

DMC COVID-19 Impact Analysis

October 2020

HR&A



COVID-19 Context

Global Epidemic Precedents

Recovery Framework

Rochester Context

Economic Impact Analysis and Findings



THE KAHLER GRAND

COVID-19 Context

NATIONAL IMPACTS A DUAL CRISIS

CUMULATIVE COVID-19 CASES NATIONALLY (FEB - SEPT 2020)



**We are facing a dual
crisis—an
unprecedented
global health
emergency...**

FEB

SEPT

Source: COVID Tracking Project

MONTHLY EMPLOYMENT TOTAL USA IN THOUSANDS(2000-2020)

NATIONAL IMPACTS A DUAL CRISIS

165,000

160,000

155,000

150,000

145,000

140,000

135,000

130,000

125,000

120,000

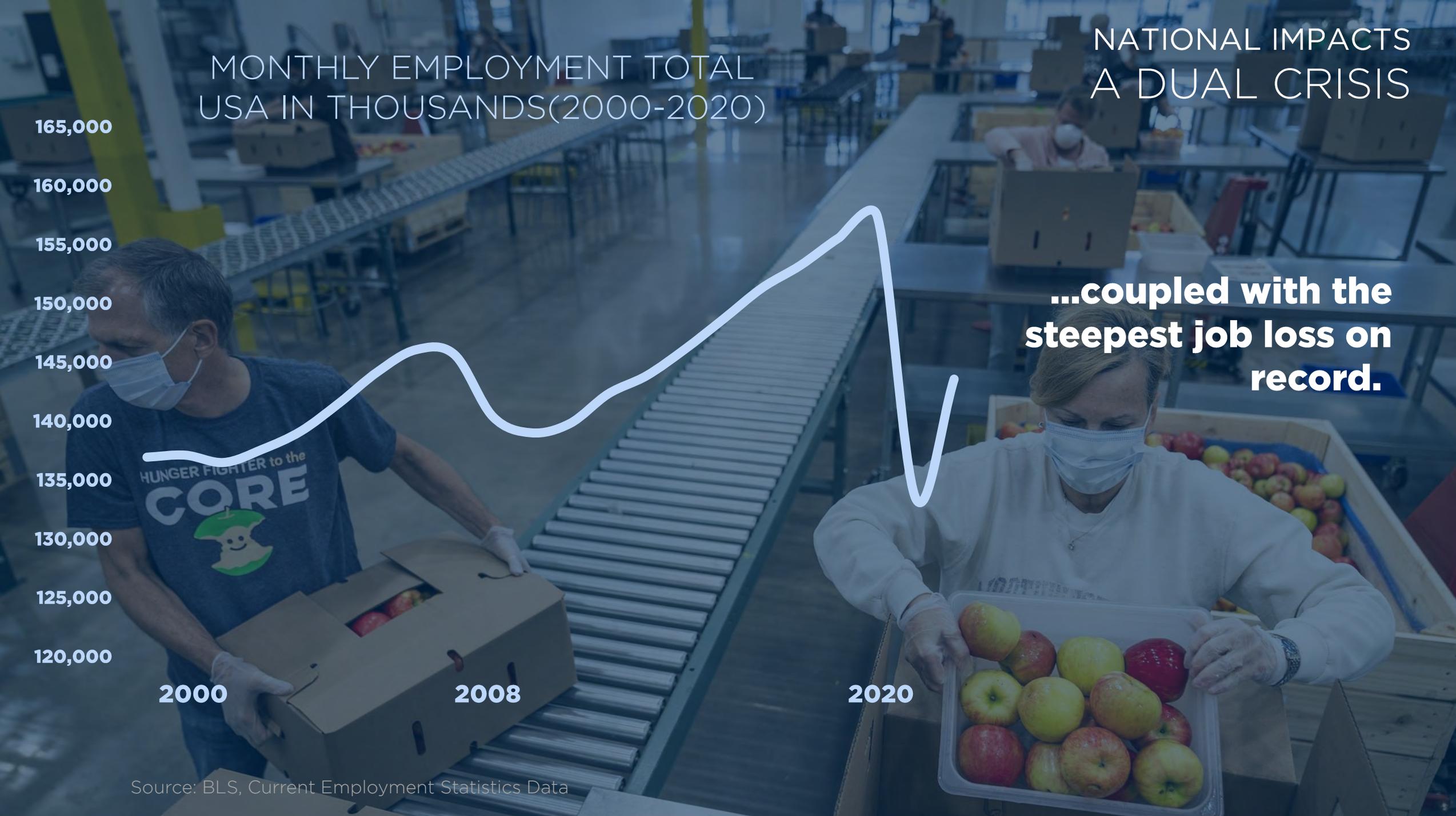
2000

2008

2020

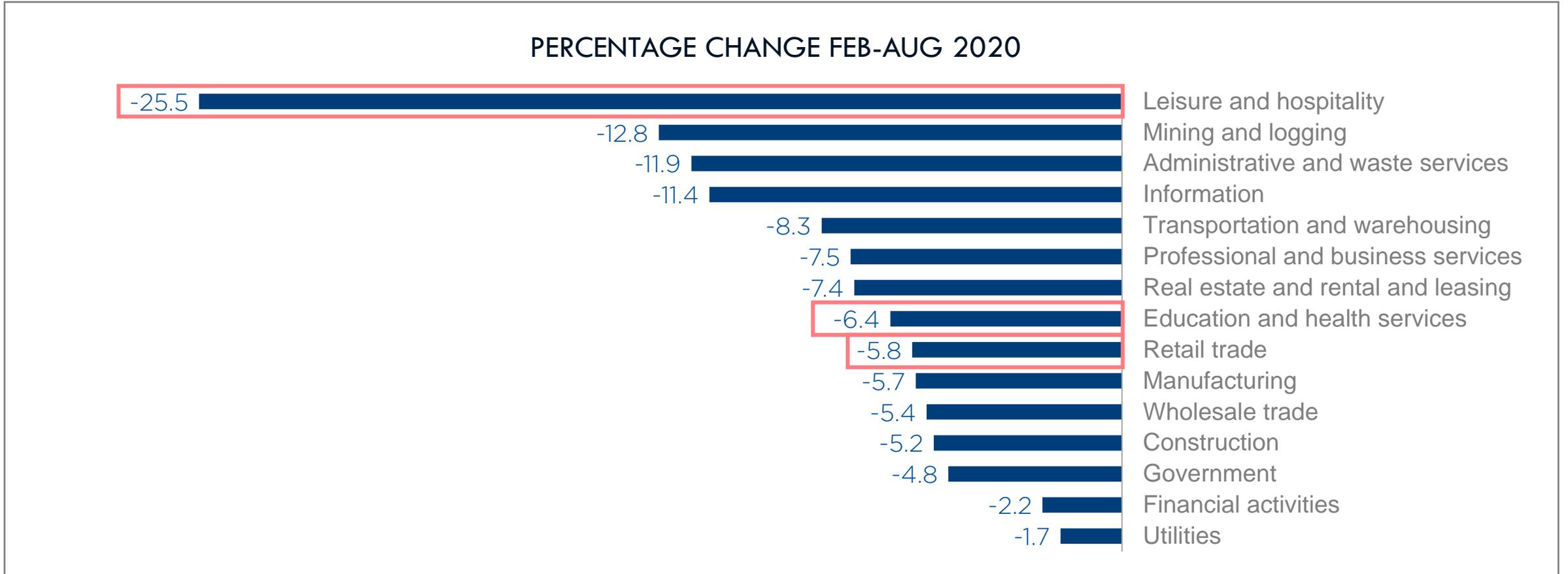
**...coupled with the
steepest job loss on
record.**

Source: BLS, Current Employment Statistics Data



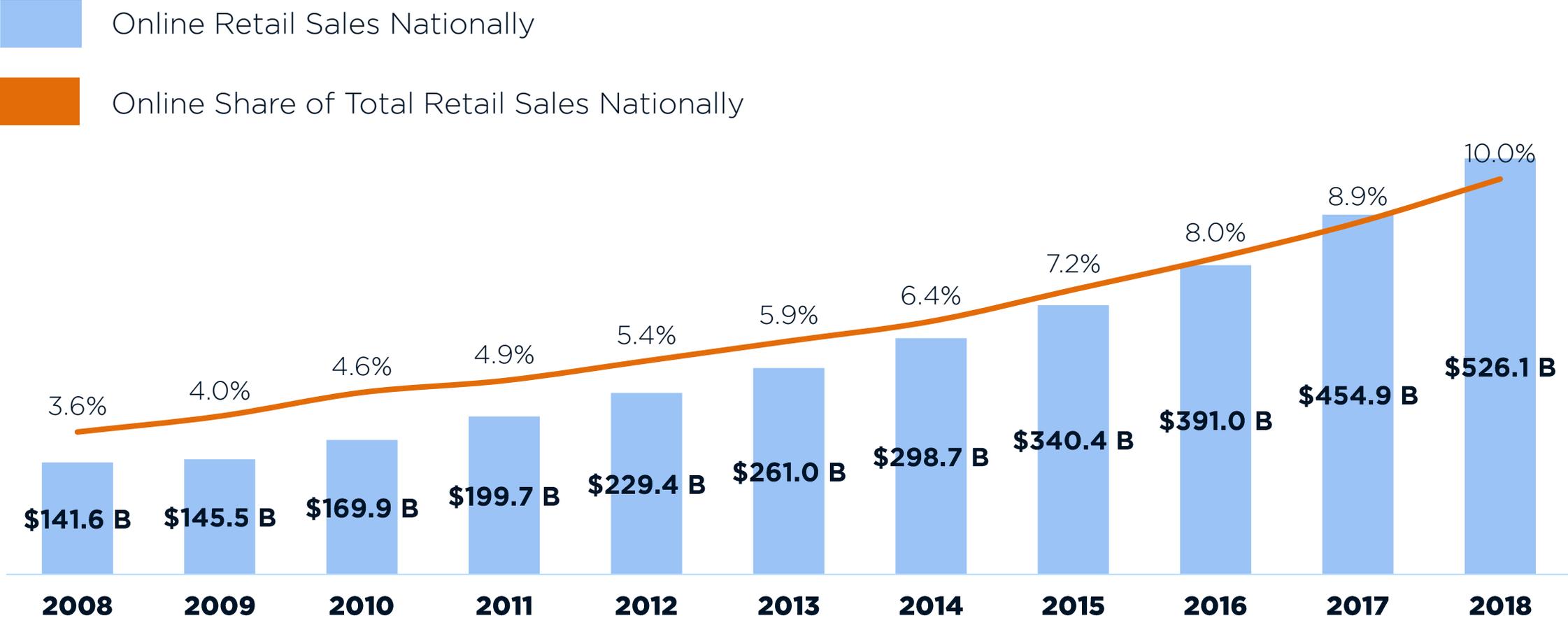
NATIONAL IMPACTS

Hospitality and tourism, education and health, and retail – key Rochester industries - have been severely impacted.



INDUSTRY IMPACTS | RETAIL

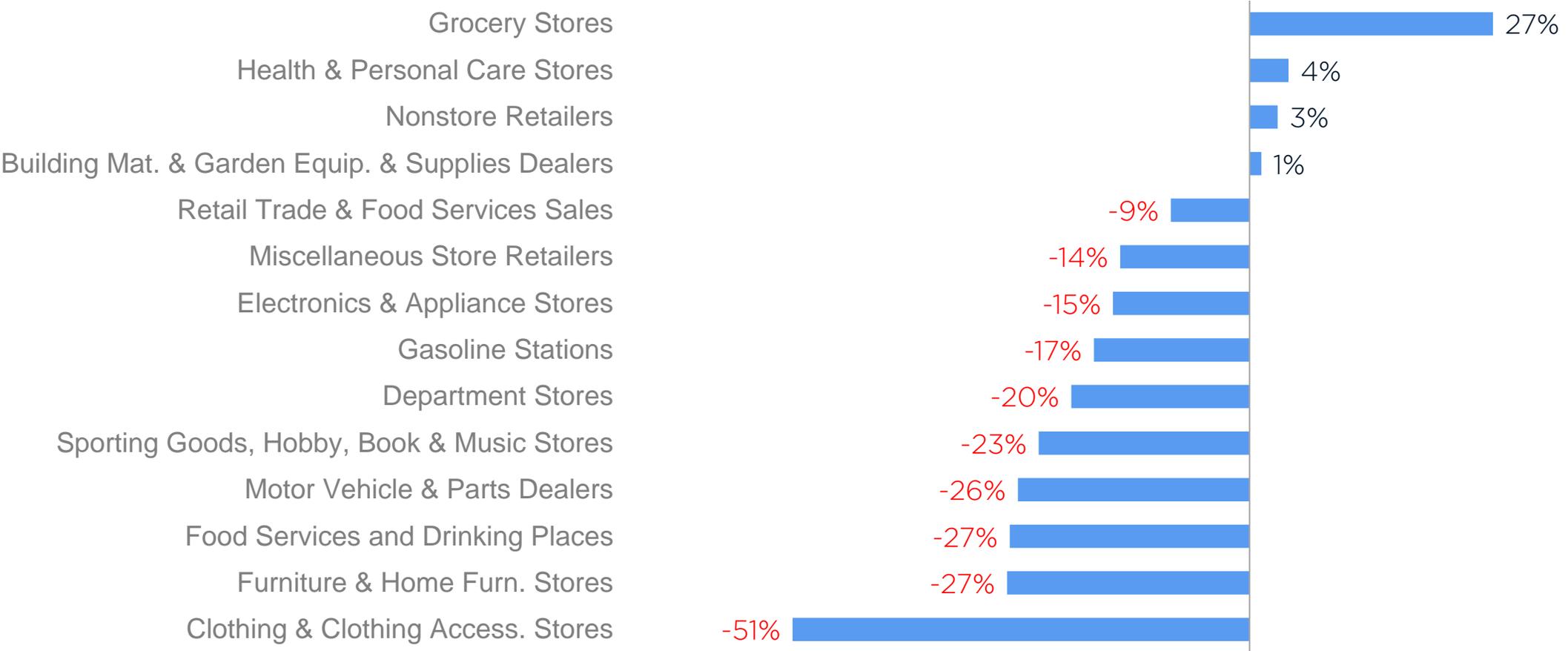
Brick and mortar retail was challenged....



INDUSTRY IMPACTS | RETAIL

... but its post – COVID future is murky.

NATIONAL MARCH RETAIL SALES IMPACTED BY COVID-19, FEB. TO MAY. 2020 (%)

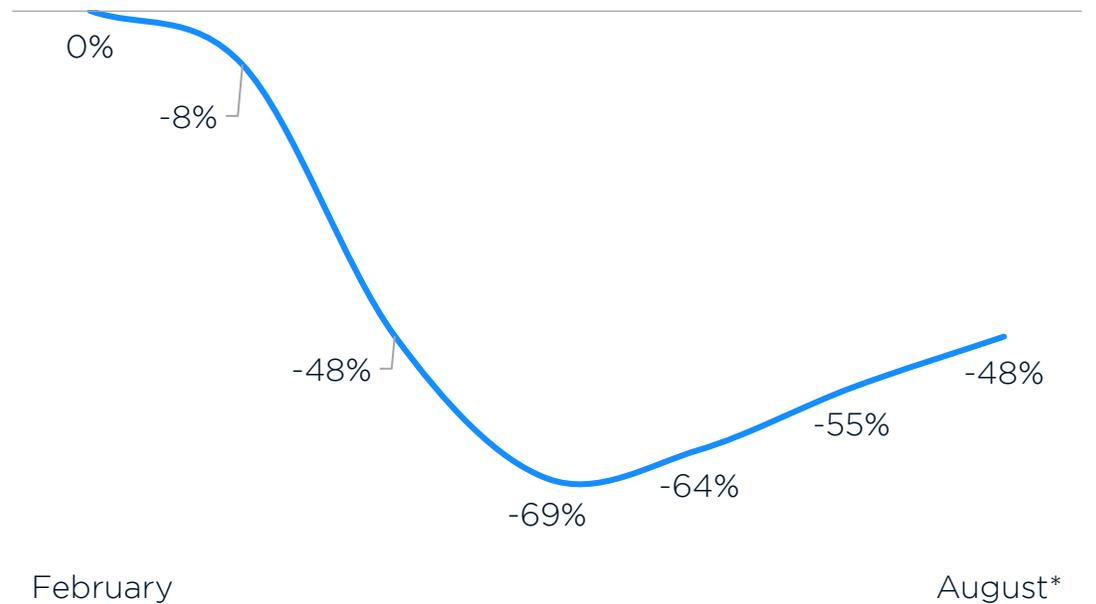


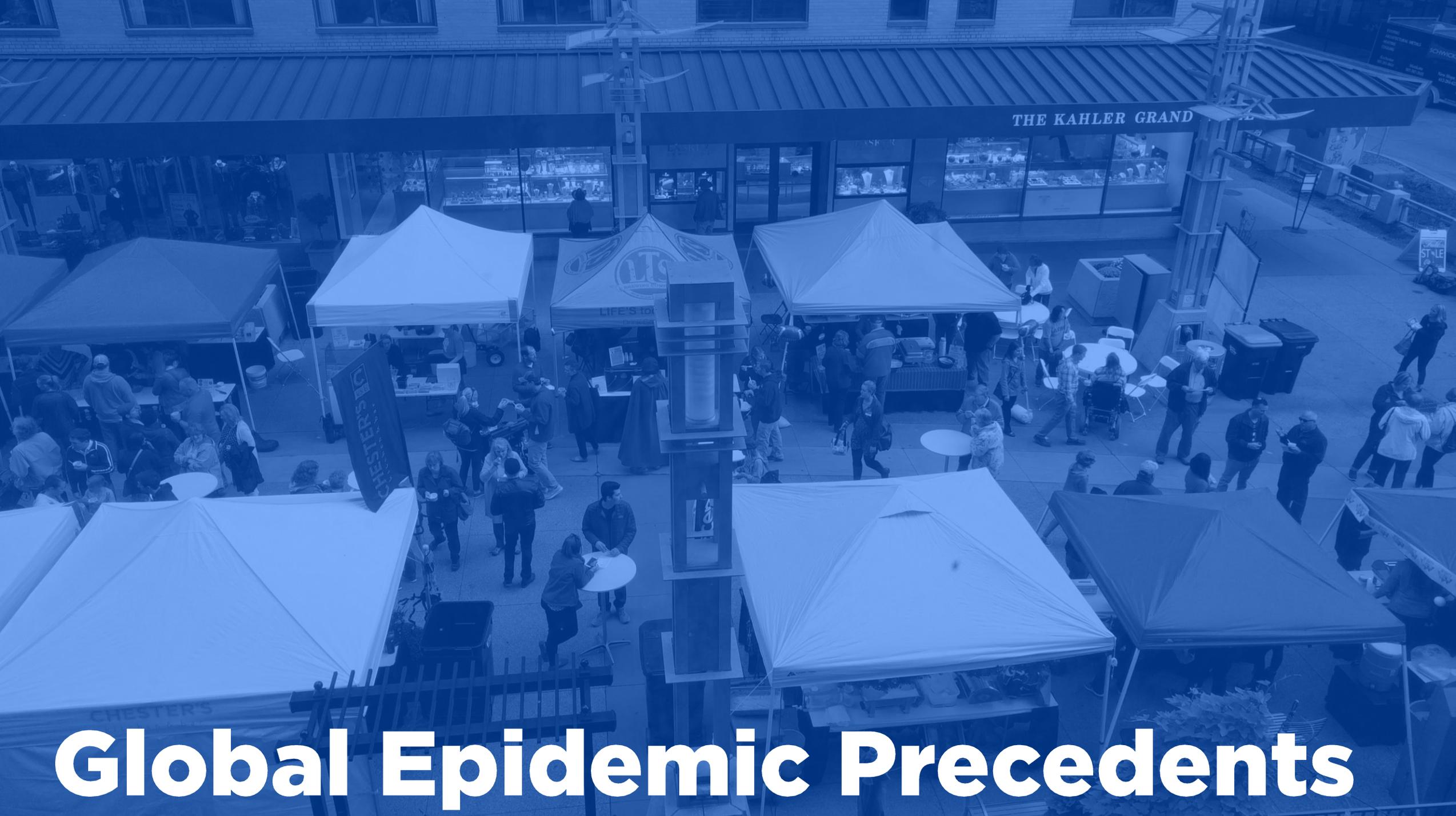
Travel bans have led to **dramatic decreases in air travel and international visitors to the US.**

31% decrease in visitor spending in the US

42% hotel occupancy compared to **66.5%** this time last year

% CHANGE FROM PREVIOUS YEAR FLIGHT FREQUENCY OF GLOBAL AIRLINES





Global Epidemic Precedents

PUBLIC HEALTH MILESTONES

Economic recovery is unclear but recent epidemics (SARS, MERS, H1N1) show recovery depends on key public health outcomes and policies.

SARS EPIDEMIC (2003)

The turning point for virus containment was drastic decreases in cases as a result of **surveillance**, prompt **isolation of patients**, and strict enforcement of **quarantine**.

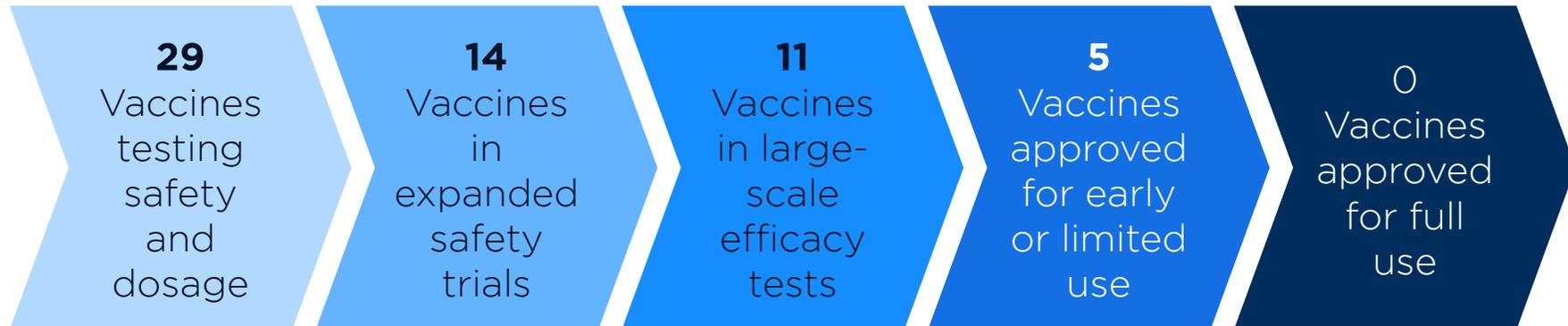


PUBLIC HEALTH MILESTONES

Most estimate December 2020 is the earliest a vaccine could be released with more conservative estimates of December 2021 due to distribution challenges and concerns over vaccine safety.

- There are efforts underway to prepare for [mass production of vaccines](#) before we have conclusive results, meaning it will be ready to deploy doses quickly.

Vaccine Progress: As of 10/13/2020



*There are five vaccines approved in China and Russia for limited use without the results of Phase 3 trials; the U.S. has not yet approved a vaccine.

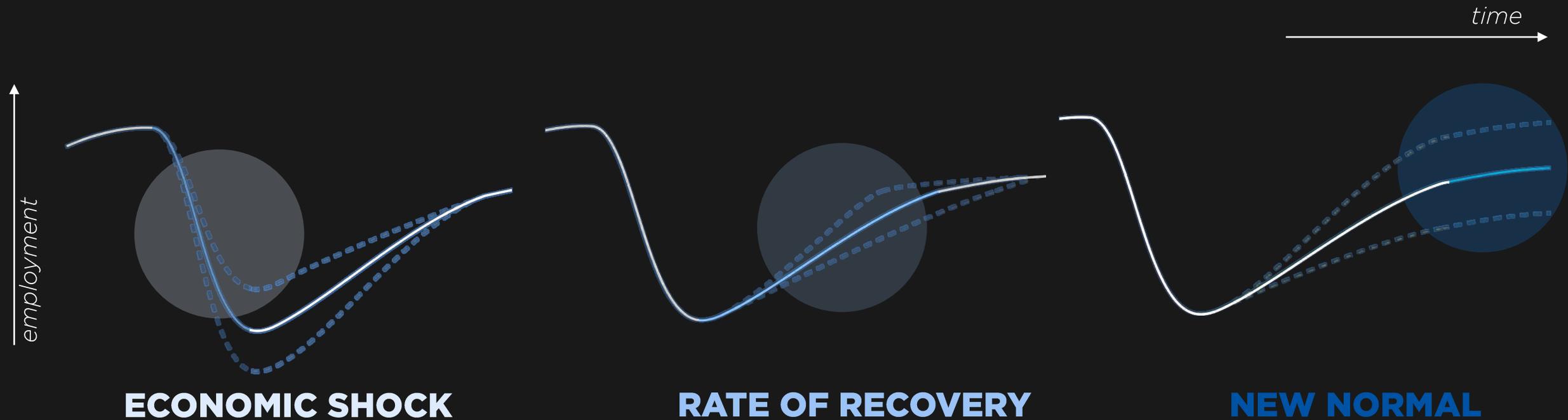


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Recovery Framework

The economic recovery from COVID will take place over three stages.

Careful planning and thoughtful interventions can help to bend this curve.



How deep is the initial impact of business shutdowns and reductions in consumer demand?

When will businesses reopen?

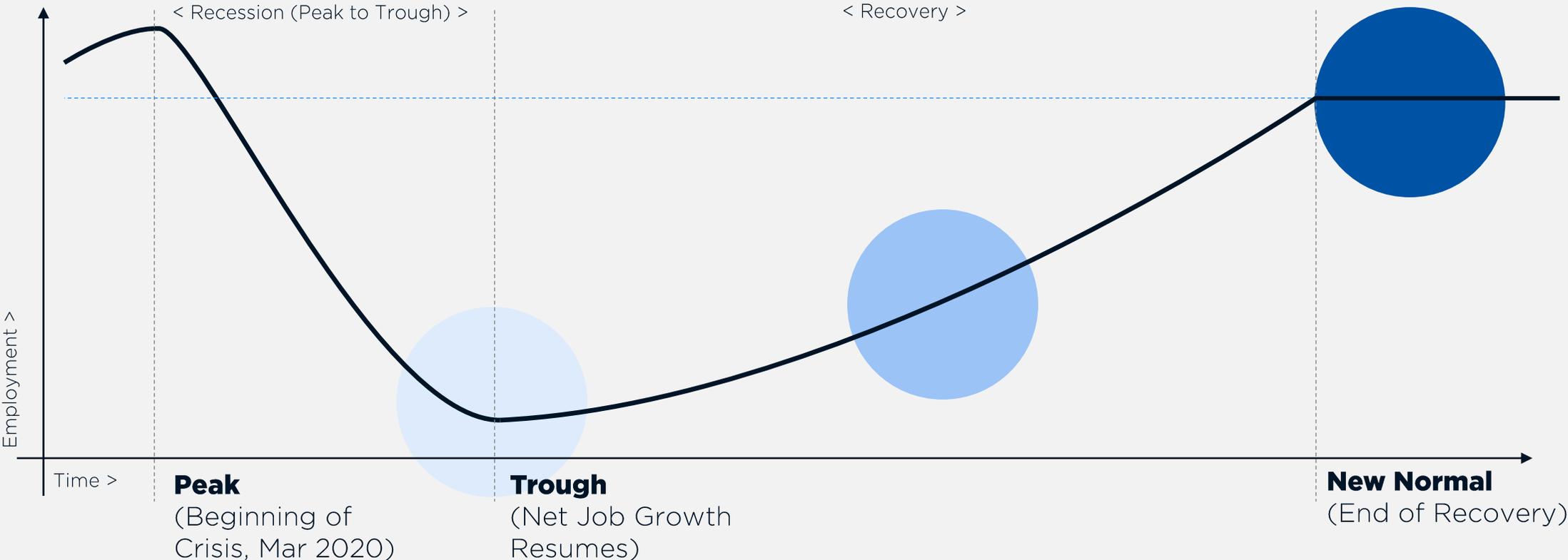
What share of pre-COVID jobs will recover, and be located in Downtown Rochester at stabilization?

ECONOMIC RECOVERY FRAMEWORK

Stay-at-home orders cause business closures or modification

Social distancing requires ongoing modifications to business activity.

An uncertain future defined by uneven recovery and instability.



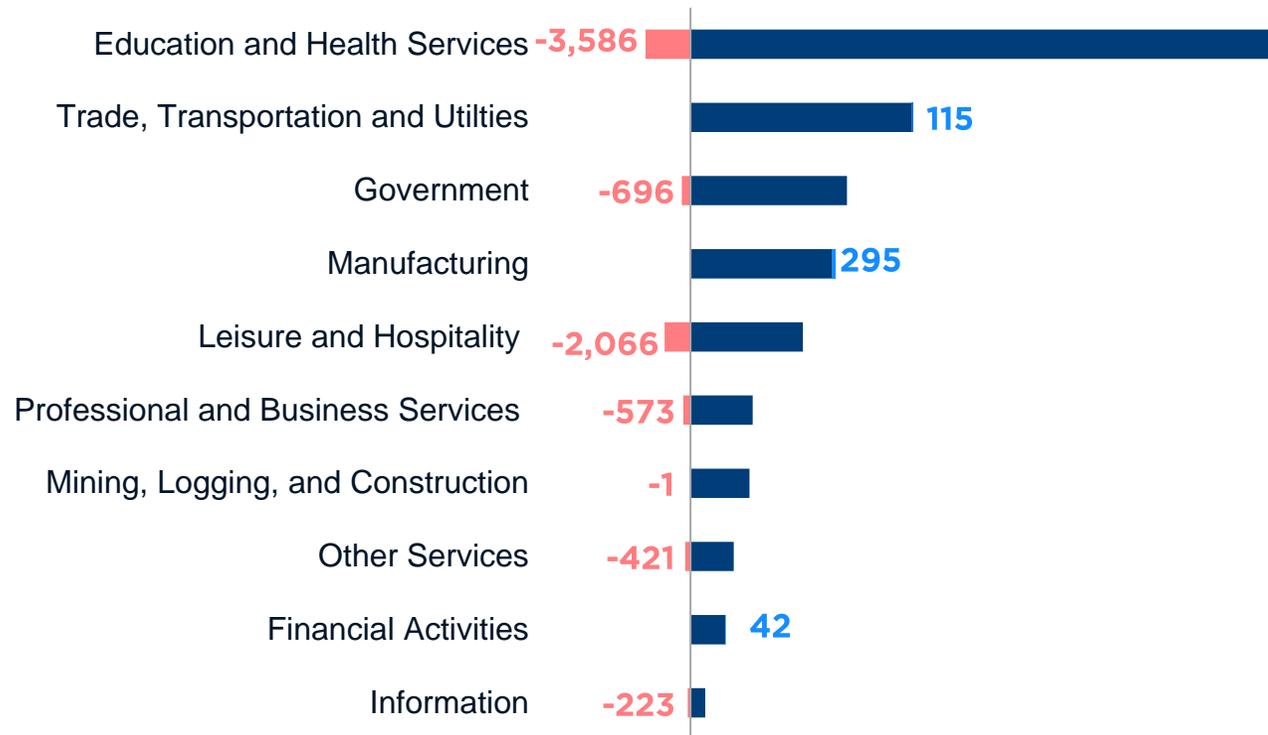


Rochester Context

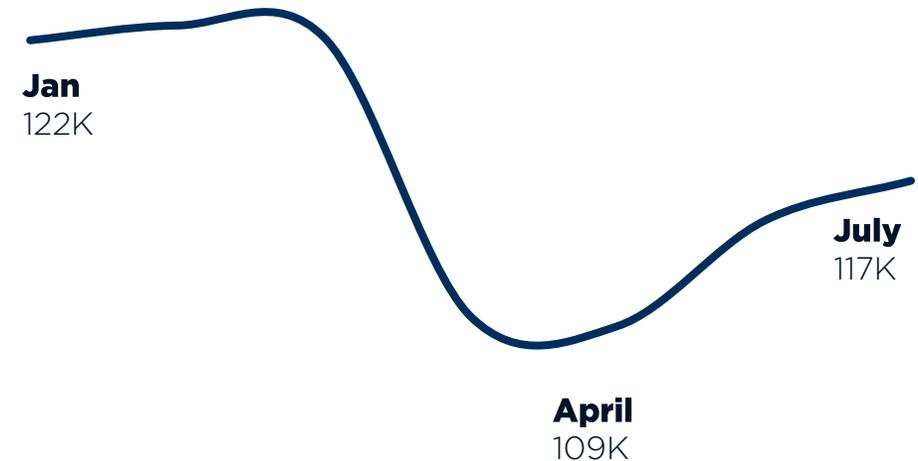
ROCHESTER IMPACTS

Health services - the leading employment sector - and hospitality have been hit hardest. Unemployment rose to 5.9% in July from 3% in 2019. This is compared to the state's unemployment, which rose from 3.2% in 2019 to 7.9% in July 2020.

ROCHESTER MSA CHANGE IN EMPLOYMENT JAN - JUL 2020



ROCHESTER MSA TOTAL EMPLOYMENT



ROCHESTER CONTEXT

Mayo Clinic is **central to Rochester's economy and a driver of downtown vitality**, accounting for nearly 40% of jobs and bringing 2 million visitors annually, two-thirds of total Rochester visitation.

- Mayo Clinic is a key **leader of the DMC development plan**.
- Mayo Clinic serves as a **hub of innovation, employing thousands of people across the medical field**, driven primarily by profits from elective surgery.
- **Many companies in medical industries choose to locate in Rochester** to be adjacent to and partner with Mayo Clinic.
- The clinic's reputation **attracts patients from all over the world**, these visitor's historically have **supported the city's economy**.





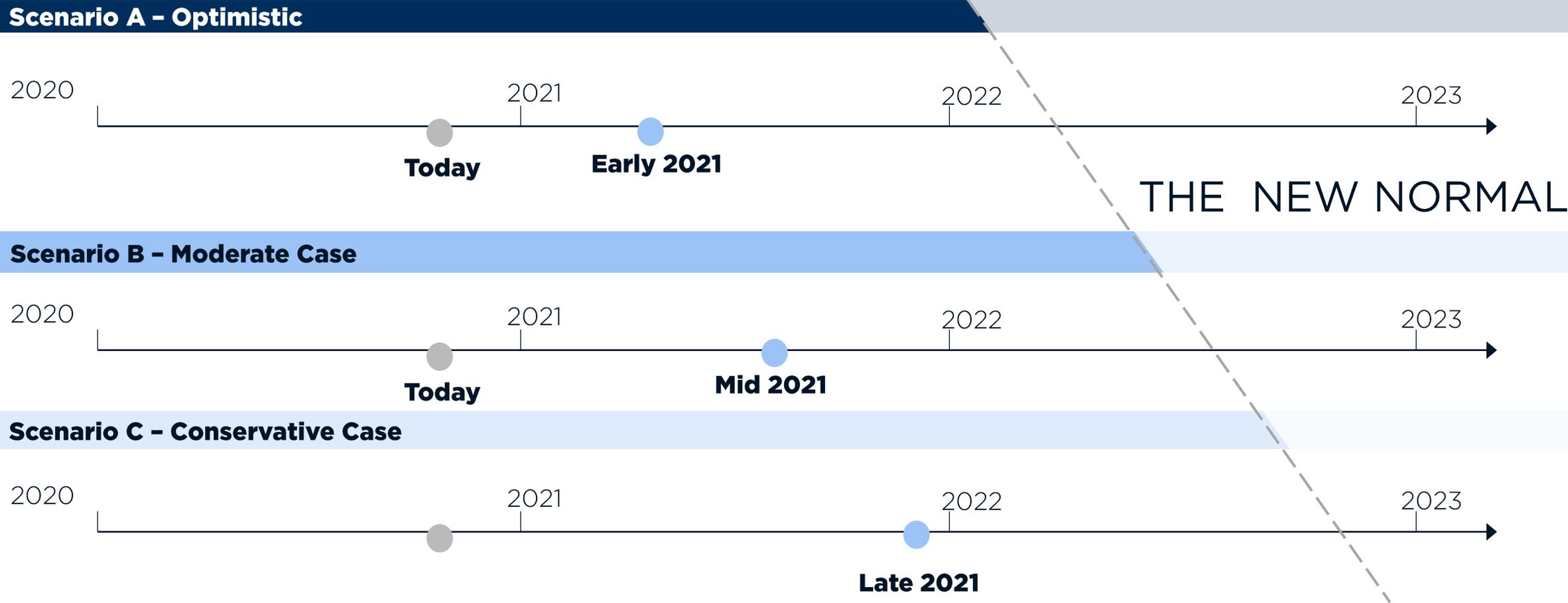
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Economic Impact Analysis and Findings

METHODOLOGY - SCENARIOS

Public health milestones act as inflection points in the model.

Transformative public health milestones:



METHODOLOGY

The outputs of the model allow us to extrapolate the impacts of COVID into findings contextualized for the DMC.



METHODOLOGY

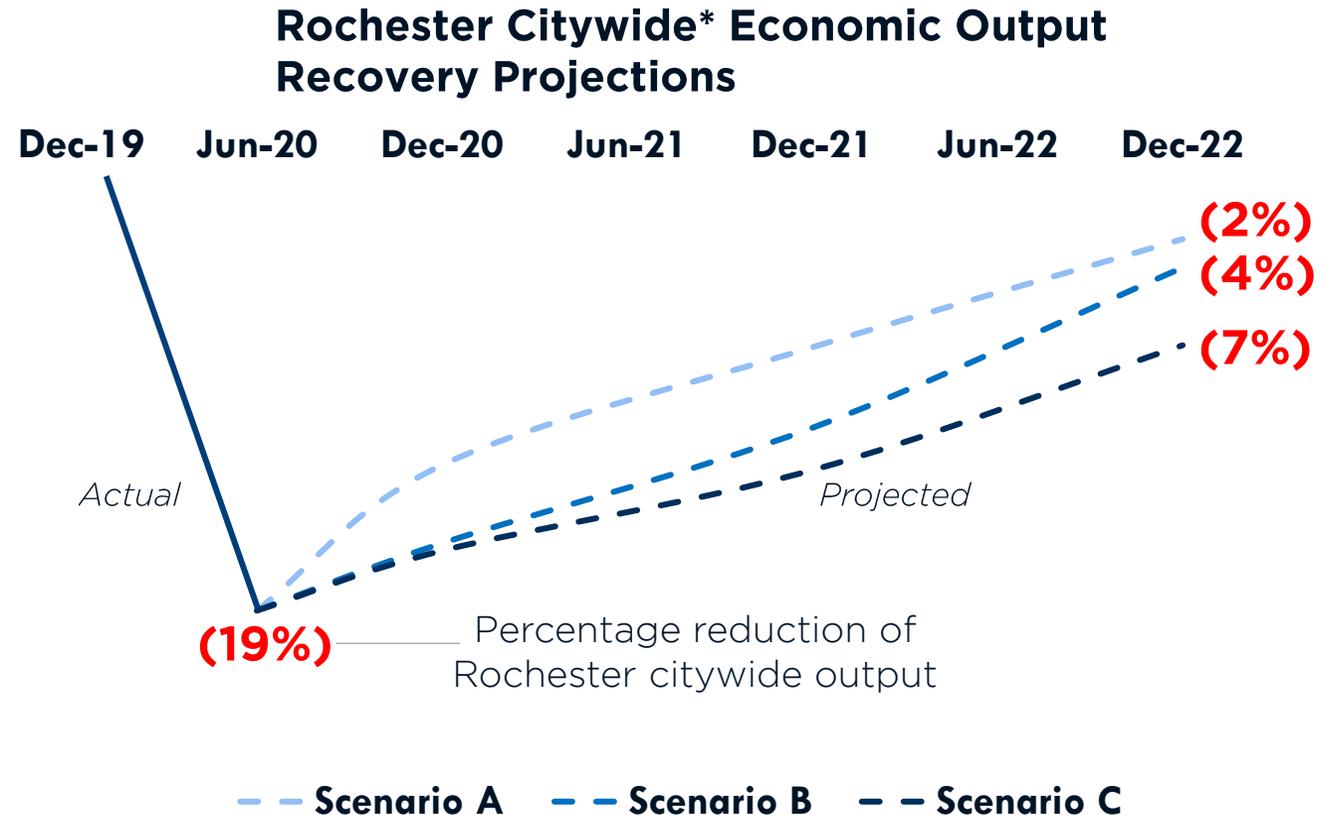
The primary drivers of Rochester's economy are its employment and visitors, which are interrelated.



FINDINGS

Following a significant loss in economic activity, HR&A projects a gradual recovery in the Rochester economy over the next 2+ years.

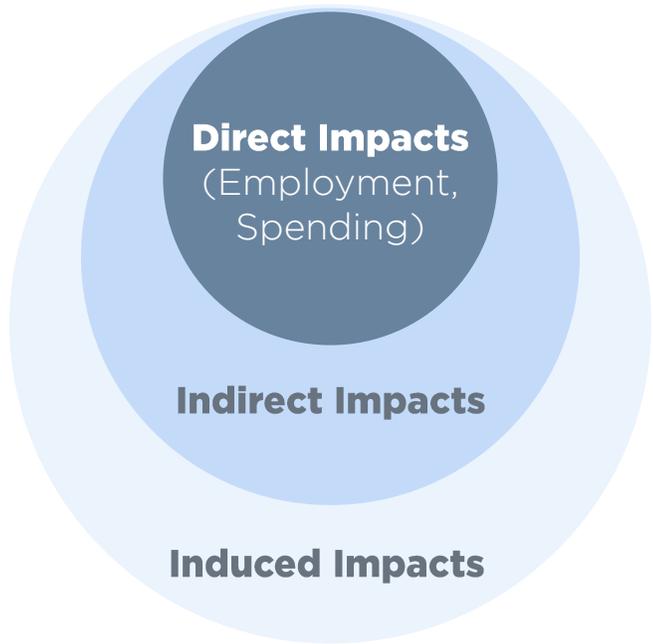
- Output reflects **annual economic activity generated by businesses, residents and employees in Rochester**. Projections include:
 - **Direct** impacts: loss in visitor and employee spending
 - **Indirect** impacts: loss in business to business purchases
 - **Induced** impacts: loss in spending of labor income
- Spending losses include employees who are **working from home on furlough or part-time**. The projections assume that their spending is significantly reduced.



*Citywide estimate based on four zip code geography of 55901, 55902, 55904, 55906

METHODOLOGY

The economic outputs of the model are translated into real estate development projections.



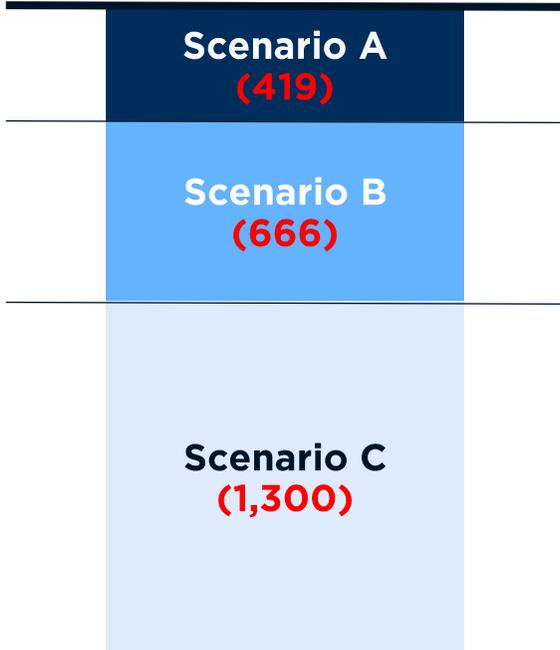
FINDINGS

Citywide Job Loss by Asset Class

Citywide employment does not fully recover to pre-COVID levels by year-end 2022. Hospitality and retail sectors bounce back even slower than office-using jobs.

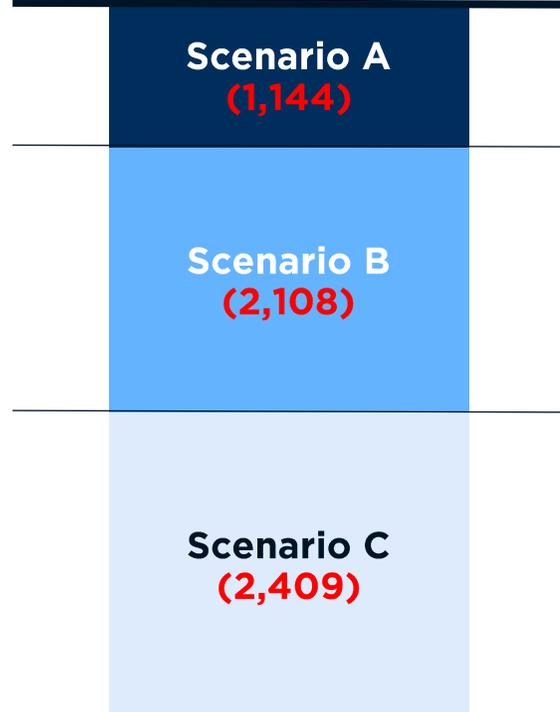
Office

Dec' 19: **19,750**



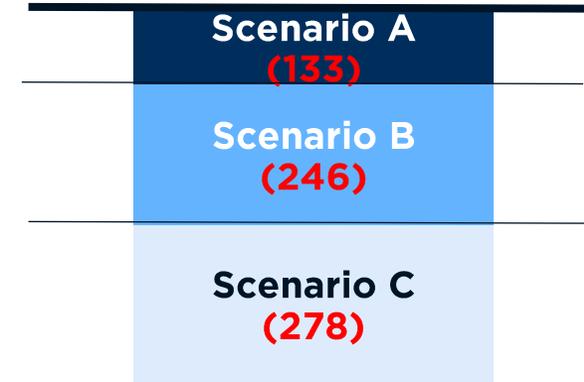
Retail

Dec' 19: **16,849**



Hotel

Dec' 19: **1,455**

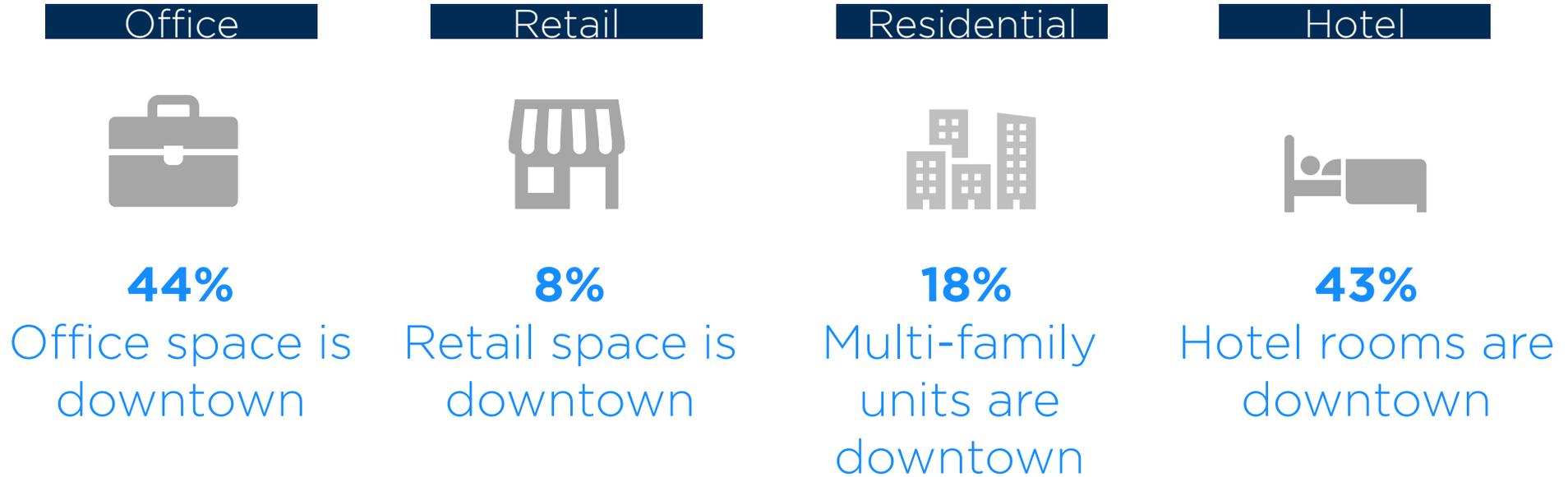


Job losses include Rochester residents who are working from home, on furlough or part-time. These individuals are still spending money in the economy, but this spending is significantly reduced.

FINDINGS

Pre-COVID Rochester Downtown Employment

Pre-COVID employment was driven by health care and office jobs. To understand employment in the DMC district we examined the built environment by each asset class to estimate the share of the district's workforce.



**Citywide estimate based on four zip code geography of 55901, 55902, 55904, 55906
Source: EMSI, ESRI, Co-star, AECOM market report*

FINDINGS

HR&A applied its economic impact findings to update the DMC Phase 2 development plans.

	Total DMC Planned (2015-2035)	PHASE 1 Buildout 2015 - 2019 (Actual)	Phase 2 Under Construction	Phase 2 Additional Projected Real Estate Growth	Remaining Phases 2025 - 2035
Hotel	1,380 Rooms	260 Rooms	605 Rooms	0 Rooms	515 Rooms
Office	310,000 SF	80,000 SF	0 SF	0 SF	230,000 SF
Research (Non-Mayo)	680,000 SF	80,000 SF	125,000 SF	0 SF	475,000 SF
Residential	2,850 Units	460 Units	505 Units	160-360 Units	1,625 Units
Retail-Dining-Entertainment	320,000 SF	82,000 SF	36,884 SF	0 SF	201,116 SF

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- Hotels have experienced a precipitous drop in occupancy rates. With Rochester's hotel pipeline, the market will continue to see occupancy rates below historical averages.
- Housing demand appears to be remaining relatively strong. Growth in downtown residential will help to support the core's retail businesses.

PATH FORWARD

The DMC and downtown development will need to remain nimble as economic recovery becomes clearer.

- Unlike natural disasters, this pandemic hit every city in the country. However, not all are developing recovery strategies.
- Despite significant losses, Rochester has fared better than other cities.
- Rochester is starting its recovery from a place of strength. It had a robust and growing economy, the healthcare industry and Mayo Clinic provide stability during weak economies, and the city has the tools from the DMC to support growth.
- Future economic development strategies should:
 - Support existing local businesses
 - Prioritize public infrastructure
 - Reuse excess real estate capacity creatively
 - Diversify the economy
 - Support development proactively

Discussion

Please submit your questions in the chat



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