

The Contribution of Office, Industrial and Retail Development and Construction to Indiana's Economy*

By Stephen S. Fuller, PhD, George Mason University

The value of commercial buildings is much more than the sum of pre-construction (soft costs) and construction outlays (site development, building construction and tenant improvements). Commercial buildings generate continuing post-construction value within the local and state economies as a result of the spending associated with their operations and the value of output generated by the workers and businesses they house. This report measures the contribution of office, industrial and retail building development, construction and operations to Indiana's economy in the form of annual direct spending for new development, construction and annual expenditures to operate existing buildings.

The analyses presented in this report define the economic impacts of commercial buildings on Indiana's economy, highlighting the economic impacts from office, industrial, warehouse and retail buildings, during the three life stages: development, construction and maintenance.

The Three Stages in the Life of a Commercial Building



Soft Costs/Site Development/Tenant Improvements

Architects, engineers, developers and marketing/design professionals working during the development phase begin the life span of a commercial building.



Hard Costs

During the construction phase, new commercial projects employ workers who spend their paychecks in the local economy and contribute to the tax base.



Operating Costs

After new commercial buildings are completed and occupied, they add to the productive capacity of their host economies. The outlays that support the new buildings' operations add ongoing annual sources of economic impact that accumulates over the life span of commercial buildings.

* This report, prepared for the National Association of Industrial and Office Properties Research Foundation with 2007 construction data provided by McGraw-Hill Construction, is part of the larger report issued in October 2008 by Stephen S. Fuller, PhD entitled, The Contribution of Office, Industrial and Retail Development and Construction to the U.S. Economy, 2008 Edition.

The following table provides the soft costs, site development, tenant improvements and construction (hard) costs for the state of Indiana.

**The Impacts of Construction Spending for Soft Costs, Site Development,
Tenant Improvements and Construction (Hard) Costs on the Economy of Indiana, 2007
(in billions of 2007 dollars)**

Sources	Direct Spending	Total Output ¹	Personal Income ²	Jobs Supported ³
Office Buildings				
Soft Costs	\$0.202	\$0.464	\$0.171	4,242
Site Development*	0.175	0.398	0.116	3,805
Construction Costs	0.580	1.315	0.384	12,587
Tenant Improvement**	0.212	0.480	0.140	4,592
Totals	\$1.169	\$2.657	\$0.810	25,226
Industrial Buildings				
Soft Costs	\$0.283	\$0.651	\$0.239	5,945
Site Development*	0.407	0.922	0.269	8,823
Construction Costs	1.162	2.634	0.769	25,210
Tenant Improvement**	0.294	0.667	0.195	6,387
Totals	\$2.146	\$4.874	\$1.471	46,366
Warehouse Buildings				
Soft Costs	\$0.121	\$0.278	\$0.102	2,536
Site Development*	0.151	0.342	0.100	3,271
Construction Costs	0.463	1.049	0.306	10,043
Tenant Improvement**	0.119	0.269	0.078	2,572
Totals	\$0.853	\$1.937	\$0.586	18,422
Retail Buildings				
Soft Costs	\$0.224	\$0.514	\$0.189	4,700
Site Development*	0.247	0.559	0.163	5,350
Construction Costs	0.664	1.506	0.440	14,416
Tenant Improvement**	0.202	0.458	0.134	4,387
Totals	\$1.337	\$3.038	\$0.925	28,852
Totals Buildings				
Soft Costs	\$0.830	\$1.907	\$0.700	17,423
Site Development*	0.979	2.220	0.648	21,249
Construction Costs	2.869	6.505	1.898	62,256
Tenant Improvement**	0.827	1.874	0.547	17,937
Totals	\$5.505	\$12.506	\$3.793	118,866

Source: The Contribution of Office, Industrial and Retail Development and Construction to the U. S. Economy, 2008 Edition, NAIOP Research Foundation, October 2008, pp. 27-63.

Notes: ¹ the total value of goods and services generated directly and indirectly as a result of the initial construction spending within the state; ² the additional earnings generated within the state from direct spending during the construction phase; ³ the additional new jobs supported by the spending and re-spending of direct spending associated with the spending for new construction. *Site development includes grading, infrastructure, parking and landscaping. **Tenant improvements exclude furniture and equipment.

On a state level, Indiana accounted for \$5.505 billion in direct spending for new office, industrial, warehouse and retail buildings as follows (in billions of 2007 dollars):

Office Buildings	\$1.169
Industrial Buildings	2.146
Warehouse Buildings	0.853
Retail Buildings	1.337
Totals Buildings	\$5.505

On a state level, commercial buildings supported 118,866 full-time-equivalent, year-round jobs.

The Contribution of Operating Costs on the Economy of Indiana

The following table provides the state spending values for the existing buildings (spending for maintenance and repair, cleaning, utilities, security and administrative expenses) that will recur annually following the completion of a commercial building.

Annual Impacts of Existing Buildings on the Economy of Indiana, 2007 (in millions of 2007 dollars)

Sources	Direct Spending	Total Output ¹	Personal Income ²	Jobs Supported ³
Office Buildings	\$27,820.79	\$55,262.28	\$17,511.33	670
Industrial Buildings	5,210.95	10,350.85	3,279.94	125
Warehouse Buildings	7,705.97	15,306.88	4,850.39	185
Retail Buildings	17,694.00	35,146.76	11,137.19	426
Totals Buildings	\$58,431.71	\$116,066.77	\$36,778.85	1406

Source: The Contribution of Office, Industrial and Retail Development and Construction to the U. S. Economy, 2008 Edition, NAIOP Research Foundation, October 2008, p. 65-69.

Notes: ¹ the total value of goods and services generated directly and indirectly as a result of building operating spending within the state; ² the additional earnings generated within the state from spending for building operations; ³ the additional new jobs supported by the spending and re-spending of spending associated with building operations. Operations impacts include maintenance and repair, cleaning, utilities, roads and grounds, security and administrative expenses.

Commercial Construction Counterbalances Residential

Another important contribution of commercial buildings is that the long-term pattern of commercial real estate development, construction and operations spending lags residential spending, helping to cushion the negative economic impact of slower residential construction outlays in 2007 and 2008.

The magnitude and significance of commercial buildings is clear. Changes in construction activity during the business cycle are directly reflected in GDP growth rates. The combined impact of development, commercial construction and building operations spending is a major source and closely watched barometer of economic vitality at the national and local levels.

For more information about this report, please contact Toby Burke, Senior Director of State and Local Affairs at burke@naiop.org or (703) 904-7100 and Elizabeth Sherrod, Research Director at sherrod@naiop.org or (703) 904-7100.