MAIN STREET SOLUTION CENTER

THE COST OF AN EMPTY BUILDING

ABOUT THE SOLUTION CENTER

The Main Street Solution Center is a free access portal to resources for communities and organizations working to revitalize and strengthen their local economies. The Solution Center's curated resources are designed to help guide and inspire local leaders and advocates as they navigate the complexities of downtown and neighborhood business district revitalization and economic growth.

ABOUT THE PARTNERSHIP

This Main Street Solution Center publication was underwritten by Michigan Main Street and Main Street Iowa. Their generous support demonstrates a shared vision and ongoing commitment to freely share knowledge, experience, tools, and best practices to fuel revitalization and economic growth in their own communities, and in locales spanning the nation.

ABOUT THE CREATORS

Leigh Young, AICP is Senior Main Street Specialist with Michigan Main Street and a driving force behind the creation of the Main Street Solution Center. Her deep passion for planning, placemaking, community engagement, and sustainable urban development is evident in her work to advance the cause for revitalization and economic development in downtown and neighborhood business districts across Michigan.

Jay Schlinsog, CMSM is the owner of Downtown Professionals Network (DPN), a Franklin, TN-based firm specializing in innovative, market-driven downtown and business district revitalization and economic development solutions. He brings more than thirty years of experience gained while serving as chief executive with chamber and district management organizations, and through his work with communities and organizations across the United States.

Ben Muldrow is a partner at Arnett Muldrow & Associates, a consultancy renowned for its creative approach to economic development, branding, and marketing strategies for small towns and cities across the nation. He brings an innovative mindset and a deep understanding of the unique dynamics of community branding to each engagement, blending traditional community values with modern marketing techniques to help communities and districts unlock their potential.

PRODUCTION DETAILS

Produced Feb, 2024 | MMS and MSI | Copyright 2024 | Cover generated by AI
Intended to be shared and used.

THE COST OF AN EMPTY BUILDING

Most every downtown or neighborhood business district has at least one or more buildings that are empty. On the surface, unoccupied buildings might simply be viewed as the problem of their owners. But the presence of these properties have adverse impacts—and costs— on the district's image, economy and overall activity.

Calculating the Cost

Donovan Rypkema of PlaceEconomics, a private sector real estate and economic development consulting firm based in Washington, D.C. has developed a means for approximating financial costs—or lost economic activity — of vacant commercial buildings by analyzing the rent a property owner intends to charge.

The formulas, along with data derived from the Consumer Expenditure Index to gauge potential spending by residents in upper level housing units, enable users to estimate and make reasonable generalizations about commercial and residential opportunities missed, and economic activity lost, both within and outside the walls of empty buildings.

The resulting figures will not be perfect, but they can help to demonstrate why it is in everyone's best interests to work together in efforts to fill vacant buildings and spaces.

CALCULATING THE COST OF AN EMPTY BUILDING

Step 1: Calculate Sales Volume based on Commercial Rent

The commercial rent on a building can be used to calculate sales volume.

FORMULA	EXAMPLE
Commercial Rent	$36,000 per year
÷ Rent to Sales Ratio (3% to 8%)	÷ 3% to 8%
= Gross Annual Sales Volume*	= $450,000 to $1,200,000

* Gross Annual Sales Volume is defined as the amount of products/services a business would need to sell in order to afford the annual rent on the building.

Step 2: Calculate the Cost of an Empty Building

The sales volume can now be used to calculate the cost of a vacant building.

EXAMPLE: RESTAURANT PAYING $36,000 PER YEAR IN RENT

Annual Commercial Rent	$36,000 per year
Sales Volume necessary to exist in the space and be profitable (3% to 8% of Rent)	$450,000 to $1,200,000
Apply Operating Ratios from area standardized data	Labor costs, for example, can comprise 25% to 40% of Operating Expenses — or $250,000 to $400,000 of $1,000,000 in sales
Choose and estimate amounts for operating categories that contribute to local economy and apply local rates	Examples: Property Tax $6,200 Advertising $24,000 Labor $250,000 Utilities $15,000 Total $295,200
Report forgone revenue for your district based on one business in one building	Approximately $295,200 in economic activity is being lost by a building sitting vacant

The cost of an empty building may not be limited to its storefront. Vacant and underutilized space that could house non-commercial uses also have a cost. The introduction of housing in the upper levels of empty or underutilized buildings, for example, can significantly enhance or even drive the feasibility of downtown building and redevelopment projects, enhance the district's sense of vibrancy, and pump new dollars—in the form of foregone spending captured— into the downtown economy.

Calculating Foregone Spending

Much like the formula used to estimate the cost of an empty building's commercial space, the amount of rent a property owner intends to charge for a residential unit can be used to calculate foregone spending—or the amount of spending that could be captured with each unit of housing added to the district.

The formula, along with data derived from the Consumer Expenditure Index, can be used to estimate potential spending by residents in upper level housing units. Like estimates calculated for commercial uses, the resulting figures will not be perfect, but they can begin to frame and make the case for investment in, and the rippling benefits of, district housing uses.

CALCULATING FOREGONE SPENDING

Step 1: Calculate Household Income by Residential Unit Rent

The rent on a residential unit can be used to calculate household income.

FORMULA	EXAMPLE
Residential Rent	$12,000 per year
x Rent to Income Ratio (3 or 4)	x 3 or 4
= Household Income	= $36,000 to $48,000

* Gross Annual Sales Volume is defined as the amount of products/services a business would need to sell in order to afford the annual rent on the building.

Step 2: Calculate Amount of Foregone Spending by Residential Unit

Household income calculations along with figures from the Consumer Expenditure Index can now be used to calculate how much downtown spending could be captured if just one unit of upper-story housing was added above a vacant storefront.

EXAMPLE: FOOD AWAY FROM HOME

Amount of Forgone Downtown Spending by one Upper Story Housing Unit

Total household Income	$48,000
Household income after taxes | (x .75) =	$48,000 x 0.75 = $36,000
Annual expenditures | (x .97) =	$36,000 x 0.97 = $34,920
Percentage spent on Food Away from Home (FAH) = 4.8%* | (x .048) =	$34,920 x 0.048 = $1,676
Estimate of the district's share of FAH — Example: Consumer expenditure survey shows downtown has 75% share of FAH | (x .75) =	$1,676 x 0.75 = $1,257

* Data derived from the Consumer Expenditure Index—Consumer Price Index for All Urban Consumers (CPI-U).

The example shows annual foregone spending for Food Away from Home estimated at up to $1,257 for one residential unit renting for $1,000 per month. The same formulas can be used to generate estimates of foregone spending for other consumer goods and services that, in aggregate, reveal the potential, fuller extent of forgone spending in the district.