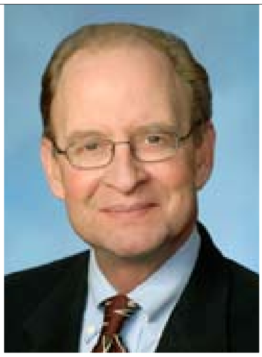

Give Credit Where Credit Is Due

Real Estate Development Is Good for What Ails Us

Like lawyers, car salesmen and politicians, real estate developers are favored scapegoats for society's ills. But as the saying goes, absence makes the heart grow fonder. With the economy in its current state of malaise, now may be as good a time as any to give real estate development the credit it deserves. When construction cranes dot the sky, unemployment is down, retail sales are up, and state and local government budgets are running surpluses from building-related tax revenues.

The construction industry is one of the leading contributors to the nation's economy—its Gross Domestic Product (GDP). In 2007, for example, before the current crisis was front-page news, construction spending in the United States totaled $1.16 trillion, or approximately 8.5 percent of GDP. In most years, residential development represents the majority of American construction spending. Significantly, however, in 2007, at a time when residential construction was slipping, commercial activity increased, adding approximately 839 million square feet nationwide of building space at a direct cost of $174.7 billion (which includes both "hard" costs, primarily labor and materials associated with on- and off-site physical improvements, and "soft" costs, such as architectural, engineering and other consultant services, permits, inspections and the like). By any measure, commercial development is a significant indicator of our economic well-being.

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Moreover, the direct costs associated with initial construction are only part of the story. According to Stephen Fuller, director of the Center for Regional Analysis at George Mason University and author of *The Contribution of Office, Industrial and Retail Development and Construction to the U.S. Economy*, while the economic contribution of new construction is generally understood, its true importance to the economy is not. Understanding the full value of commercial real estate requires consideration of not only the direct spending for construction, but also the additional jobs associated with the ongoing maintenance and operation of completed buildings as well as the continued spending on payroll and salaries by and to all those involved in the industry. Using this "multiplier" effect, as the economists like to call it, provides a better picture of the economic benefits of commercial development.

In his study, Fuller gathered all of the direct outlays associated with the development process—soft costs, site development costs, construction and tenant improvement costs. He then applied an aggregate multiplier of 2.14 (a composite figure to reflect the mix of services and activities involved) to calculate the full economic impact of commercial development on the Washington economy.

In 2007, direct spending on commercial development in this state totaled approximately $4.4 billion. Applying the multiplier, this initial investment in new buildings resulted in economic output of approximately $9.4 billion, personal income of $3.4 billion and almost 87,000 jobs. There are also the jobs and income generated by postconstruction building maintenance and operations, which represent a continuing source of economic activity over the life of the building. Again, in 2007, existing buildings in Washington contributed $74.7 million in direct spending and $154.7 million in total output to the economy, supporting an additional 1,828 jobs in 2007.

One could argue that our state economy was overexposed to the rapid rise in speculative construction spending, but no one was complaining about unemployment or budget shortfalls at the time. If nothing else, those flags whipping in the wind off the ends of construction cranes are a sure sign that our state economy is back on track. So, next time you hear someone blame a developer for one thing or another, stop and remind the person of the contribution commercial development makes to our economic well-being.

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