

Final Report

The Economic Value of the Town of Vail's Investment in Employee Housing

Vail Local Housing Authority



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**The Economic Value of the
Town of Vail's Investment in
Employee Housing**

Prepared for

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EXECUTIVE SUMMARY:
The Economic Value of the Town of
Vail's Investment in Employee Housing

EXECUTIVE SUMMARY

The Economic Value of the Town of Vail's Investment in Employee Housing

This study documents the current inventory and use of employee housing in Vail and calculates the cost and benefits of this investment from multiple community perspectives.

Vail Employee Housing

Over the past 25 years, the town of Vail has mandated or incentivized the creation of 727 employee housing units. These units have enjoyed high levels of occupancy even during periods of slow economic activity. Vail employee units house an estimated 1600 employees, approximately 75 percent of which (1200 persons) work in the town of Vail. Because individuals often hold multiple jobs, these 1200 Vail employees fill over 1500 jobs, nearly 20 percent of Vail's estimated 9100 positions. The majority of Vail's employee housing attracts entry level, seasonal employees but the town also supports a number of deed-restricted, for-sale units that house longer term residents and families.

Remarkably, the Vail community has produced this housing inventory without requiring any ongoing general fund support and very little general fund expenditures. This experience is in marked contrast to other mountain resorts that often use ongoing sales, real estate transfer or property taxes revenues to supporting employee housing. The projects' mortgage debt is about \$18.0 million (net of cash reserves), but all operating costs and debt service are covered by annual rents and lease revenue. The majority of the current housing stock was created by opportunistic investment, development requirements, or partnership by the town over a period of multiple decades.

Deed-restricted housing is not the only component of local employee housing. Many workers, roughly 43 percent of persons who live and work in Vail, live in private rental housing or own their own homes. Nevertheless the disparity between Vail housing costs and local salary levels makes ownership an unrealistic option for the vast majority of residents. Many resident homeowners purchased their units years ago and it is likely that these units will eventually be sold and transfer into temporary occupancy use—further exacerbating the town's housing /jobs imbalance.

From a Vail community perspective the quantifiable economic value of employee housing lies in three areas: the costs avoided by businesses of having to induce workers from considerable distance; the additional town retail spending by employee-local residents; and the public costs avoided in not having to find a local parking solution for additional commuting workers.

The employee housing benefits calculated in this report are summarized in Exhibit ES-1 below.

Figure ES-1.
Summary: Valued Vail Employee Housing

Source:
BBC Research & Consulting.

Category	Value
Business costs avoided	\$12.6 million per year
New retail spending	\$6.0 million in annual retail sales (\$240,000 in sales tax @ 4.0%)
Parking expansion	\$9.0 million

There are additional, non-economic benefits associated with employees being housed within Vail, ranging from lessened seasonality to the invigoration of the community's public life. These benefits are also described in this report.

Approach

Placing a value on the provision of employee housing presents the predictable challenges of valuing a public service where there is an uneven distribution of costs and benefits—the same challenge one faces in attempting to value public parks, public parking or even general public services.

Assumptions. This study incorporates certain assumptions and understandings regarding Vail employee housing and its role in the unusual economy of a mountain resort community. These points are described fully in Section II of this report and are summarized below.

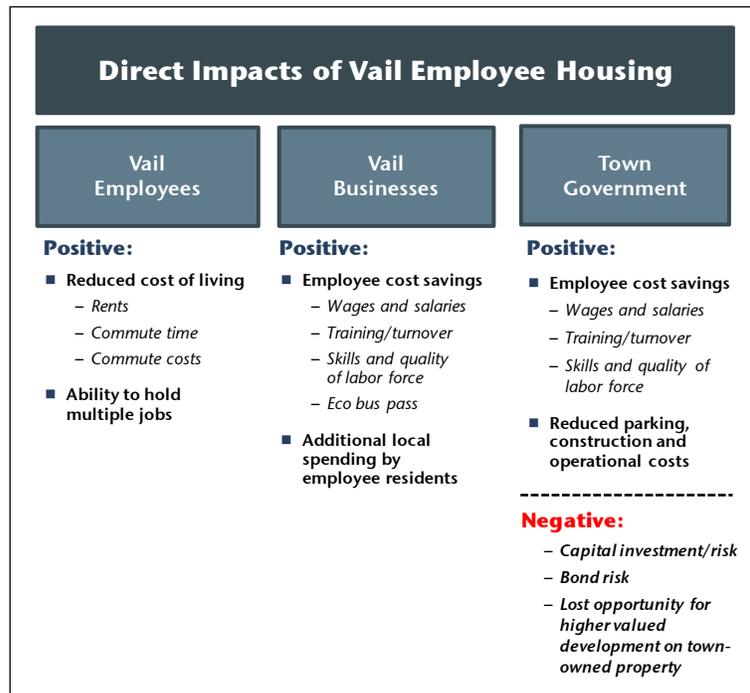
- Without employee housing Vail businesses would likely still attract workers, particularly in the current economic environment, but attraction and retention would be more expensive; employee turnover would be higher; and employee flexibility to work irregular hours or multiple jobs would be diminished.
- The provision of affordable employee housing requires some form of public investment, which implies that tax payers—or some subset of tax payers—are in some degree supporting this amenity. This support can be direct, such as public acquisition of land, or indirect, such as regulatory requirements.
- The provision of employee housing can displace other forms of development, which under many circumstances may be of higher economic value.
- The economic value of employee housing varies depending upon the nature of the individual, business interest or taxpayer considering the issue. Similarly, the economic value of employee housing is not consistent from year to year—it varies considerably depending upon background economic conditions.
- Employee housing enhances the Vail community's ability to provide high levels of guest services. Deed-restricted, for-sale housing is particularly valuable in allowing Vail residents to stay in Vail and participate in civic life.

Business Savings. The existence of a substantive amount of employee housing means that Vail businesses are relieved of the costs associated with compensating employees for lengthy and costly commutes. In essence, Vail businesses are competitively advantaged when seeking employees, not disadvantaged by the difficult and time consuming commute from down valley residences. Vail businesses also save on employee training and turnover expenses and are more likely to attract a reliable workforce with the availability of appropriate local housing.

Figure ES-2 summarizes employee housing associated cost savings for each segment of the Vail economy. Vail government is a significant beneficiary for the same reasons that businesses benefit from employee housing, but also for the avoided costs of finding parking options for the 1200 additional workers who would be commuting into town.

**Figure ES-2.
Direct Impacts of
Vail Employee Housing**

Source:
BBC Research & Consulting



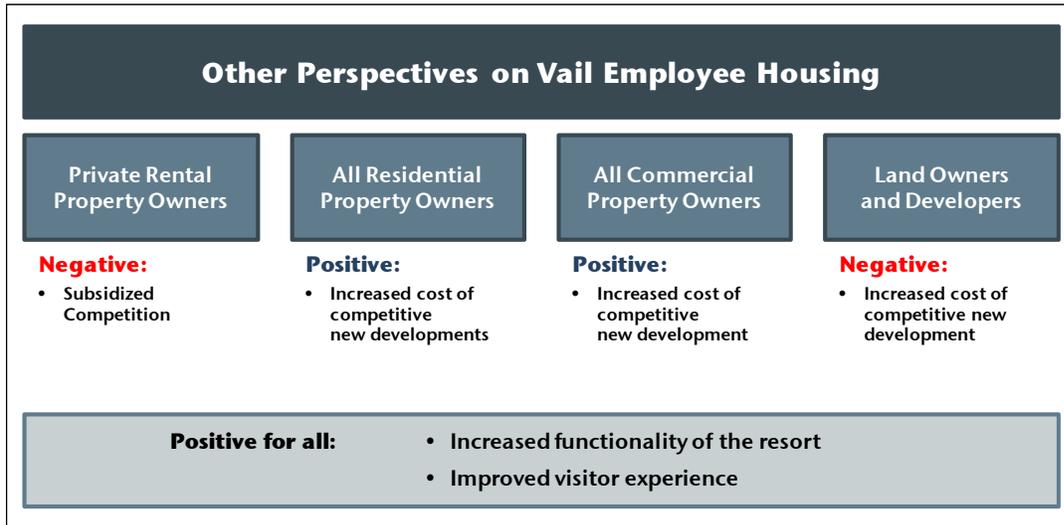
BBC estimates that the business community benefits in the amount \$10,530 per worker/year for each of the 1200 Vail housed/ and Vail employed individuals using employee housing. This amounts to \$12.6 million per year in cost-of-business savings. In addition, employees residing in Vail are expected to add roughly \$6.0 million in additional retail sales as a result of increased local spending. Even with effective bus transit, many workers commute to Vail jobs by automobile. By housing workers locally, the town of Vail avoids capital spending for parking of approximately \$9.0 million and the accompanying annual management costs associated with parking operations — even presuming some form of parking solution was a prospect.

Community risks. Although Vail operates its current employee housing stock without annual costs to the community, it should be noted that the community has potential indirect risk for an \$18.0 million debt obligation associated with the largest housing project. It should also be noted that the provision of employee housing represents a lost opportunity to develop additional private market units on the same land.

Other Perspectives

The provision of employee housing has broad economic consequences, beyond the immediate economic values described above, for all Vail property owners, guests and residents. These are summarized in Figure ES-3.

Figure ES-3.
Perspectives on Vail Employee Housing



- Residential property owners.** As noted above in Figure ES-3, property owners seeking to rent privately owned residential units currently have to compete with employee housing. Currently, the presence of over 700 units of lower priced housing likely dampens the potential rental value of individually owned rental units.

Conversely, all residential property owners also benefit from employer housing because exaction requirements on new or remodeled housing drive up the cost of new units, effectively pulling up the price of all units.

- Commercial property owners.** Commercial property owners are generally benefited by community investment in employee housing as it increases the costs of potential new competition, because of the inclusionary zoning and commercial linkage requirements, and reduces the labor costs of operations for commercial tenants.
- Undeveloped or underdeveloped land owners.** Land owners, properties with redevelopment potential, and developers are burdened by inclusionary zoning, commercial linkage and employee housing requirements which represent an immediate development expense that must be factored into development feasibility calculations.

The Vail Community

Finally, and perhaps most importantly, employee housing presents widespread general benefit to all property owners, residents, visitors and second home owners who have a stake in the success of Vail. Generally, an improved quality of life for employee residents, reduced commuting times, year round presence of residents and housing cost savings, all add to a more stable employee base and a better functioning community, which results in:

- An improved guest experience—the most basic product sold by Vail;
- Better positioning against other resorts competing for a quality workforce and the most discriminating guests;
- Reduction in the seasonality of local businesses;
- Increased vitality, diversity and “real town” authenticity for the town;
- Increased community participation (e.g., volunteer activities, town boards); and
- Enhanced ability for younger residents to stay in Vail and grow into higher-level employment and community leadership positions.

It is not a conceptual leap to assume that a better community with a more stable and participatory workforce translates into better guest services. Visitors value their interaction with local residents and workers who enjoy their town and communicate pride in their community help create the experience that differentiates engaging resort towns from simply undifferentiated commercial resorts. As the Vail community matures, many long time residents will retire and their homes will likely transfer into second home status, further eroding the town’s private housing stock. The economic value of employee housing will grow as the private ownership stock is diminished and the diversity of employee housing, including additional deed-restricted, family and for-sale units, expands.

In sum, over a two decade period, the town has created an enviable employee housing stock with very modest costs to the general taxpayers. Operation of the town’s 727 units puts no burden on the general fund. The Timber Ridge project, the town’s largest investment, has been a time consuming effort but it is still operated under contract by a private entity and current rents cover all operating costs and debt service.

The town of Vail has been remarkably successful in creatively stimulating the development of employee housing without incurring substantive public expense. Vail’s employee units save the business community about \$12.6 million per year in operating expense, generate nearly a quarter million in sales taxes for the general fund, and allow the town to avoid a burdensome investment in finding parking solutions for 1200 employees. Employee housing has provided the town a valuable insurance policy during tumultuous economic times and demonstrated value during both rising and declining economies.

No other mountain resort can claim this level of benefit with so little direct cost.