



Economic Impacts of Residential Development: Lessons from Chatham County

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Throughout North Carolina, rural communities located near fast-growing urban centers are experiencing dramatically increased residential development. The willingness of workers to commute ever greater distances has meant that more and more urban workers are living ever farther from where they work. This trend has intensified pressures to convert the open spaces, forest, and farm land of nearby rural counties to higher density residential and commercial land uses.

This phenomenon bears significant consequences for the residents of rural communities where population growth is occurring, as well as for the local governments that provide (and must pay for) essential public services needed to support that growth. Currently, the board of commissioners in Chatham County is in the final stages of approving a large residential development called Briar Chapel. The public debate surrounding Briar Chapel echoes discussions in other North Carolina communities on the rural-urban interface. This issue of the *NC State Economist* provides an overview of the issues that are being debated in coming to an assessment of the overall economic impacts of Briar Chapel.

Background

Briar Chapel is the largest residential development ever conceived in Chatham County. Designed to be a mixed-use, “compact community” – complete with parks, hiking and biking trails, commercial areas, a library, a sheriff’s station and a school – Briar Chapel’s developer plans to construct about 2,400 housing units on 1,600 acres. The average

house price is projected to be \$317,000, ranging from affordable multi-family dwellings to large-lot houses in excess of \$600,000.

Briar Chapel will establish a population center roughly the size of Siler City, the county’s second largest town, in the northernmost portion of the county. This location places it close to Chapel Hill, with good access to Durham and the Research Triangle Park. This will have a profound effect on the lives of current Chatham County citizens, on local business establishments serving them, and on the county government.

Assessing Briar Chapel’s Economic Impact

Assessing the overall economic impact of Briar Chapel requires three types of information. First, it requires an accurate projection of the benefits to the county’s residents and businesses. These include increased economic activity associated with new residents and businesses, increased tax revenues, and the value of other resources (e.g., land for parks and schools) provided by the developers. Second, it requires an accurate estimate of the likely costs of the project to the county’s residents (including possible increases in their “quality of life”), as well as the costs imposed on the county’s environmental assets. Third, it requires an understanding of how those benefits and costs are distributed among individuals and businesses residing in Chatham County.

Central to accurately developing each of these three types of information is recognition of the fact

that Briar Chapel will be a “bedroom community” in the sense that a very substantial percentage of its residents will be employed outside of Chatham County. According to the latest (2000) Census data, only about 45% of employed Chatham County residents worked within the county, while a slightly greater number worked in nearby counties. Given Briar Chapel’s location very close to the Orange County line, it is highly likely that an even greater proportion of its residents will be employed outside the county (especially in Chapel Hill, Durham and the Research Triangle Park).

Substantial numbers of individuals regularly commute into Chatham County as well. Roughly two-thirds of individuals employed in Chatham County in 2000 actually lived in the county. The remainder commuted into the county, primarily from other nearby counties. These facts are particularly important in coming to an assessment of the economic benefits that will be generated by Briar Chapel, because they highlight the large degree to which new economic activity and newly created jobs “leak” out of the county.

With these important considerations in mind, the following salient conclusions concerning the impacts of Briar Chapel may be drawn from information that has been developed as part of Chatham County’s permitting and approval process.

1. Briar Chapel will undoubtedly increase economic activity within Chatham county. The new construction of homes and commercial buildings will be the dominant force driving this increased economic activity in the short- to medium-run. Over the longer run, purchasing behavior of new residents will become a more important source of increased economic activity.

2. The size of this increased economic activity will be substantially smaller than has been projected by the project’s developers. In the economic impact analysis undertaken as part of the permitting process, the developers erroneously

assumed that all construction of Briar Chapel’s homes and commercial buildings will be undertaken by Chatham County firms, and that all construction workers will be Chatham County residents. In fact, a large proportion of the construction is likely to be undertaken by large production builders located outside Chatham County (and in fact, by national firms based outside North Carolina), and many of the construction workers are likely to reside outside of the county as well. Similarly, estimates of benefits after build-out greatly underestimate the share of the retail expenditures by new residents that will occur at businesses outside of Chatham County. According to the IMPLAN (2000) database – the standard tool for economic impact analysis – between 50% and 70% of the retail expenditures of Chatham County residents occur outside of the county. Ignoring this fact over-inflates estimates of both sales tax revenues to the county and the economic benefits to the county’s businesses.

3. The employment created as a result of Briar Chapel will generally be low paying, service sector jobs. The economic impact assessment’s estimates of the amount of labor income attributable to new jobs created to meet the needs of Briar Chapel’s residents implies that on average these jobs would pay just under \$20,000 per person, per year. By way of comparison, the average income of each household in Briar Chapel is estimated to be \$137,000. As noted above, only a fraction of these new jobs will go to Chatham County residents.

4. There is substantial uncertainty as to whether or not Briar Chapel will pay for itself in terms of county government finances. It is commonly the case that the cost of publicly financed services that residential land uses receive – schools, police protection, etc. – usually far exceed the contribution of those residential land uses to county revenues. However, in the case of Briar Chapel, this may not be so for two reasons. First, Chatham County has imposed mandatory \$1,500 “impact fees” on the developer for every residence constructed. Second, the developer has committed to donating an additional \$2,000 per

housing unit, and has also committed to providing land for library space, a sheriff's station, and parks.

These impact fees and other voluntary contributions by the developer go a long way toward defraying the increased county expenditures due to Briar Chapel. Indeed, the developer's fiscal impact assessment projects that Briar Chapel will contribute an annual surplus of over \$900,000 into the county government coffers. However, projections of whether or not Briar Chapel "pays for itself" fiscally depends largely on two numbers – the number of new students entering Chatham County public schools and the average value of houses. Schools are the most important cost item in the county budget, and property taxes are the dominant source of county government revenues.

Disputes over the projected size of these numbers exists. Given recent softness of housing markets in the area, there is some possibility that average sales prices might fall below the projected \$317,000. More importantly, significant disagreement exists about the developers' projections of student enrollments that Briar Chapel would create. The developers based these on county average *student generation rates* – the number of public school students divided by the number of housing units. These are probably skewed because Briar Chapel is likely to have a higher proportion of residents with school aged children than the county as a whole. For example, a similar "family friendly" compact community located less than ten miles away currently has student generation rates roughly 25% greater than those that were assumed for Briar Chapel.

5. Briar Chapel will have a negative effect on the quality of life for some current Chatham County residents. There can be no doubt that Briar Chapel will impose costs on some residents of Chatham County. Chief among these costs will be increased traffic along Highway 15-501, the major highway in the area. According to the traffic impact analysis conducted as part of the permitting process, Briar Chapel is projected to lead to 31,500 additional daily car trips, including 6,500 trips taking place

during rush hour. The congestion associated with this increase in traffic will amount to substantial increases in commuting time for current residents in the area.

More generally, the rural character of the northern part of the county – something which Chatham County residents generally say that they value highly – will be irrevocably changed. In addition, it would appear that the urbanizing influence of Briar Chapel will more than likely radiate southward along 15-501 toward Pittsboro. This will in all likelihood provide strong impetus for further intensification of land uses along that corridor.

6. The amenities of Briar Chapel will primarily benefit new residents, whereas the costs imposed by the disamenities of Briar Chapel will be felt by a relatively large number of current residents. Briar Chapel's planners have succeeded in designing a "New Urbanism"-style mixed use development that will provide desirable amenities to individuals who choose to live there. Neither the extent to which those amenities appeal to current Chatham County residents, nor their willingness to make trips to "consume" them, can be known with certainty. Some, such as library services and schools will be consumed by some current residents, especially those located nearby; others, such as hiking trails, are likely to be largely enjoyed by few outside Briar Chapel residents.

At the same time, the costs of Briar Chapel – notably environmental costs and those related to increased population density – will be spread more broadly throughout the population of current Chatham County residents. Certainly, Briar Chapel's neighbors will bear the largest share of these costs. Additionally, other county residents who travel through or spend time in the northern part of the county will also be affected. In comparison with the positive amenities of Briar Chapel, whose value will largely accrue to

new residents of the development, these costs will be spread over a much wider cross-section of the county's residents.

Concluding Remarks

The planning and approval process for Briar Chapel has been a contentious one, taking place over a period of several years. Public debate has been fierce, in large measure because the benefits and the costs are large and the distribution of these benefits and costs are uneven. Advocates on different sides of these debates have generated substantial evidence to advance their points of view, and only time will reveal which of the many projections used in these debates are most accurate.

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