COVID-19 Impact Kernersville Economic Development Study

TOWN OF KERNERSVILLE

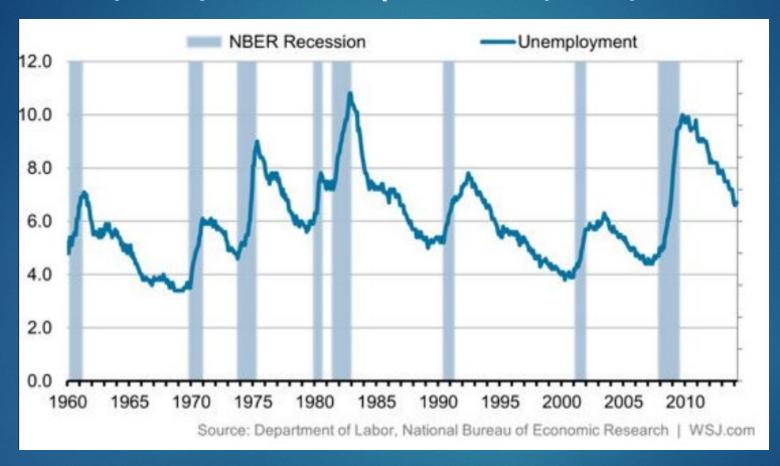
COMMUNITY DEVELOPMENT DEPARTMENT

JUNE 11, 2020

The Pandemic Recession

- The National Bureau of Economic Research (NBER)said Monday that the COVID-19 crisis has officially launched the U.S. economy into a recession.
- NBER found economic activity had peaked in February, citing sharp drops in employment and personal consumption following February.
- Recessions were traditionally defined as two consecutive quarters of GDP contraction. We have not reached two quarters since the pandemic struck.

Recessions – Boom of Employment before Bust of Employment (unemployment)



► The interesting thing about the Pandemic Recession it was actually started by unemployment.

Economy

- ► To prepare for a recession, it is important to try to understand the recession impacts on the economy.
- Historically, each recession hits different parts of the economy differently.
- Currently the hardest hit industries are travel related industries, hospitality industries and energy industries.
- Economic recovery will be based on containing COVID-19.

June 8, 2020 NC Public Health Announcement

North Carolina has reached its highest-ever number of individuals currently hospitalized with the virus – 739. It is the fourth time in the past six days the hospitalization count exceeded 700.

North Carolina percentage of positive tests is among the highest in the nation.

Purpose of Study

The purpose of this **COVID-19 Impact Economic Development Study** is to determine the current impact to the Kernersville economy in an effort to:

- ▶ Help businesses make decisions on business operations
- ▶ **Help** businesses and Town of Kernersville make decisions on when to bring workers back and hire
- ▶ **Help** businesses and Town of Kernersville budget for the future
- ▶ Help attract new businesses

Note: This Study will be updated as new data is made available.

"Uncertainty"

Uncertainty is the major fuel for stimulating this recession

When will there be a COVID-19 treatment and cure?

How and when will the economy recover?

How and when will the economy recover?

We can work on this "uncertainty" through study of our local economy condition and trends

Once findings on the local economy are made, we can share information with our local economic development partners

Local Economic Development Partners



What have recent studies found at the national level?

Urban Land Institute (ULI)

Survey: U.S. Commercial Real Estate Sector Expected to Be Resilient in Recovery, By William Maher, May 18, 2020

ULI was founded in 1936 and currently has more than 45,000 members, with more than 10% of the members working in government, academia, or public-private partnerships. Most of the rest are involved in the real estate and urban development industries.

Best Case

Urban Land Institute (ULI) - ULI's latest Real Estate Economic Forecast, which is based on a May 2020 survey of 38 economists and analysts at 34 leading real estate organizations.

- "Despite these dire conditions, U.S. real estate economists are predicting some light at the end of the tunnel".
- "First, the current economic recession will be short-lived, with above-average gross domestic product (GDP) growth in 2021 and 2022".

Best Case

- "Second, the impact on real estate market conditions and values will be relatively modest and much less severe than the impact experienced during the global financial crisis (GFC), retail and hotels excluded."
- "As always, we note a caveat: the forecast is based on the median responses to a survey of economists, with a wide range of views both better and worse."

"Wide differences are forecasted for market fundamentals depending on property type".

- "Hotels are forecasted to suffer the most, with the average occupancy rate plummeting to 40.1 percent in 2020 from 66.1 percent in 2019".
 - ► Kernersville still has one hotel development moving forward.
- "Retail will also be hit hard since closures of nonessential stores (in the process of being lifted in some states) has increased struggles by some retailers".
 - ► Kernersville Staff was in the process, before COVID-19, of lowering our commercial retail development projections.

- "Apartment and office vacancy rates will see modest deterioration in 2020. Both sectors will see falling vacancy rates by 2022".
- ► Kernersville still has apartment developers wanting to come to our market.
- ▶ Triad Business Park's new tenants; Amazon, Averitt Trucking, Old Dominion, and expansion at FedEx Ground are all stimulates for the market.
- Amazon brings 1,000 jobs, not including their second facility that should be announced soon. When you welcome 1,000 workers, their partners and children, you create a very large demand from numerous markets. It creates a small town market by itself.

- "Industrial will lead all property types in rent growth over the 2020–2022 time frame."
 - ► As Kernersville Staff works with industrial development brokers, we all agree that the break down of "supply chain" during the pandemic will have many industries begin to think about bringing back some manufacturing to the States and building greater warehouse capacities.

Housing

- "Single-family housing starts will drop to 600,000 in 2020, a 32 percent drop from the prior year, but well ahead of 431,000 in 2011."
 - ► Kernersville Staff has not heard of any major layoffs in the Kernersville and surrounding job centers. Jobs create the demand for housing.
- ▶ "Home price growth is forecasted to average 1 percent in 2020 before improving to 4.6 percent in 2022."
 - ▶ Nearly all real estate agents in the Kernersville area stated before the pandemic that we had a low supply of houses for sale. Going into an economic downturn in a seller's market, puts Kernersville in a good space for recovery.

Jobs

"Net job growth is expected to be negative 10 million for 2020 (full year). This estimate implies a very meaningful recovery later this year, since COVID-related unemployment claims are already close to 36 million".

➤ Department of Labor announce the U.S. economy added 2.5 million jobs in May as the unemployment rate dipped to 13.3% from 14.7% in April

Jobs

- "The job recovery will continue at a strong pace in ensuing years, with forecasted growth of 4 million net jobs in 2021 and 2022".
- "This job growth will not be sufficient to move the unemployment rate back to the 2019 level of 3.5 percent".
- "The Forecast calls for the U.S. unemployment rate to jump to 11.5 percent at year-end 2020, and then decline to the longterm average (5.9 percent) by the end of 2022".
 - ► Kernersville has a diverse economy and new logistic businesses moving in, so we anticipate being in a good position for job growth.

Jobs

- Winston-Salem Journal published on 6/9/20 that Manpower Inc. recent survey found:
 - ▶ 10% of Winston-Salem area employers plan to hire in the 3rd quarter, while another 10% plan to decrease.
 - ▶20% of Greensboro-High Point area employers plan to hire in the 3rd quarter, while another 11% plan to decrease.
- ► Community Development Staff observation is Kernersville job centers are more similar to the Greensboro-High Point job centers.
- ► Also, the diversity of Kernersville's job centers makes it strong, with a mix of logistics, manufacturing, medical and retail.

Federal Reserve Chairman Powell

- Warned the pandemic crisis threatens "lasting damage" to American prosperity.
- Almost 40% of those people who were working and earning \$40,000 or less in February lost their jobs in March.
- One additional point that Powell addressed was that the loss of thousands of small and medium-sized businesses will create a disaster ahead. Destruction of a lifetime of work and family legacies would predicate that the job recovery would be weaker and may bring an extended period of low productivity growth as well as stagnant incomes.
 - ► A good example in Kernersville: During the last Housing Recession, we lost our local residential subdivision builders.

Road to recovery - "We were in a good economic place"

Since the pandemic started, Community Development Staff has received and are currently reviewing 9 new development proposals with over:

▶ 100,000 square feet of commercial, and

▶ 700 housing units

Road to recovery - "We were in a good economic place"

Kernersville permitting data still looks good, and we will continue to monitor

Permits							
	2016	2017	2018	2019	2020		
Jan	324	280	387	424	302		
Feb	183	287	345	343	328		
Mar	213	332	313	246	409		
Apr	338	232	291	342	412		
May	231	287	376	300	325		
June	280	261	312	372			
July	344	252	291	431			
Aug	279	269	358	335			
Sept	231	245	278	271			
Oct	223	208	414	368			
Nov	265	228	283	322			
Dec	177	368	224	269			
Total	3,088	3,249	3,872	4,023	1,776		

Permitting Valuations

► Important tax base trend indicator

Valuation							
	2016	2017	2018	2019	2020		
Jan	\$2,718,354	\$6,584,602	\$4,249,588	\$21,424,737	\$9,371,822		
Feb	\$14,788,387	\$4,573,431	\$7,552,912	\$5,161,872	\$3,998,095		
Mar	\$14,149,746	\$4,511,011	\$5,606,648	\$9,372,175	\$8,708,666		
Apr	\$3,277,829	\$7,434,698	\$2,472,967	\$4,955,115	\$9,301,768		
May	\$1,396,606	\$2,201,765	\$4,657,525	\$14,107,412	\$3,650,080		
June	\$1,684,088	\$3,490,537	\$2,431,581	\$7,878,728			
July	\$15,913,410	\$2,559,687	\$1,030,468	\$9,473,596			
Aug	\$2,019,593	\$5,137,463	\$64,110,545	\$6,108,395			
Sept	\$4,102,254	\$15,124,139	\$3,653,403	\$6,724,181			
Oct	\$3,638,213	\$2,341,476	\$2,396,862	\$5,520,852			
Nov	\$14,339,098	\$2,524,600	\$3,356,302	\$3,776,021			
Dec	\$2,348,594	\$9,018,519	\$2,734,418	\$9,784,783			
Total	\$80,376,172	\$65,501,928	\$104,253,219	\$104,287,867	\$35,030,431		
Aug Sept Oct Nov Dec	\$2,019,593 \$4,102,254 \$3,638,213 \$14,339,098 \$2,348,594	\$5,137,463 \$15,124,139 \$2,341,476 \$2,524,600 \$9,018,519	\$64,110,545 \$3,653,403 \$2,396,862 \$3,356,302 \$2,734,418	\$6,108,395 \$6,724,181 \$5,520,852 \$3,776,021 \$9,784,783	\$35,030,43		

Prior to the Pandemic, we had steady housing construction, with several "attached" and "detached" housing projects that were coming online

Single-Family Residential Detached							
	2016	2017	2018	2019	2020		
Jan	12	15	21	19	5		
Feb	7	9	17	14	12		
Mar	7	27	7	8	12		
Apr	13	3	14	13	16		
May	7	13	14	8	9		
June	10	9	13	9			
July	15	11	6	21			
Aug	5	6	19	14			
Sept	7	4	13	10			
Oct	10	1	15	11			
Nov	13	14	4	12			
Dec	4	18	13	9			
Total 110 130 156 148							

Single-Family Residential Attached							
	2016	2017	2018	2019	2020		
Jan	0	0	4	5	0		
Feb	0	5	0	4	6		
Mar	0	0	7	0	20		
Apr	8	7	0	4	4		
May	0	0	0	0	2		
June	0	0	0	6			
July	0	0	0	12			
Aug	0	5	6	10			
Sept	0	0	2	2			
Oct	0	5	0	4			
Nov	6	0	10	2			
Dec	0	5	0	2			
Total	14	27	29	51	32		

Kernersville has always had swings of high industrial growth to low industrial growth, because Kernersville is a small market with moderate demand and supply trends

	Office/Industrial							
	2016	2017	2018	2019	2020			
Jan	23,700	47,976	0	436,931	0			
Feb	0	0	0	0	0			
Mar	5,000	16,000	0	53,326	2,400			
Apr	135	0	0	4,567	3,700			
May	0	0	0	70,121	0			
June	0	0	0	37,196				
July	0	0	0	0				
Aug	2,485	1,893	1,017,289	5,400				
Sept	51,202	0	0	0				
Oct	0	0	0	11,550				
Nov	0	0	7,500	0				
Dec	47,500	26,668	0	0				
Total	130,022	92,537	1,024,789	619,091	6,100			

Commercial growth will remain low based on retail trends that were taking place before the pandemic, and are now being accelerated

	Commercial/Institutional							
	2016	2017	2018	2019	2020			
Jan	1,296	0	0	0	1,200			
Feb	130,594	88,296	21,695	1,504	165			
Mar	0	7,500	14,349	5,284	448			
Apr	4,357	0	0	0	240			
May	0	0	0	0	250			
June	0	2,423	0	0				
July	56,240	0	0	8,465				
Aug	25,000	72,532	0	0				
Sept	9,100	2,612	0	11,659				
Oct	0	0	11,819	4,523				
Nov	82,837	0	192	0				
Dec	0	0	0	0				
Total	309,424	173,363	48,055	31,435	2,303			

Commercial GAP Analysis Study

- Before the pandemic Community
 Development Staff worked with Retail
 Strategies on GAP Analysis Study.
- A GAP analysis study looks at the potential number of dollars being spent outside of the Kernersville market



Discover: Total Market Demand (Custom Trade Area)

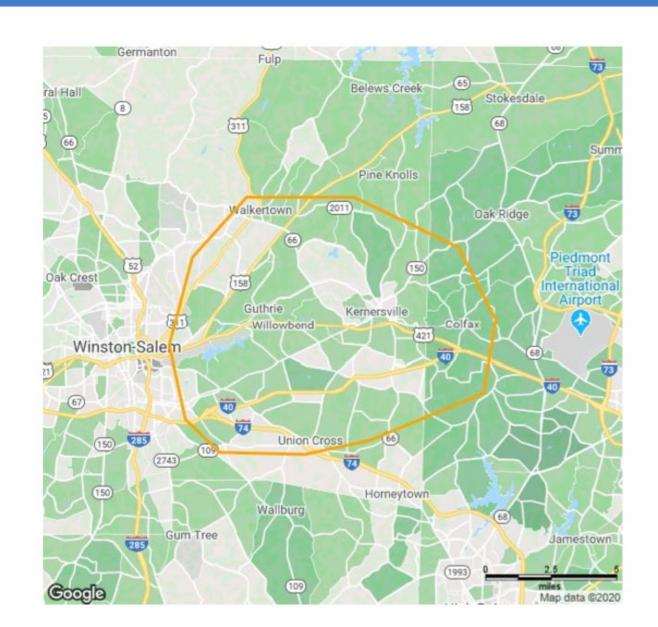




Total Market Demand

\$1,302,677,054

This represents the amount spent by consumers located in the defined trade area. By block group the areas with darker green captured more dollars than the gray areas.



Discover: Total Market Supply (Custom Trade Area)

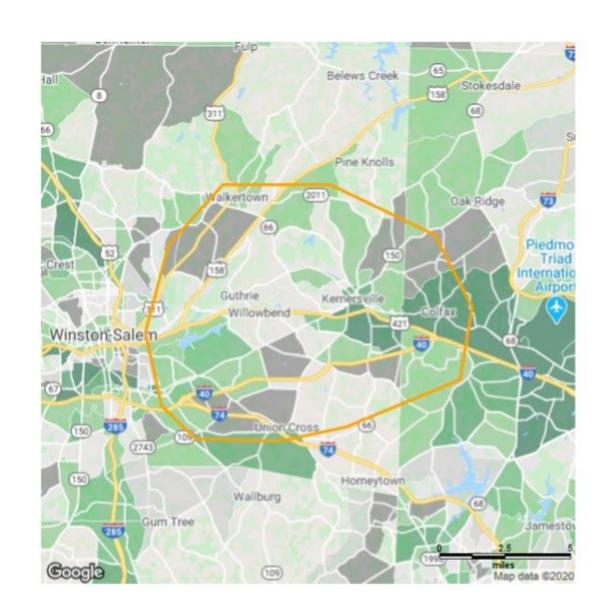




Total Market Supply

\$1,327,299,170

This represents the amount captured by businesses located in the defined trade area. By block group the areas with darker green captured more dollars than the gray areas.



Discover: Opportunity Gap (Custom Trade Area)

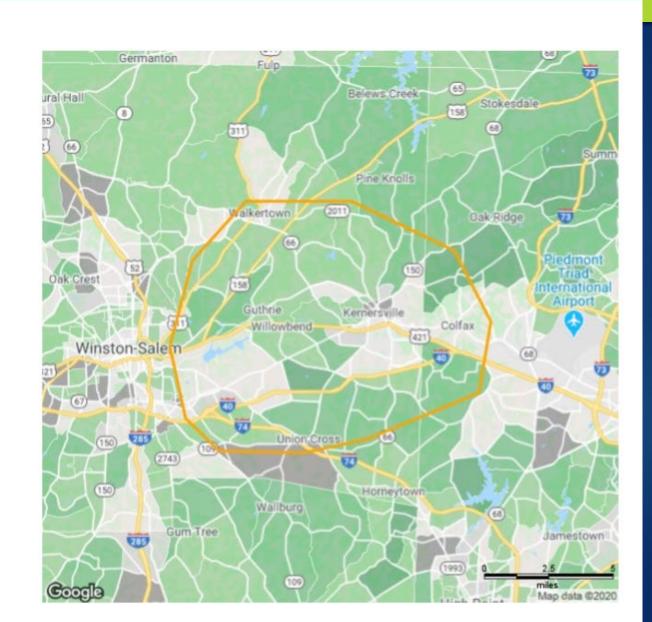




Total Market Surplus of

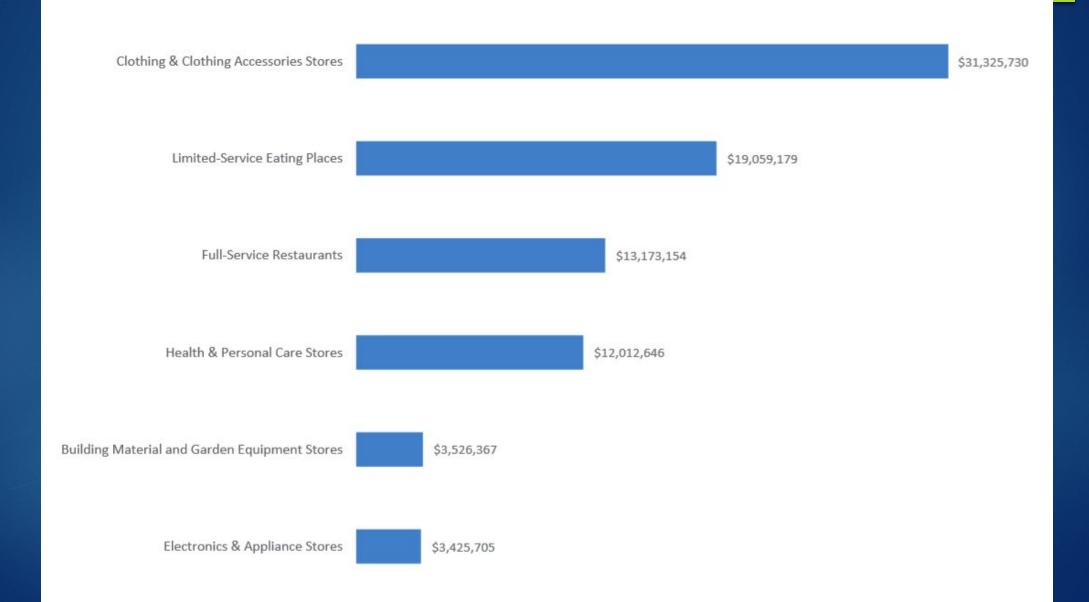
\$24,622,117

This means more people purchase items outside of the defined trade area than in the defined trade area for their consumer goods and services. Finding the specific categories where they are leaving the market is the key. Dark gray shows block groups of retail synergy capturing those dollars. This is where our focus will be to place new retailers and restaurants.



Discover: Leakage (Custom Trade Area)





Discover: Peer Analysis

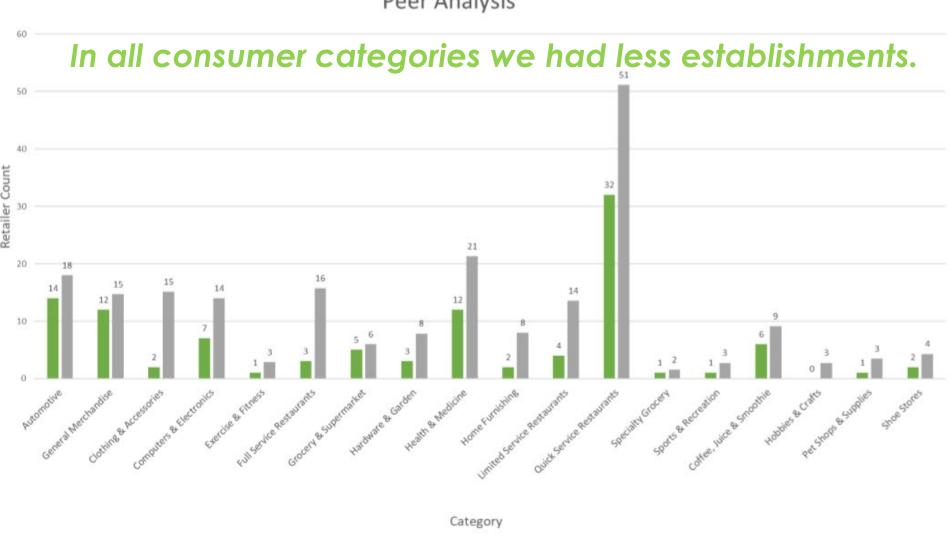


Target 10 - Minute Drive Time

City	State	Residential Pop	Employed Daytime Pop	Median HH Income	Market Supply
Kernersville	NC	49,379	52,236	\$56,716	\$996,367,934
Clarksville	TN	59,314	59,643	\$58,994	\$976,232,735
Hendersonville	TN	49,003	63,279	\$59,786	\$1,341,973,043
Cleveland	TN	45,428	58,229	\$49,997	\$1,081,002,712
Monroe	NC	46,188	58,664	\$54,949	\$1,640,650,713
New Bern	NC	40,915	57,838	\$46,989	\$823,648,837
Winchester	VA	47,091	57,631	\$62,405	\$1,525,341,912
Chesapeake	VA	58,841	57,570	\$60,578	\$1,303,708,029







■ Kernersville, NC ■ Peer Average

Market Study found "we were in a good economic place"

▶ Basic economics: We had higher demands then supplies

▶ We are not over-built

► When you are not over built and you have a demand, it creates less of a fall during downturns

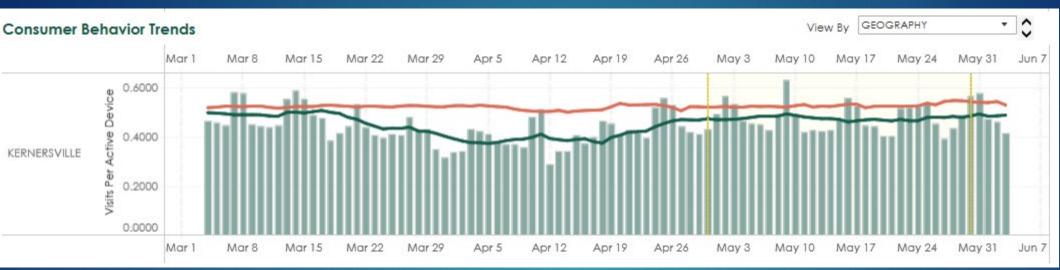
Big Data Study

"Big Data" is extremely large computer data sets that reveal patterns, trends, and associations, especially relating to human behavior and interactions.

Buxton Customer Analytics

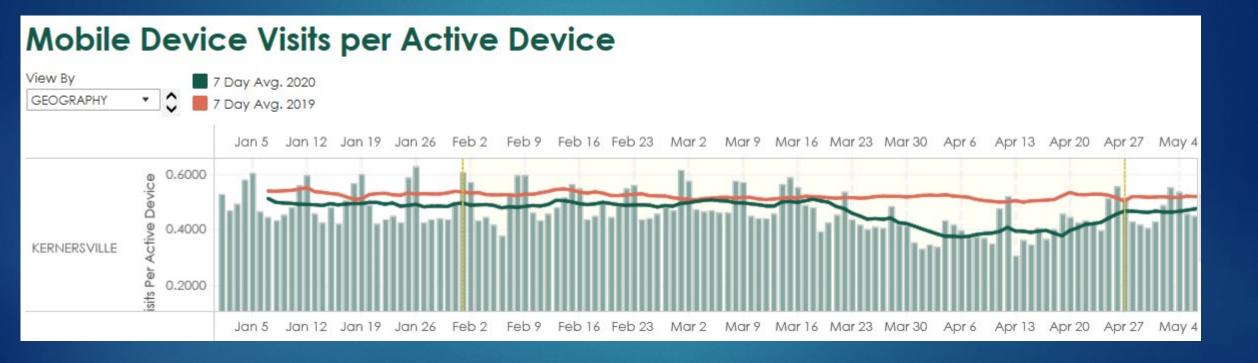
- Largest sole source of "customer analytics".
- "Customer analytics" analyzes local customer data to identify who is in the market and can be used to undertake analysis of local customer data to identify and attract commercial tenants or developers.
- Buxton services primarily takes cell phone data and household data that they purchase and run it through their analytical tools to identify current commercial activities.





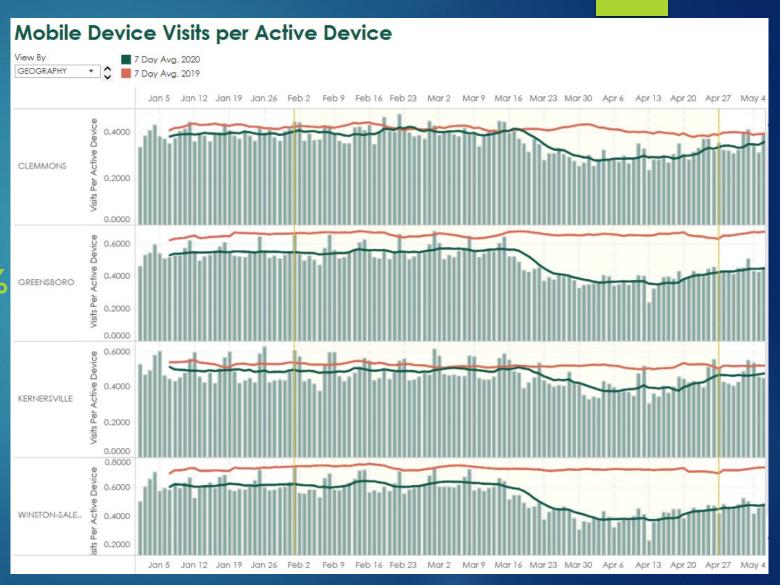
- Buxton purchased cell phone tracking data
- ▶ They determine the local market and cell phones within the market
- ► They have created geo-fences around over 400 businesses in Kernersville
- When a local cell phone crosses the established geo-fence threshold, you get "mobile device visits per active device"

Kernersville Peak of Economic Decline 28% the weekend of April 3rd – 5th

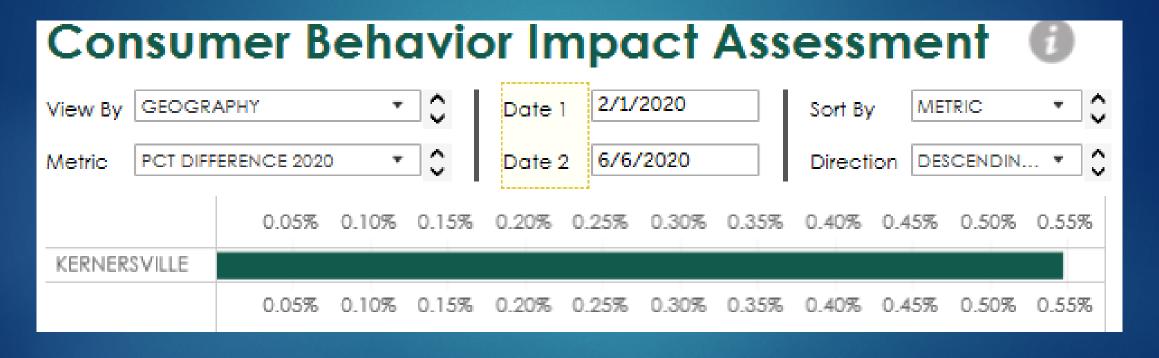


Triad Comparisons Peak Day of Decline

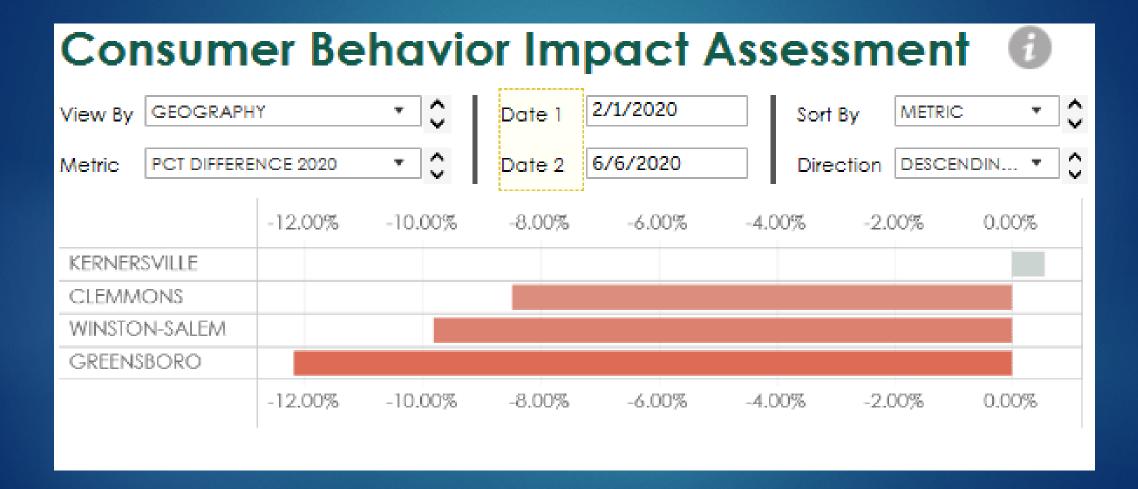
- ► Kernersville April 3rd 28.53%
- Clemmons April 1st 34.91%
- Greensboro April 14th 47.15%
- Winston-Salem April 12th 48.50%



Kernersville's overall commercial economy has recovered to a **+.55%**As of June 6th



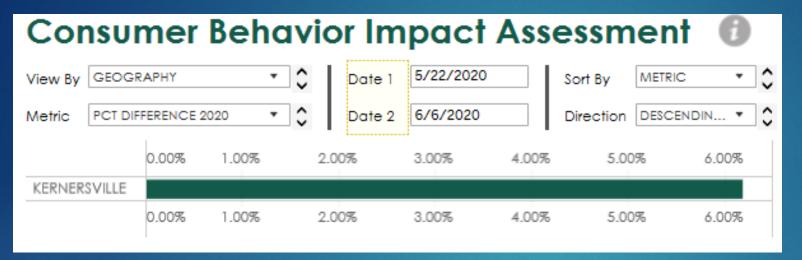
Triad Comparisons As of June 6th



Kernersville's Mobile Device Visits Compared to the Country As of June 6th



May 22nd, 5:00 pm Phase II Begins As of June 6th

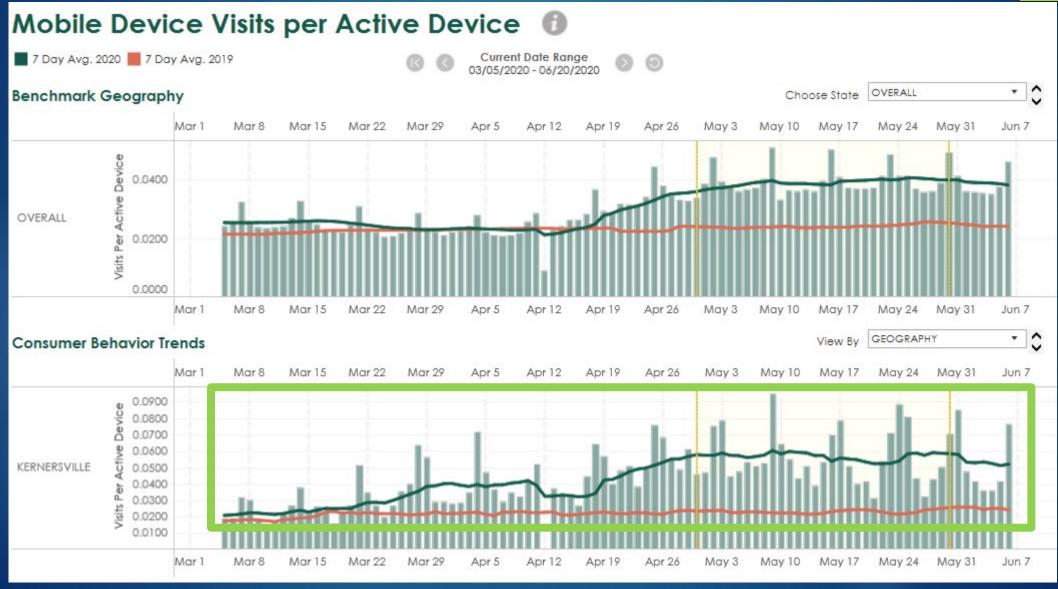




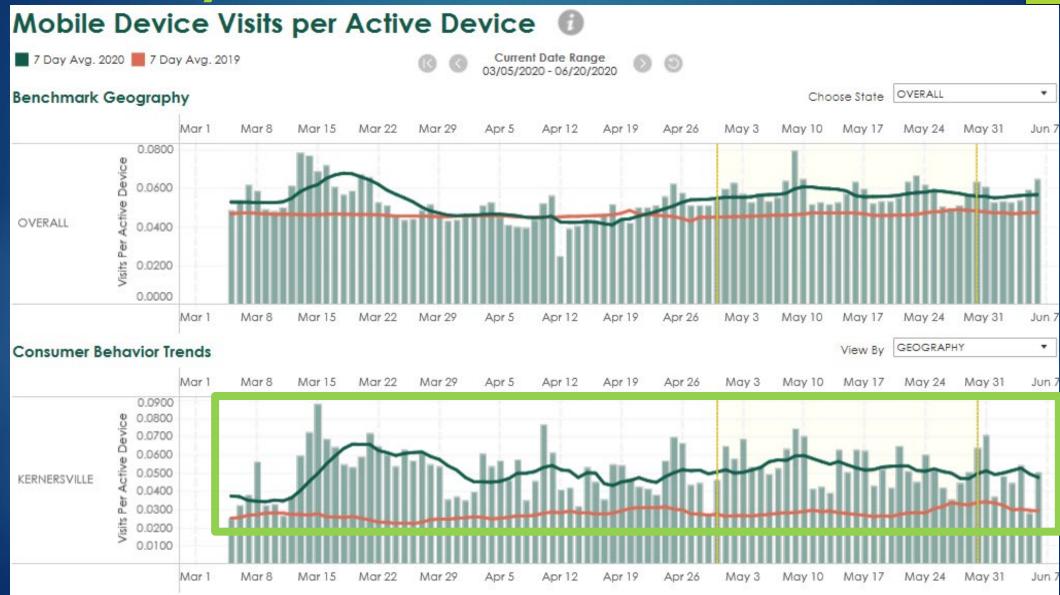
Kernersville Recovery was based on Land Use Make Up

- Certain land uses were less impacted then others. The best example is the regional shopping area along South Main Street that consists of grocery stores, fast casual restaurants, drive-through restaurants, building supply stores and big box retail with online pickup. All those land uses continued to have a high customer visit.
- It is important to note that the small businesses like salons, local restaurants, gyms, etc. have not seen the recovery, and are less likely to be geo-fenced.

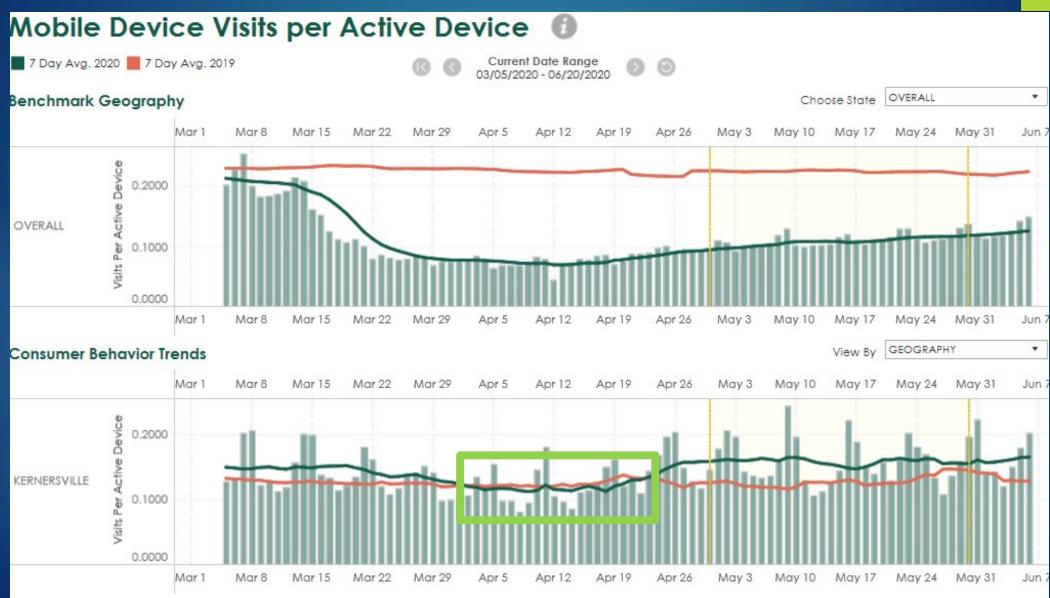
Building Material and Supplies



Grocery Stores



Restaurants



Buxton Customer Analytics COVID-19 Impact Findings

- Kernersville market "stayed local"
- Many of the Kernersville's commuters are staying home and consuming local
- We continued to have our local workforce be a part of the customer visits
- We had a strong local economy going in with demand over supplies (GAP Analysis)
- The study does not reflect the slow recovery for many small local businesses

Small Businesses

- ► Since we are still in the early stages of the economic impact of COVID-19 there is limited data on the impact on small businesses.
- ▶ One early study was Main Street America April 9, 2020 | New Report: The Impact of COVID-19 on Small Businesses
 - Conducted an online survey to assess the impact of the COVID-19 on the approximately 300,000 small businesses across the network.
 - Of the nation's approximately 30 million small businesses, nearly 7.5 million small businesses may be at risk of closing permanently over the coming five months, and 3.5 million are at risk of closure in the next two months.
 - ▶ The survey reveals 60 percent of respondents have less than 5 months remaining of likely business survival.
 - Approximately 35.7 million Americans employed by small businesses are at risk of unemployment as result of the COVID-19 crisis.

Local Development Reports

Staff continues to have discussions with our local development partners, some of the comments include:

- Banks are being very conservative on lending until the uncertainties of the spread of the virus and economy are better known which may not be until this Fall
- Developments that have financing in place are moving forward
- Low mortgage rates are helping home sales
- Reduction of material and labor cost are not taking place
- Projects going out to bid have drastically slowed down

Next Steps

Community Development staff will continue to update this study

 Community Development staff will continue to disseminate information to our local economic development partners



Closing Comments

We have many local residents and businesses that have been adversely impacted, and will continue to be adversely impacted

The road to recovery will not be over night

We are a part of a national economy that influences our local economy

► The Kernersville Economic Development Study found we are in a strong position to recover

Please share information that you may have that may help Kernersville understand current trends and projections

Contact

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