

RETAIL ECONOMIC DEVELOPMENT SHOULD NOT BE A DAY TRADING PHILOSOPHY

By: The Honorable David G. Wallace

I recently learned that some Economic Development professionals are finding their jobs in jeopardy as a result of the “less-than-robust” economy. To this I would ask the local leadership “what are you thinking?”

As a thirty-year corporate turnaround guy and former mayor, I would pose the question to the leadership of our economic engines - the municipalities of our country - why would you not support the funding of your sales and marketing team when you are looking to grow your revenues? Why would you want to diminish your economic development activities of both corporate site relocation **AND** retail sales efforts?

From my experience and perspective, economic development programs take time to develop. They do not make a bad project a good project. They do, however, when done correctly, make good projects happen easier, faster, to a higher standard and in specific locations. They also, when staffed with good professionals, tie the public and private sectors together and make each stronger in doing so, as well as provide information that both the public and private sectors can use in their planning efforts.

Retail Sales Tax & Consumer Spending

I also found it interesting that some cities are thinking about cutting their retail economic development personnel. Consider that the composition of the US economy is roughly as follows: (Source - Dr. Mark Dotzour, Chief Economist of Texas A & M University)

71% Consumer Spending;

20% Government Spending;

14% Business Investment; and

-5% Net Exports

In short, we are a consuming nation and what we purchase is important to the economy and will be for the foreseeable future. The current crisis has been in the works for some time. A correction in spending is in process as consumers repair their personal balance sheets. This, combined with a number of issues in the way banks have loaned money to businesses, has created somewhat of a panic in the economy. I don't want to understate these economic issues as they are huge, but panicking will only create a self-fulfilling prophecy.

National Fiscal Policy to Help Grow the Economy

The announcements coming out of Washington have created an emotional roller coaster. We have seen multi-billion dollar “bail-outs,” “stimulus packages,” and the Fed’s commitment to purchase billions in mortgage backed assets as well as set up multi-billion dollar lending facilities to unfreeze consumer and small-business loans.

We are not only seeing an unprecedented amount of lending coming from the Fed which balance sheet has ballooned to more than \$2 trillion over the last few weeks. But it seems like every day we are seeing reports of another central bank taking drastic actions to stabilize faltering financial institutions and increase worldwide liquidity. The European Central Bank increased their balance sheet by 33% during the month of October. This is a big change in direction for it. They are finally adding significant amounts of liquidity.

Retail Sales Impact on Local Economies

On average more than one-third of our US cities' general funds come from sales tax revenues. These receipts help pay for public works, fire, police, parks and recreation, street repairs, and so on. However, when the economies are struggling, as they are now, many of these cities are required to slash their budgets as this sales tax revenue stream is reduced.

The International Council of Shopping Centers says these sales tax receipts are down, yet the numbers are even worse when adjusted for the high price of gasoline, which bumped up the sales totals. According to ICSC, sales excluding gasoline service stations slowed from a pace of 8.5 percent in June 2005 to a meager 0.7 percent pace in June 2008.

How Does All This Relate To Retail Economic Development?

Economic development deals take time to complete. Many transactions take 18 months to two years or more to put together and then another 18 to 24 months to build the projects. So, in my mind, it makes no sense to shut down a city's retail economic development efforts when the economy falls into a recession. However, it is not uncommon for some to mistakenly take this approach.

I believe what professionals should be doing is monitoring their portfolio of deals. Some will need work, some will be fine, some will not make it. Use this opportunity to learn from the deals in place as to what you should consider including in future deals. Second, examine the community goals. This shift in the market may open up the opportunity for redevelopment or adjusting directions. There is always opportunity in chaos. Look for the opportunity to make the community better and look long term. Successful retail economic development is not a day-trading environment. You should have a consistent and long-term strategy.

There is no doubt we are in tough times, but history has shown that the future is brighter than the past. Let's stay focused on how we keep moving forward.

David G. Wallace is the former three-term mayor of Sugar Land, Texas and expert on public-private sector collaboration on real estate projects. He is the CEO of Wallace Bajjali Development Partners, LP and was appointed as the ICSC's Research Scholar for Economic Development in November 2008. During his two-year scholarship, Mr. Wallace is focusing on retail real estate development and how to create effective partnerships between local governments and the retail real estate development community. The views expressed in this article are his own and do not necessarily represent those of the International Council of Shopping Centers.