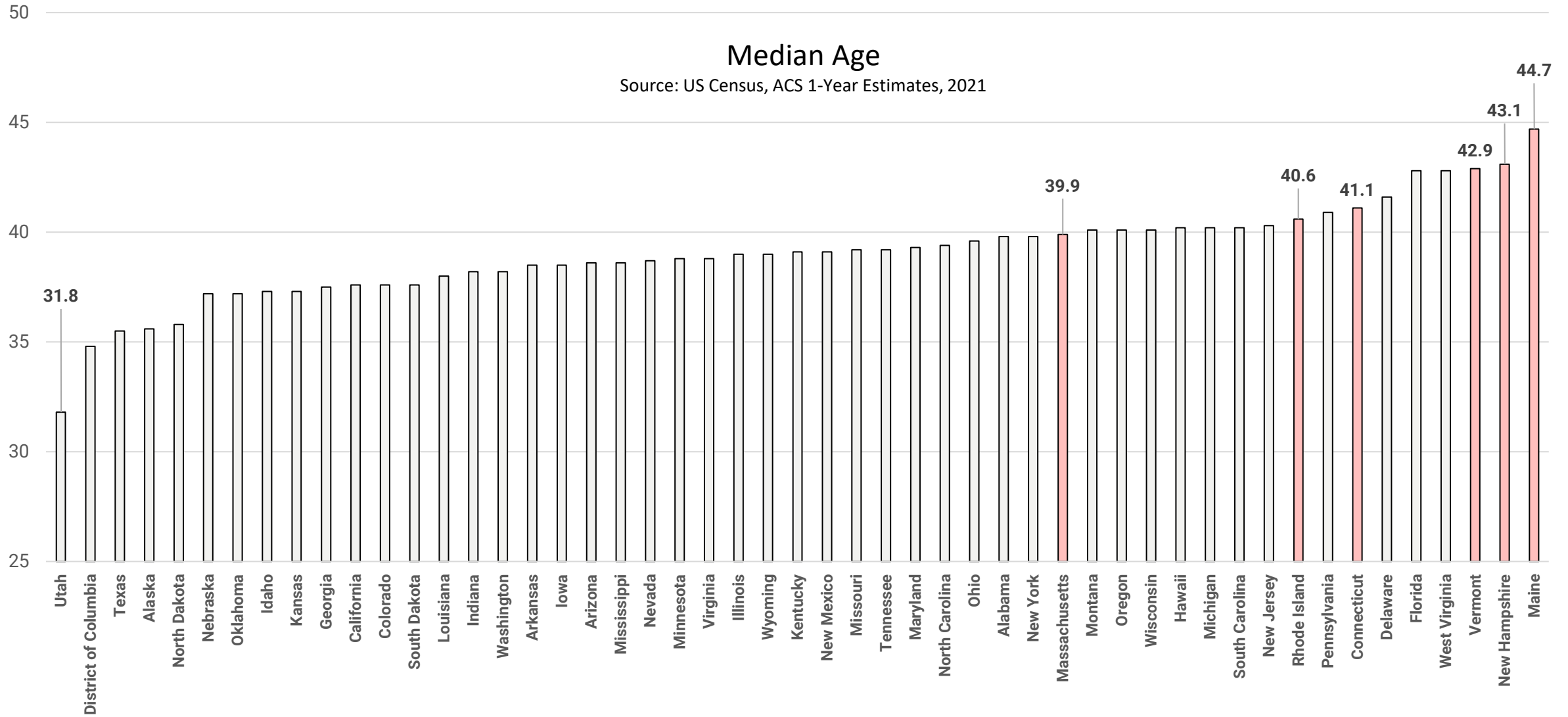
Source: BLS LAUS 2019 & March 2023 Unemployment Rates



Unemployment Rate Lower

Unemployment Rate Still Higher

Reduced unemployment could, in part, be due to Baby Boomers leaving the workforce with fewer younger workers to take their place.

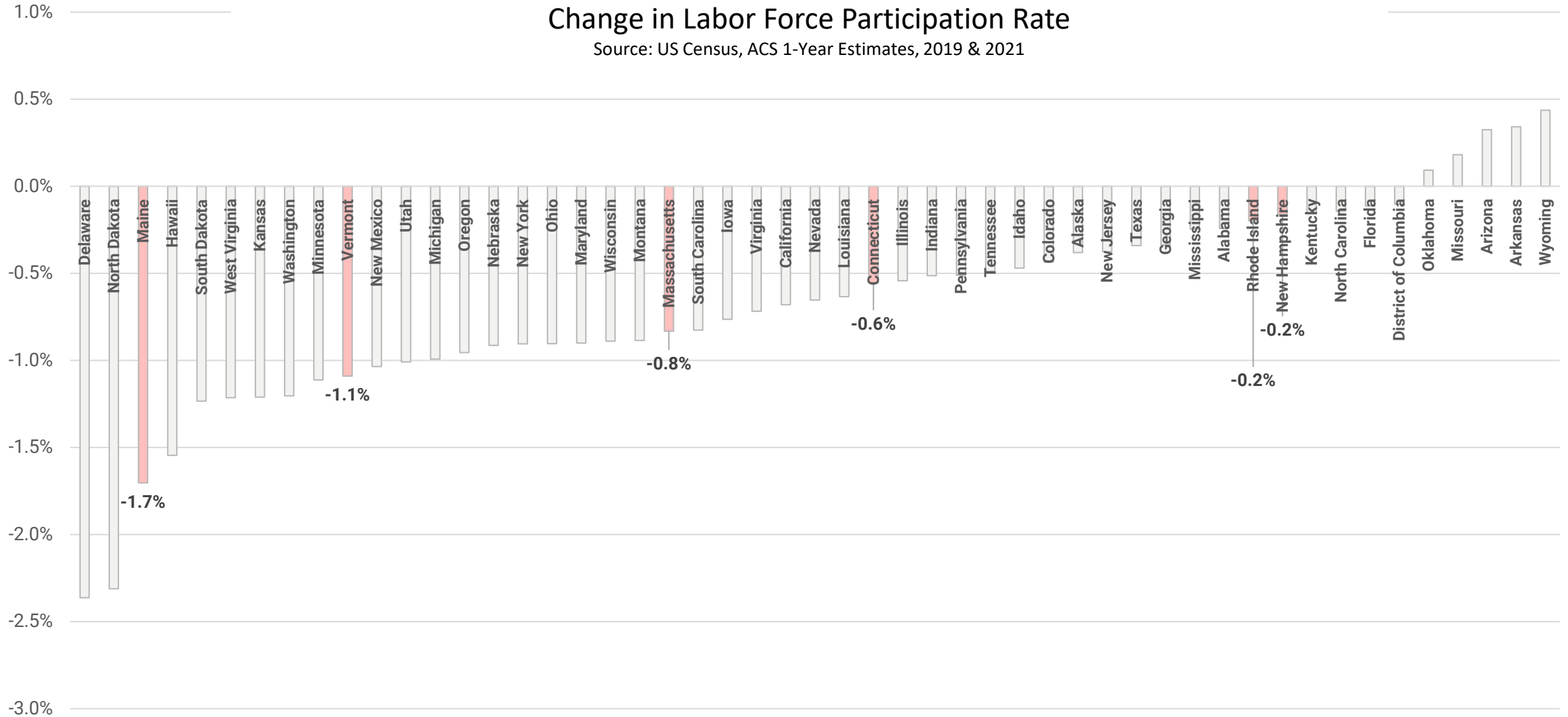


The pandemic and demographic shifts continue to impact labor force participation rates making it more challenging to fill job openings.



Change in Labor Force Participation Rate

Source: US Census, ACS 1-Year Estimates, 2019 & 2021



Most New England states are registering 20–30% fewer daily visitations to places of work by employees showing the continued resistance to returning to the office.



Visits to Place of Work

Source: Google Mobility Report Data, February 2020 to October 2022

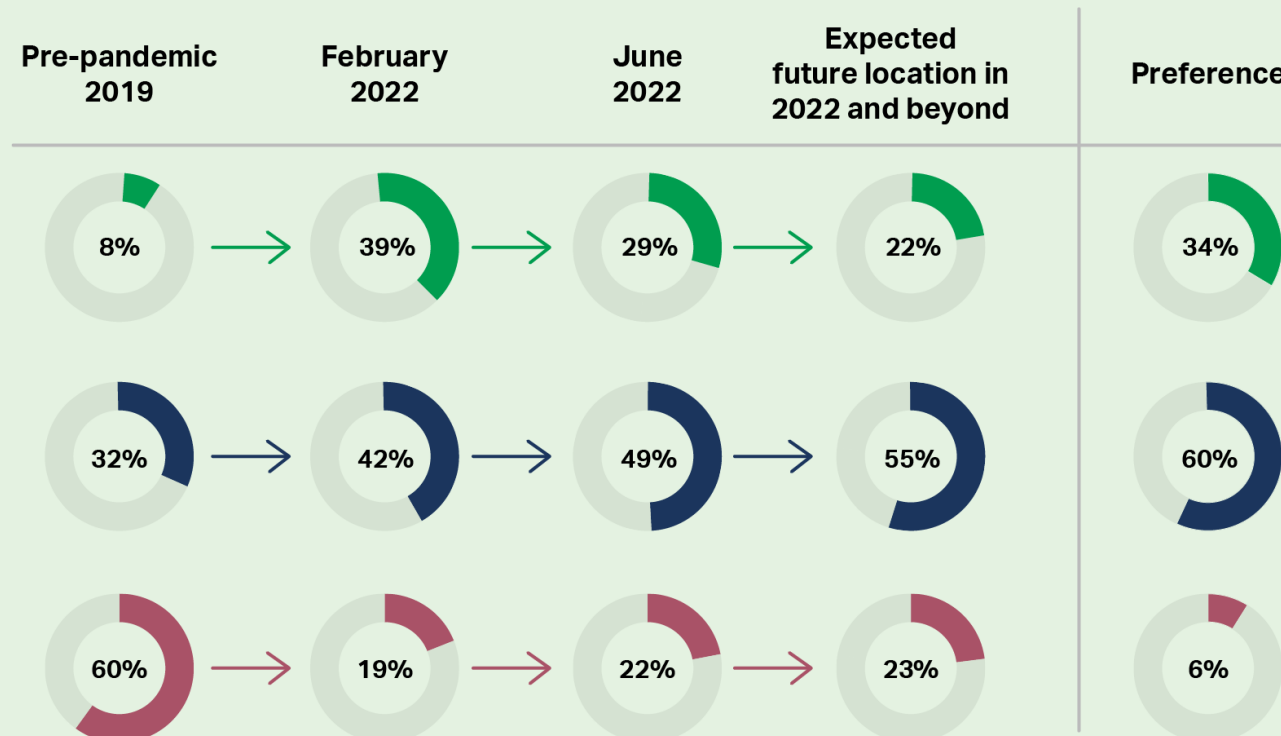


A Gallup poll in June 2022 highlighted that most employees who felt they could perform work remotely wanted to continue remote work or would like to have a hybrid schedule mixing in-off with remote work during the week.

Bringing people back to our downtowns, business districts, and office parks may not be as easy as we thought.

Past, Current, Anticipated, and Preferred Employee Work Locations for Remote-Capable Jobs

■ Exclusively remote
 ■ Hybrid (≥10% to <100% remote)
 ■ On-site



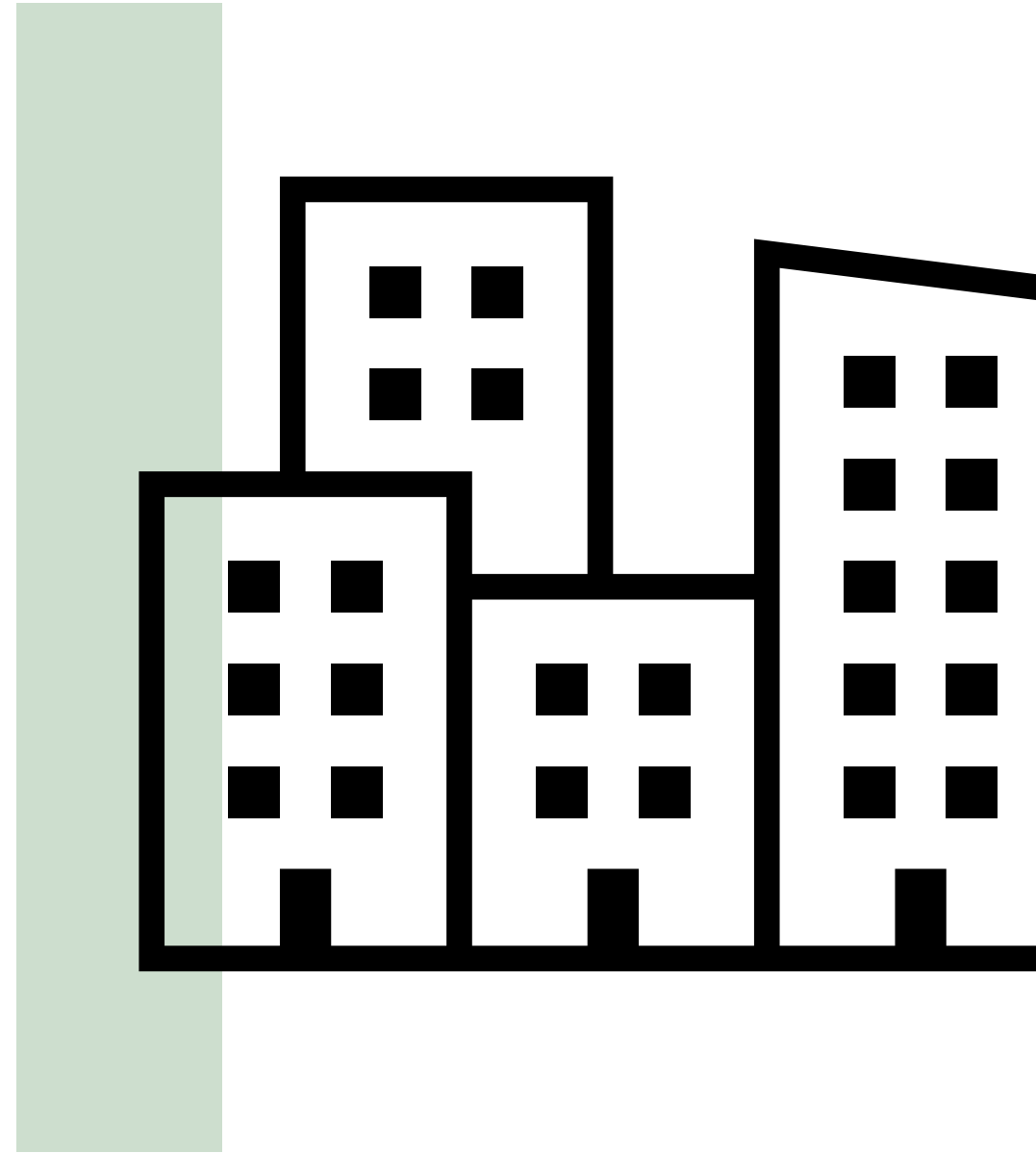
GALLUP

<https://www.gallup.com/workplace/397751/returning-office-current-preferred-future-state-remote-work.aspx>

**What impacts do these trends have
on our local markets and regions?**

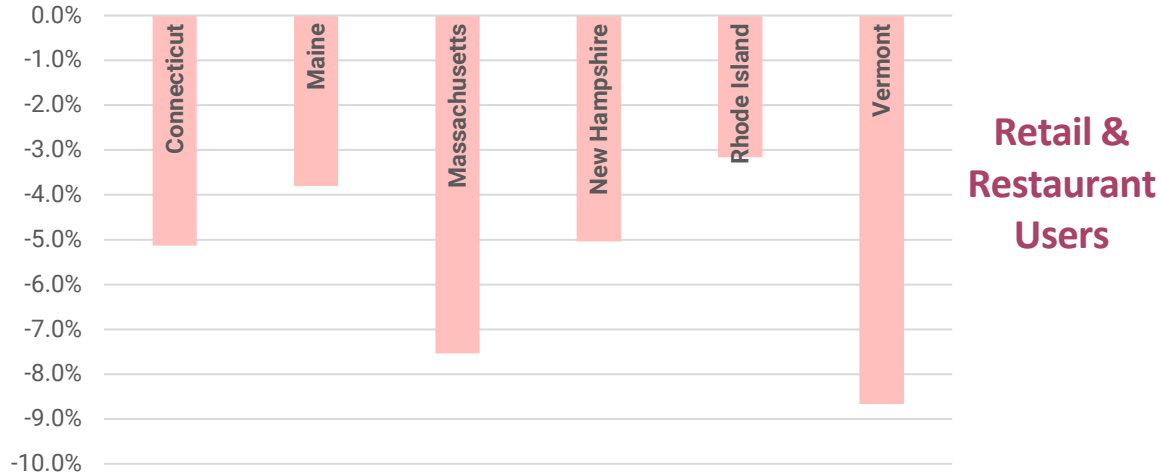
03

Real Estate

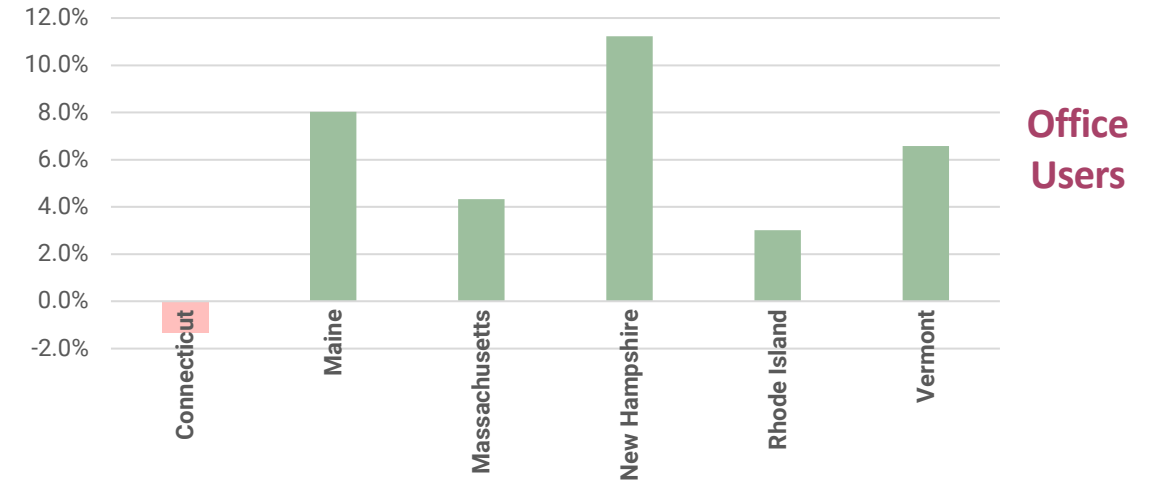


Changes in jobs by industry sector can influence real estate decisions and the risk, or ability, to build new space.

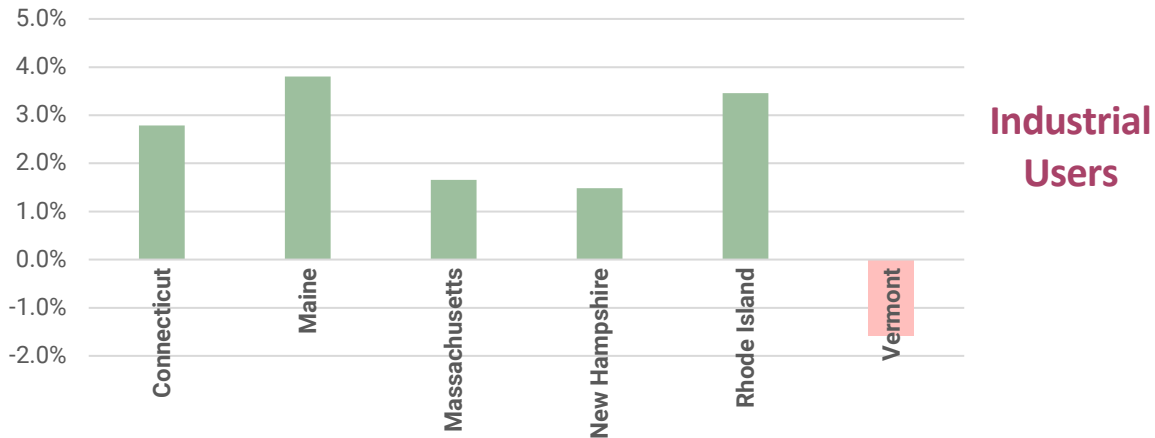
Service Sector Job Change ('19-'23)



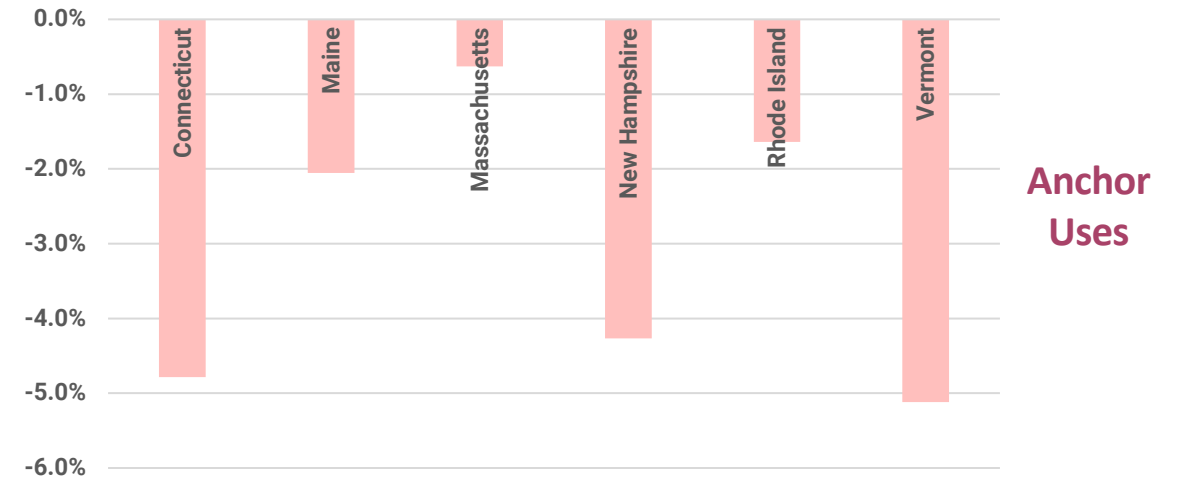
Professional & Technical Job Change ('19-'23)



Industry, Construction & Warehousing Job Change ('19-'23)



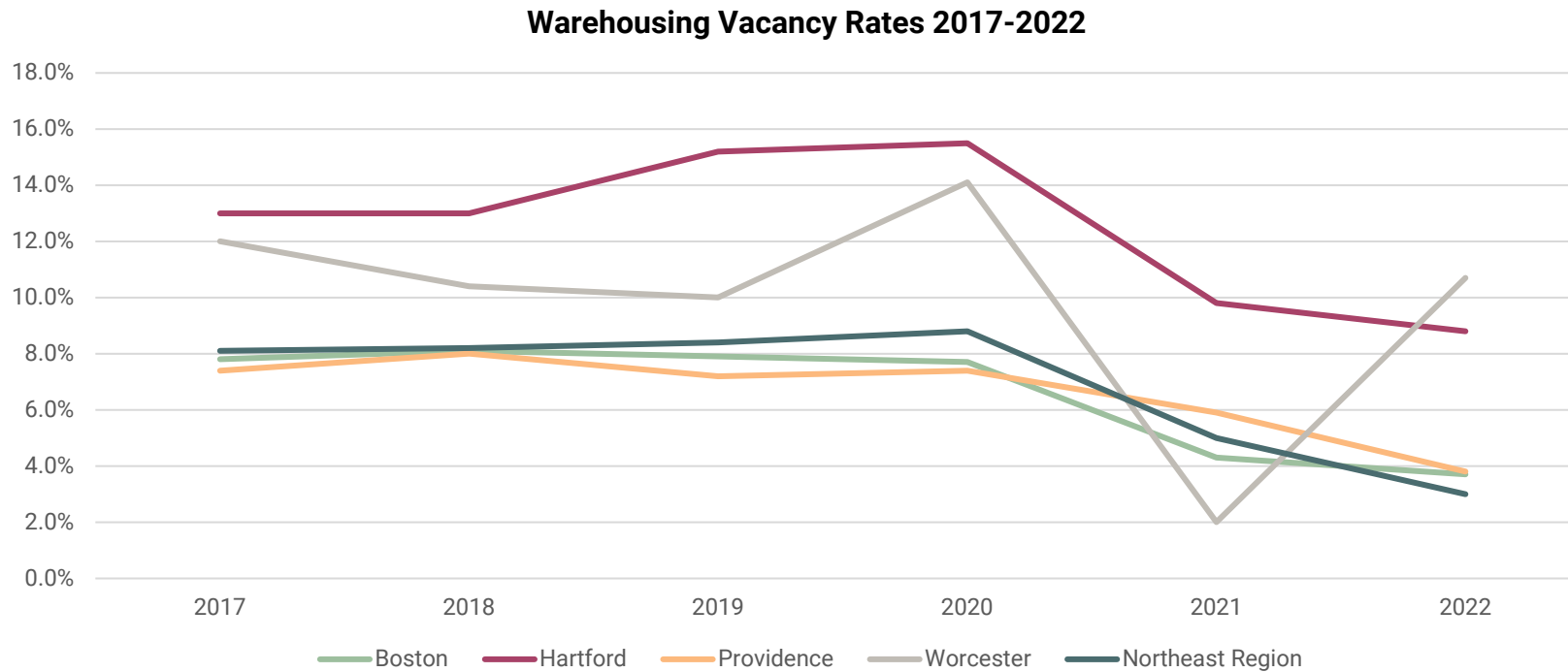
Government Job Change ('19-'23)



Changes in warehouse and logistics space has tracked with employment increases and the boom in online retailing with COVID.

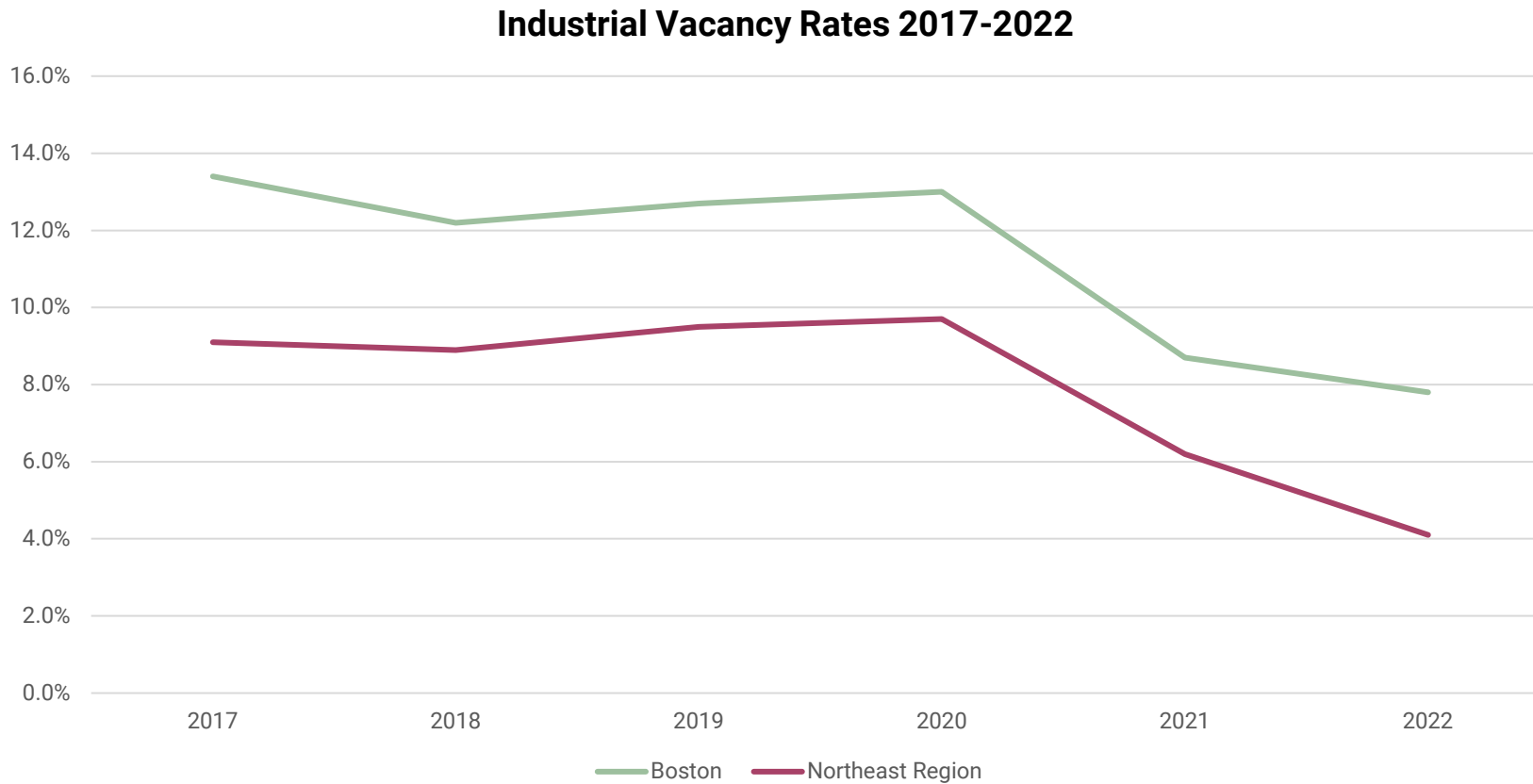


Region	2017	2022	Chg in SF	% Chg in SF
Boston	132,132,000	137,669,000	5,537,000	4.2%
Hartford	30,079,000	33,914,000	3,835,000	12.7%
Providence	8,159,000	8,159,000	0	0.0%
Worcester	12,565,000	14,526,000	1,961,000	15.6%
Northeast Region	882,730,000	956,252,000	73,522,000	8.3%



Changes in industrial space was even more pronounced with significant drops in vacancy even as space was added to the market and rents increased substantially.

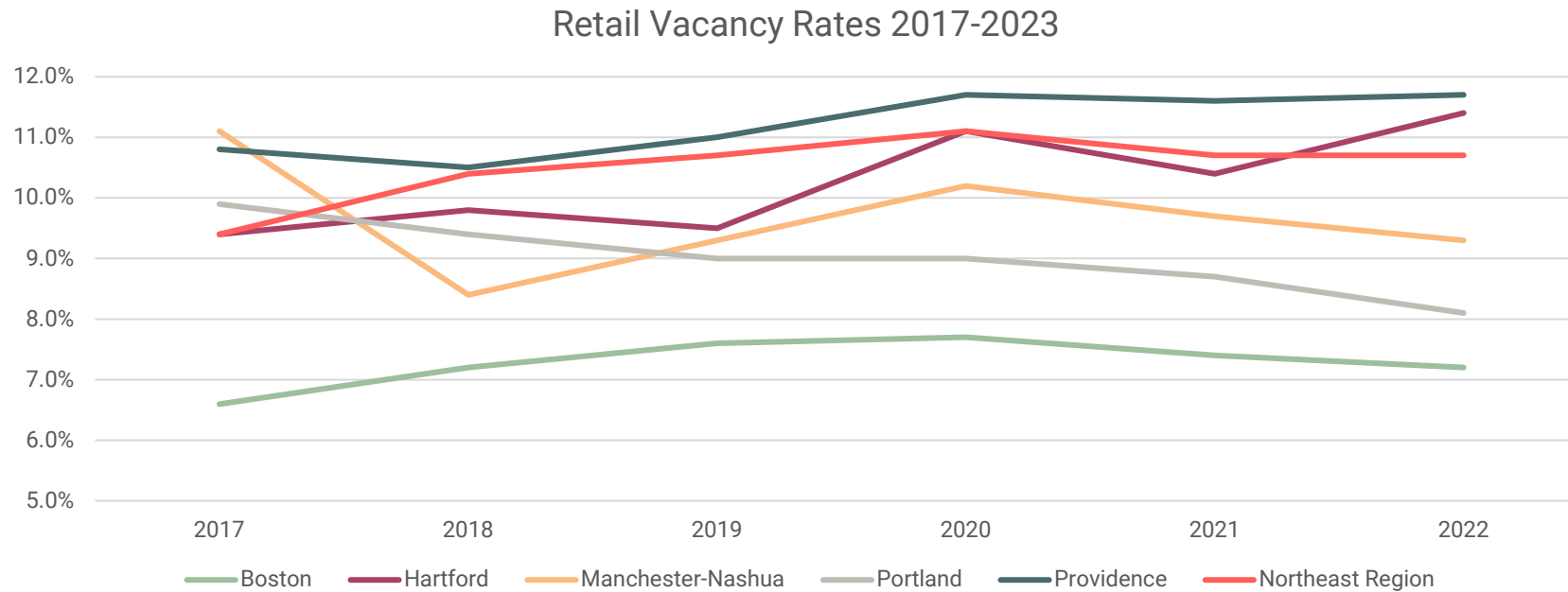
Region	2017	2022	Chg in SF	% Chg in SF
Boston	121,218,000	131,580,000	10,362,000	8.5%
Northeast Region	642,429,000	678,385,000	35,956,000	5.6%



Not much retail space has been added and vacancy rates in most markets have come back down, but not to pre-pandemic levels in some cases.



Region	2017	2022	Chg in SF	% Chg in SF
Boston	37,410,000	37,848,000	438,000	1.2%
Hartford	14,704,000	14,889,000	185,000	1.3%
Manchester-Nashua	7,522,000	7,617,000	95,000	1.3%
Portland	3,886,000	3,889,000	3,000	0.1%
Providence	6,514,000	6,526,000	12,000	0.2%
Northeast Region	266,031,000	268,600,000	2,569,000	1.0%

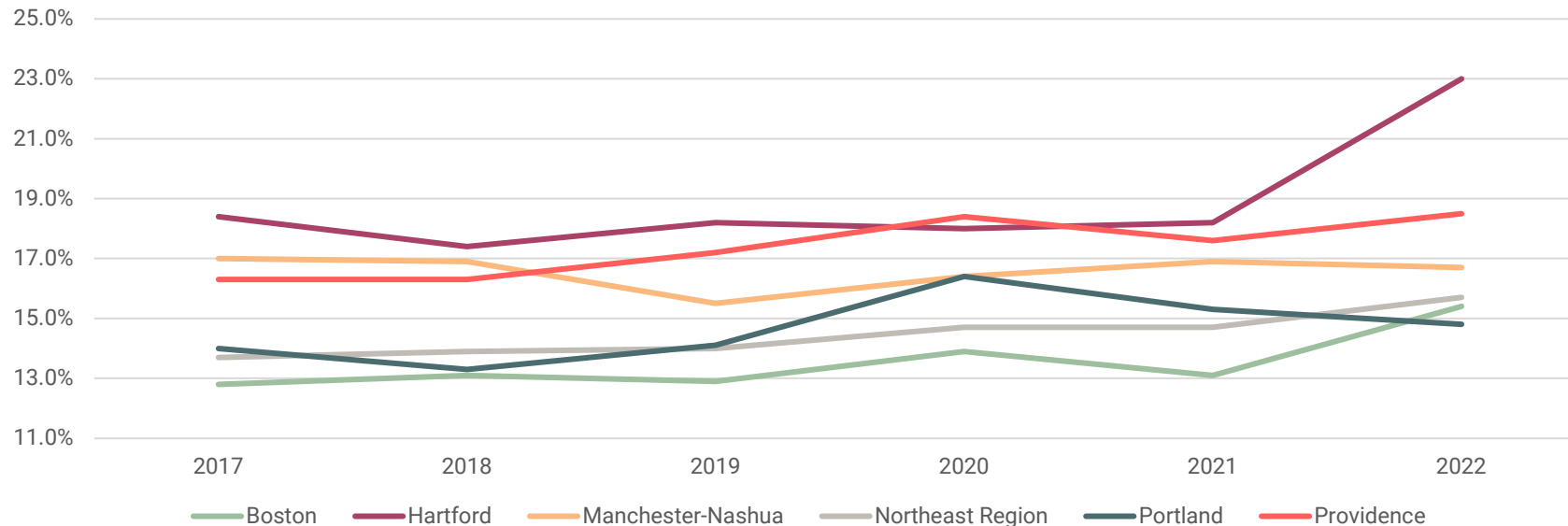


Office space continues to be a challenge in most regions with vacancy climbing post-COVID, particularly in the larger office markets with more square footage.



Region	2017	2022	Chg in SF	% Chg in SF
Boston	132,855,000	140,607,000	7,752,000	5.8%
Hartford	24,019,000	24,079,000	60,000	0.2%
Manchester-Nashua	7,789,000	7,789,000	0	0.0%
Portland	7,354,000	7,776,000	422,000	5.7%
Providence	13,030,000	13,221,000	191,000	1.5%
Northeast Region	993,587,000	1,033,804,000	40,217,000	4.0%

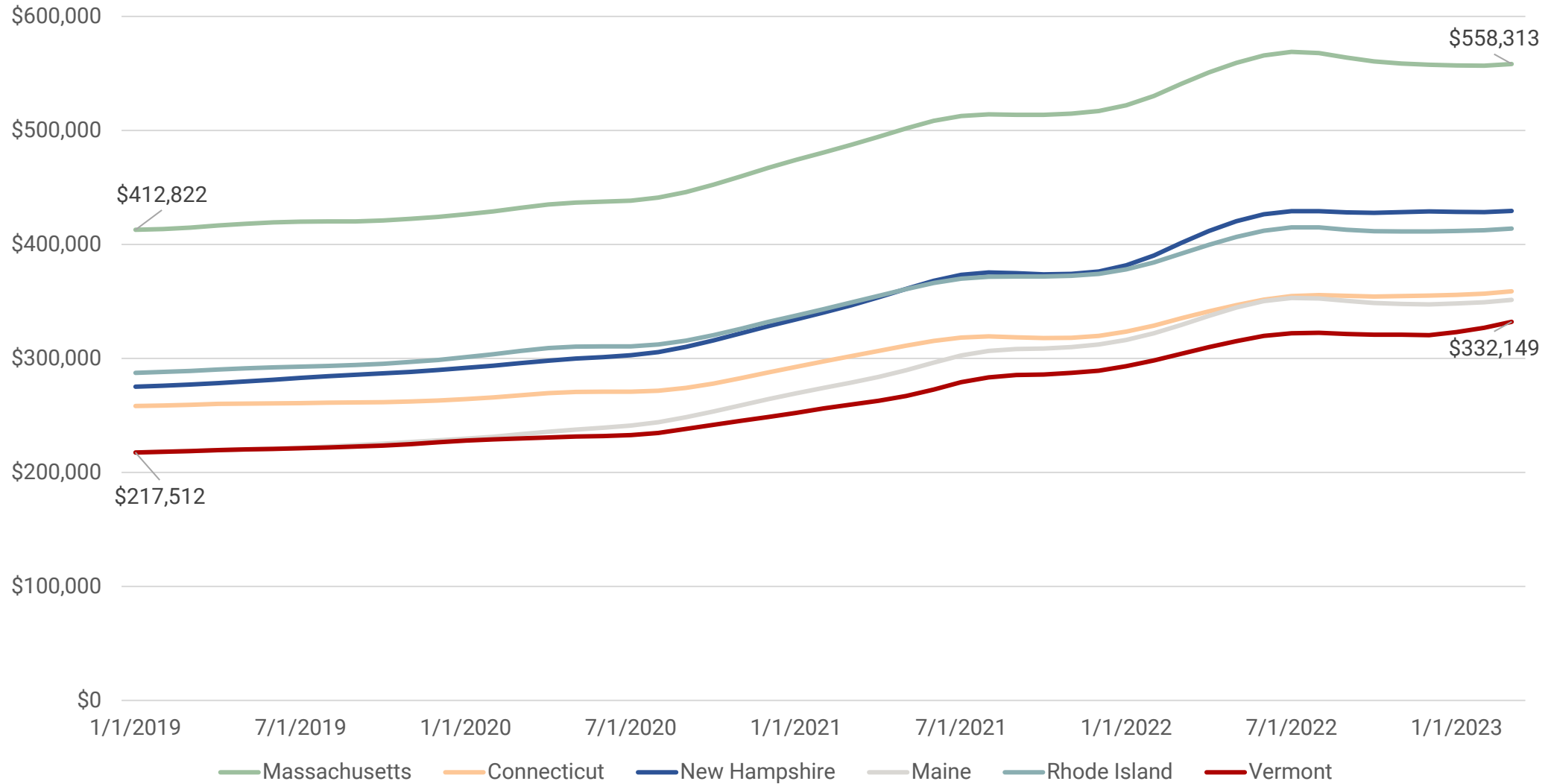
Office Vacancy Rate 2017-2022



In four years, most of New England saw home values rise over \$100,000. The typical home value for the US is \$334,000. Nearly all our states are above that number.



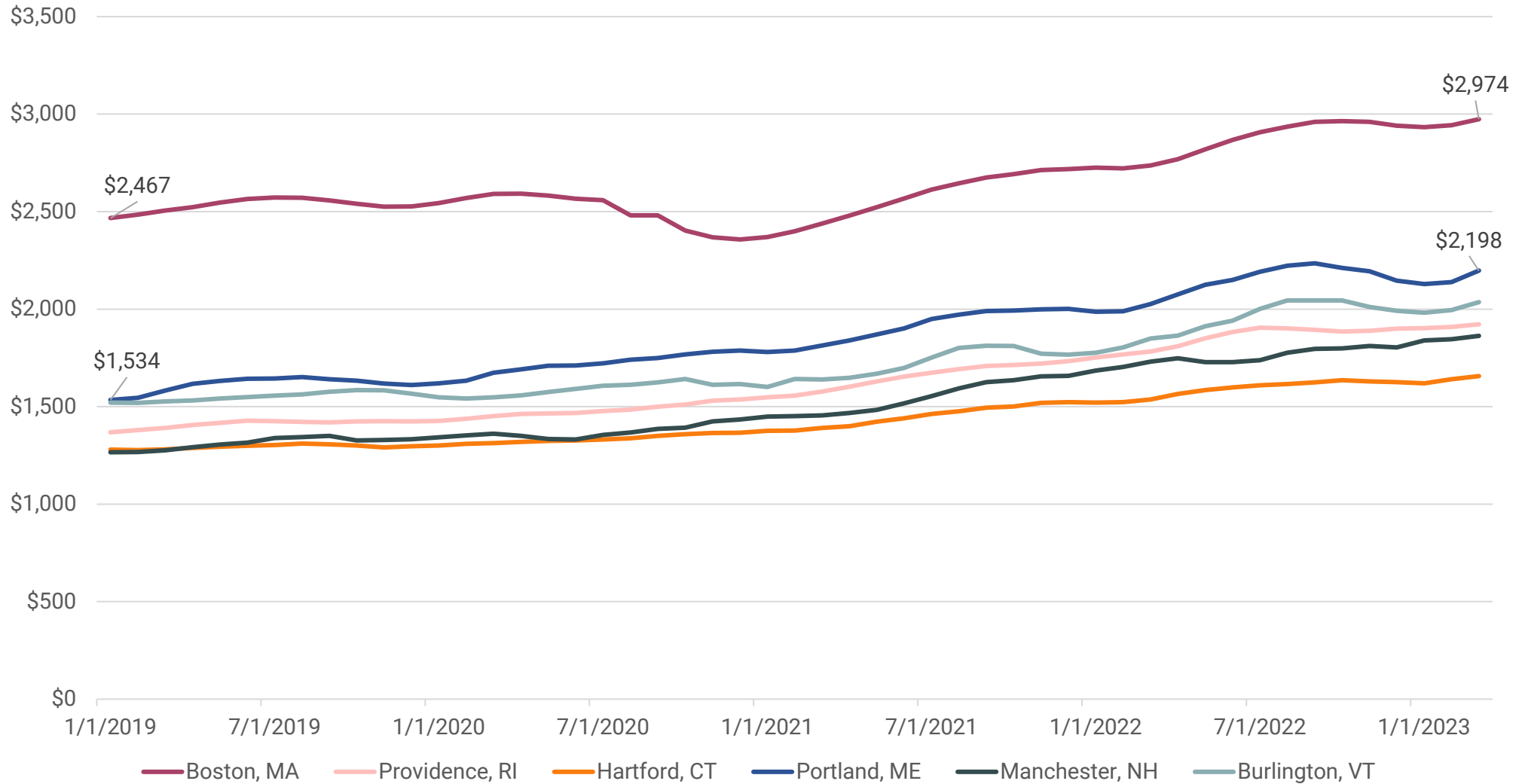
Zillow Home Value Index 2019-2023



In four years, most of New England saw typical rents rise over \$500 per month. That means a household would need to have earned an additional \$20,000 a year to keep up.

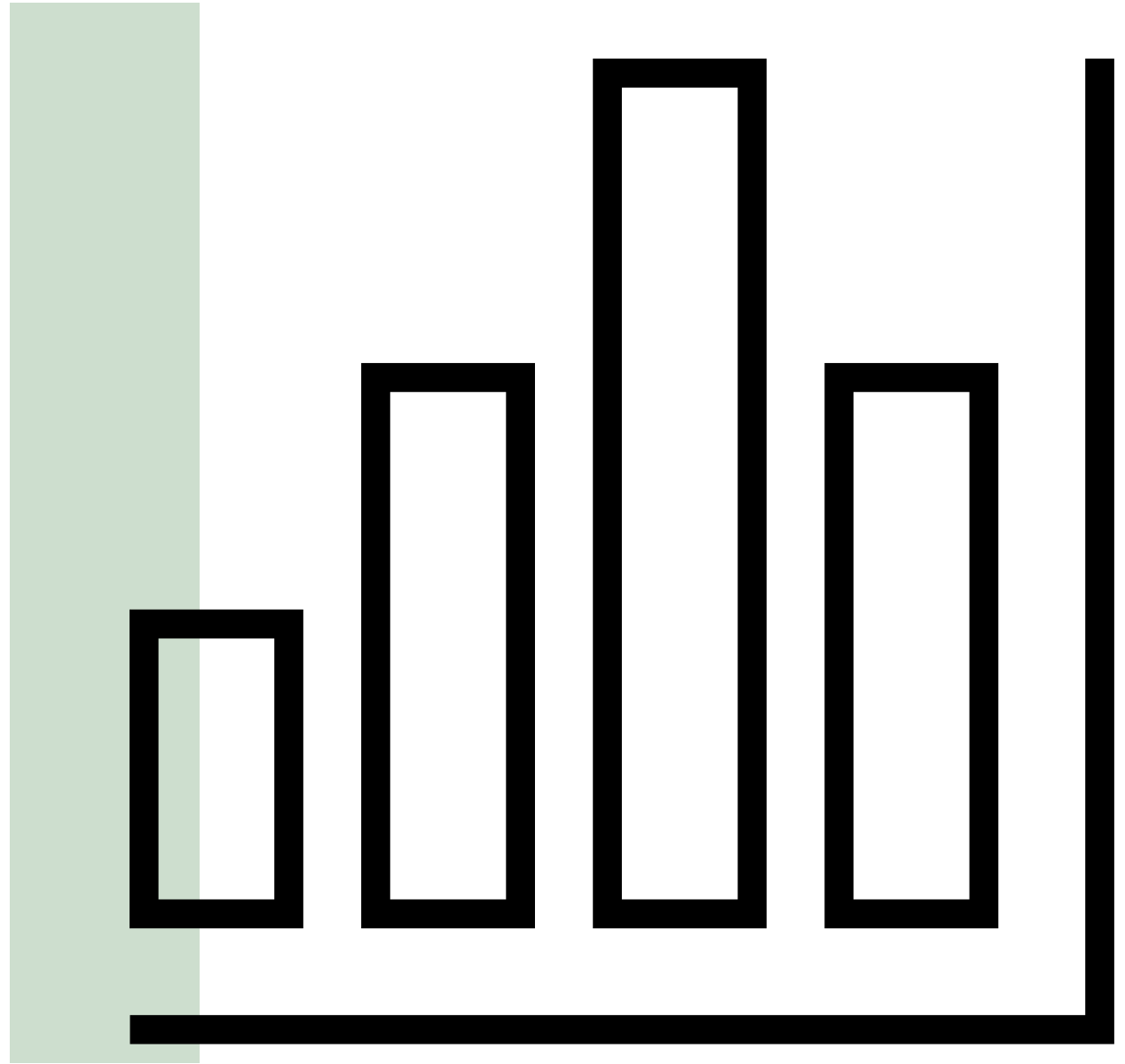


Zillow Observed Rent Index 2019-2023



04

Links to Municipal Finance



Demographic changes and trends are set to continue across New England. What are the potential implications of those changes at the municipal level and their impact on finances?

- If we cannot attract workers to replace retirees or those migrating out of our region, we risk losing businesses or business activity will have to scale back. This directly impacts sales which in turn, impacts municipal revenue (property tax, sales tax, excise tax, personal property tax, etc.)
- Fewer employees in our communities and region generates less expendable income to support local businesses. Lower sales from those businesses also impacts municipal revenue.
- Less spending and fewer employees may result in business closure, particularly for smaller businesses. This hurts our commercial corridors, downtowns, and village centers.
- Municipal employees tend to be older than those working in private industry. How do we attract younger municipal employees so quality of service does not go down and push residents to move elsewhere?

Work and Space Trends

As work continues to evolve alongside the physical spaces we occupy, what are the potential implications of those changes at the municipal level and their impact on finances?

- If fewer employees are traveling to work each day, or at all, what are the implications for employee spending in our communities and to support our local businesses? What impact does this have on sales and local tax receipts?
- Are our communities equipped to support work from home or hybrid work with broadband access that is of a high quality and financially accessible to those who need it?
- Does your community have an abundance of office space and are you experiencing a high rate of vacancy? Is there an opportunity to approach property owners to think of creative solutions to change uses, minimize vacancy, create more competitive assets?

As physical spaces continue to evolve and market demands change, what fiscal impacts might we anticipate at the municipal level?

- If office vacancies are high, are there opportunities to diversify uses such as office to residential conversions, office to lab conversions, integration of retail and entertainment space, bringing residential uses into the office park?
- Contrary to the narrative in many communities, residential uses are not fiscal losers. They not only bring net positive tax revenue to the community, but they also allow more people to live, work, and shop in your town.
- Are there opportunities to rethink spaces in your community to accommodate entrepreneurs, small businesses, start-ups, artists and creatives?
- Is the zoning in your community flexible enough to allow for a mix of uses, conversion of buildings, or additional development in places where it makes sense?

As the cost to live in New England continues to climb and the cost to do business in our communities rises, what are the potential implications and their impact on finances?

- Rising housing values have helped many communities weather the COVID storm. Conversely, the rapid rising in housing costs have also pushed many out of our communities and out of New England.
- Rising housing costs also hurt our ability to attract and retain younger workers, families, and students to our communities.
- Some communities and states continue to layer policies and regulations that make it more expensive to build. While many policies are worthy, we must be careful not to push costs too high and risk shutting down new development. This is particularly important in states that have caps on the tax levy and rely on new growth.
- High interest rates limit the bonding capabilities of many municipalities compared to prior years. This impacts the number of projects that can be completed and our ability to respond to requests for funding.



Thank you!

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