VML ANNUAL CONFERENCE

# Evaluating the Fiscal Impact of Real Estate Development

## *Facts, Trends, & Predictions*

CAVALRY
REAL ESTATE ADVISORS

# Agenda

*Economic Development is About Choice*

*Virginia Real Estate Market Conditions*

*Why Fiscal Impact Analysis Matters*

*Residential Development*

*Commercial + Industrial Development*

*Public Service Costs*

*Tax Revenue Trends and Local Fiscal Health*

*Notable Trends, Best Practices*

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# COMPANY OVERVIEW

Cavalry is a leading commercial real estate consulting firm. Our team of appraisers, attorneys, analysts, and consultants utilize a deep bench of expertise to provide insights and solutions for our clients across a broad range of industries and asset types.

Perhaps most importantly, our commitment to service and strong relationships with stakeholders in both the public and private sectors gives Cavalry the inside track on better understanding market nuances and what that means for our clients' needs – providing better results and a better experience.

Headquartered in the national capital region, Cavalry serves a portfolio of clients spanning the country and property types. Our team is uniquely positioned to assist municipalities across Virginia as they navigate complex decisions related to economic and commercial development.

## SERVICES

- Economic Development Strategies
- Economic Impact Studies
- Fiscal Impact Studies and Financial Analysis

ROSS
# LITKENHOUS
Founder/Managing Partner

I've spent the better part of my life immersed in commercial real estate, specializing in property tax advisory. For two decades my focus has been creating value for owners, developers and investors of commercial real estate by reducing, forecasting and managing property taxes – saving my clients hundreds of millions of dollars in the process.

I have worked at numerous local, regional and global property tax firms, leading highly successful consulting and advisory teams. I've written dozens of white papers, articles and studies on innovative state and local tax strategies. All of that passion for and experience in commercial real estate and property tax is engrained and visible in everything we do at Cavalry.

I served as an elected member of the Falls Church City Council and currently serve on the Falls Church City Economic Development Authority. I have also held numerous positions on a variety of boards and commissions, including the city's Board of Zoning Appeals, as well as other regional elected bodies like the Metropolitan Washington Council of Governments and the Northern Virginia Regional Commission.

## EDUCATION

Birmingham-Southern College, B.A., Political Science and History

Kogod School of Business at American University, MBA

## ASSOCIATIONS & MEMBERSHIPS

**City of Falls Church, Va.**
Chair – Economic Development Authority

WILLIAM

# RICH, CRE

Managing Director, Advisory Services

I have more than two decades of experience providing real estate consulting and advisory services, covering all aspects of commercial real estate across the country. My clients have included real estate developers and investors, financial institutions, nonprofits, and government agencies.

I began my real estate career at Delta Associates, starting as an associate and ultimately becoming president of the firm. Delta offered consulting, research and advisory services for all property types throughout the United States, including market feasibility, highest and best use, market entry strategies, asset performance enhancement, market due diligence, white papers on special topics, RFP negotiation, valuation analysis, and litigation support.

I am active in my community, serving on the Board of Directors of the Southwest DC Community Center in addition to other volunteer work. I have also previously served on a variety of boards including the Washington DC Economic Partnership, the Golden Triangle Business Improvement District, and the Near SE/SW Community Benefits Coordinating Council. In addition, I am a Counselor of Real Estate (CRE), a member of the National Association of Realtors, and a member of the Urban Land Institute (ULI).

## EDUCATION

American University, B.S., Business Administration

## ASSOCIATION MEMBERSHIPS

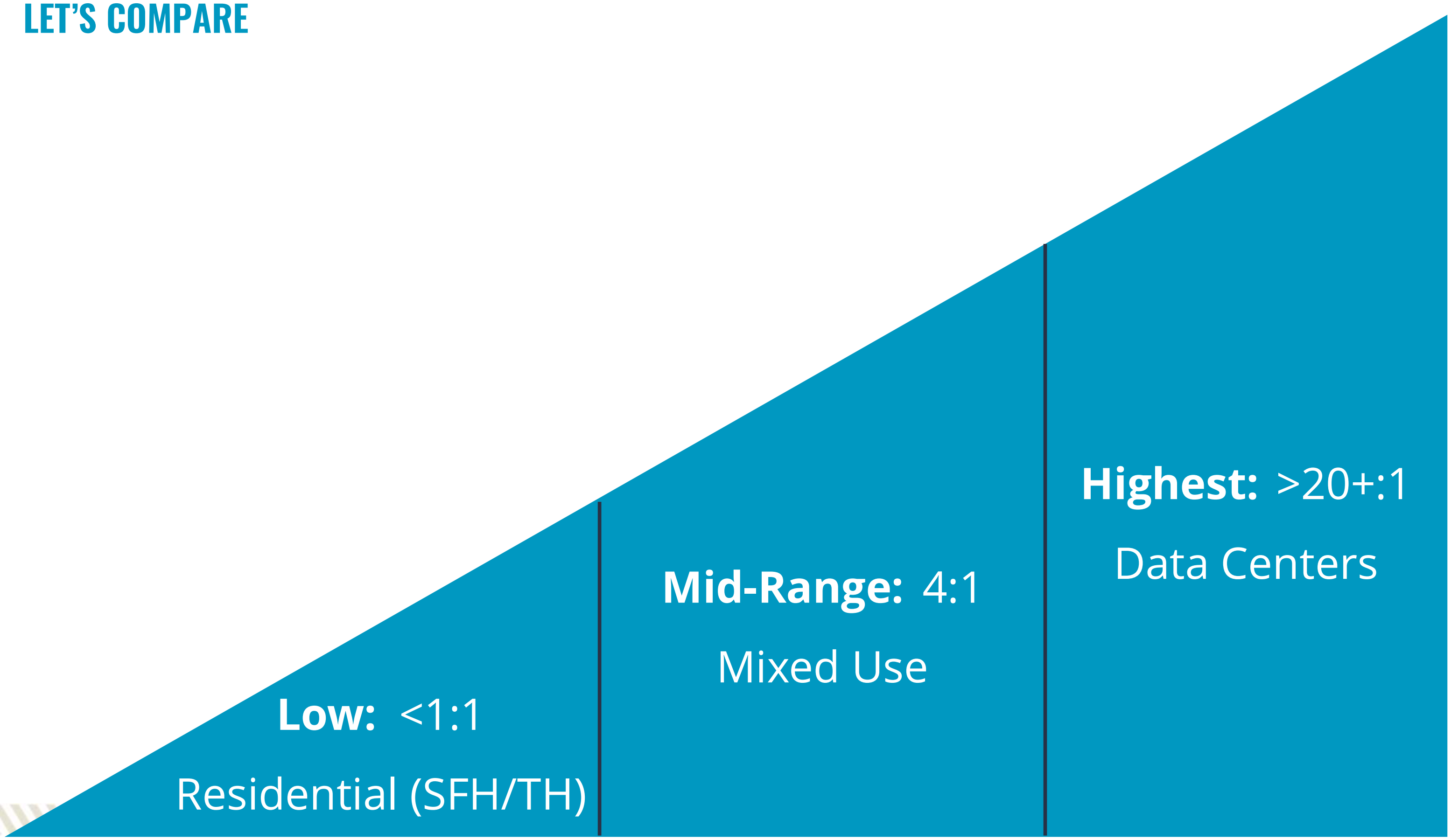
Member - Counselors of Real Estate (CRE)

Member – National Association of Realtors (NAR)

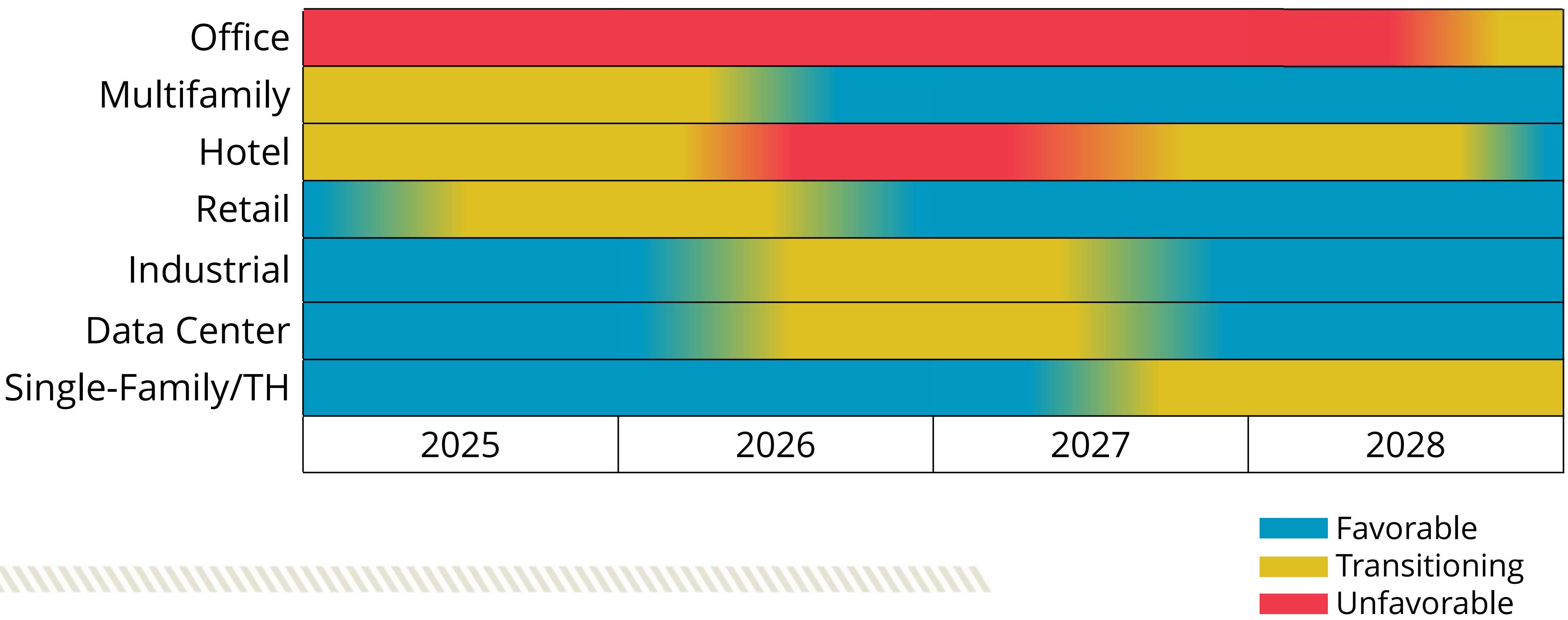
Member - Urban Land Institute (ULI)

# ECONOMIC DEVELOPMENT IS ABOUT CHOICE

## LET'S COMPARE



# VIRGINIA REAL ESTATE MARKET CONDITIONS

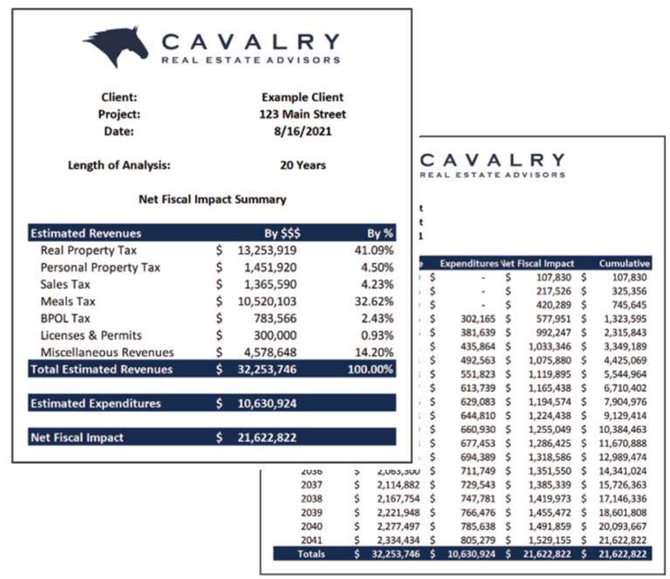


# WHY FISCAL IMPACT ANALYSIS MATTERS

1) Property taxes are the largest source for general funds

2) Post-pandemic needs are pushing city budgets

Fiscal impact analysis helps with understanding and the ability to anticipate effects of new developments on your budget.



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| | |
|---|---|
| Client: | Example Client |
| Project: | 123 Main Street |
| Date: | 8/16/2021 |
| Length of Analysis: | 20 Years |

Net Fiscal Impact Summary

| Estimated Revenues | By $$$ | By % |
|---|---|---|
| Real Property Tax | $ 13,253,919 | 41.09% |
| Personal Property Tax | $ 1,451,920 | 4.50% |
| Sales Tax | $ 1,365,590 | 4.23% |
| Meals Tax | $ 10,520,103 | 32.62% |
| BPOL Tax | $ 783,566 | 2.43% |
| Licenses & Permits | $ 300,000 | 0.93% |
| Miscellaneous Revenues | $ 4,578,648 | 14.20% |
| Total Estimated Revenues | $ 32,253,746 | 100.00% |
| Estimated Expenditures | $ 10,630,924 | |
| Net Fiscal Impact | $ 21,622,822 | |

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| | | Expenditures | Net Fiscal Impact | Cumulative |
|---|---|---|---|---|
| | | $ - | $ 107,830 | $ 107,830 |
| | | $ - | $ 217,526 | $ 325,356 |
| | | $ - | $ 420,289 | $ 745,645 |
| | | $ 302,165 | $ 577,951 | $ 1,323,595 |
| | | $ 381,639 | $ 992,247 | $ 2,315,843 |
| | | $ 435,864 | $ 1,033,346 | $ 3,349,189 |
| | | $ 492,563 | $ 1,075,880 | $ 4,425,069 |
| | | $ 551,823 | $ 1,119,895 | $ 5,544,964 |
| | | $ 613,739 | $ 1,165,438 | $ 6,710,402 |
| | | $ 629,083 | $ 1,194,574 | $ 7,904,976 |
| | | $ 644,810 | $ 1,224,438 | $ 9,129,414 |
| | | $ 660,930 | $ 1,255,049 | $ 10,384,463 |
| | | $ 677,453 | $ 1,286,425 | $ 11,670,888 |
| | | $ 694,389 | $ 1,318,586 | $ 12,989,474 |
| [illegible] | [illegible] | $ 711,749 | $ 1,351,550 | $ 14,341,024 |
| 2037 | $ 2,114,882 | $ 729,543 | $ 1,385,339 | $ 15,726,363 |
| 2038 | $ 2,167,754 | $ 747,781 | $ 1,419,973 | $ 17,146,336 |
| 2039 | $ 2,221,948 | $ 766,476 | $ 1,455,472 | $ 18,601,808 |
| 2040 | $ 2,277,497 | $ 785,638 | $ 1,491,859 | $ 20,093,667 |
| 2041 | $ 2,334,434 | $ 805,279 | $ 1,529,155 | $ 21,622,822 |
| Totals | $ 32,253,746 | $ 10,630,924 | $ 21,622,822 | $ 21,622,822 |

# RESIDENTIAL DEVELOPMENT

## BALANCING REVENUE AND SERVICE COSTS

Residential growth spurs economic activity

But increases demand for schools, safety, and parks

# COMMERCIAL + INDUSTRIAL DEVELOPMENT

## THE REVENUE ENGINE

These uses bring substantial net fiscal benefits

But can be controversial

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# PUBLIC SERVICE COSTS

## WHAT CHANGES WITH NEW DEVELOPMENT?

Impact varies dramatically by use:

Residential strains schools

Commercial/Industrial affect transportation, utilities, and public works

Notable cities and counties:

- Roanoke
- Loudoun
- Arlington
- Norfolk

# TAX REVENUE TRENDS AND LOCAL FISCAL HEALTH

Range of Virginia real property tax rates per $100 of value


Other taxes to consider:

- TPP – Big impact with certain property types
- BPOL – Reviled by many businesses but capable of creating competition
- Sales – Minimal impact at the local level
- Meals – Impacts more than restaurants

# NOTABLE TRENDS, BEST PRACTICES

## Notable trends:

- Data Center Demand
- Retail Oversaturation
- Residential Affordability
- Material/Labor Costs
- Workforce Development (trades/vocational)
- Impact of AI

## Best Practices:

- Employ dynamic fiscal impact models considering both direct and indirect effects.
- Adjust fees/surcharges to match evolving service demands.
- Diversify tax base with strong commercial/industrial alongside residential.
- Regularly review fiscal sustainability and adjust policy for shifting demographic, economic, and budgetary trends.

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Scan for Fiscal Impact Study overview