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TEMPE ENTERTAINMENT DISTRICT: Seidman Research Institute Responds to GCI Criticisms

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The Seidman Research Institute, W. P. Carey School of Business, ASU wishes to respond to GCI's criticisms (published by the policy think tank on April 18) of our objective review of the economic and fiscal impacts of a \$2.1 billion Tempe Entertainment District.

GCI correctly notes that most of our review focuses on the CSL report. This is because we were able to gain greater access to the assumptions and modeling underpinning CSL's impact estimates.

GCI also acknowledges that our arena modeling multipliers are lower than both CSL's and their own. This is due to the type of input-output model used by each party. Our preference for IMPLAN produces smaller impacts at a city level than the RIMS II approaches used by CSL and GCI.

Seidman exclusively focuses on the impacts for the city of Tempe. These will be of paramount importance to the only residents that can determine the future of this development at the ballot box on May 16. GCI alone moves between impacts for Tempe, other cities, and the entire metropolitan area, potentially causing confusion for the readers.

GCI criticizes us for including a table to show that CSL's arena impacts (obtained within RIMS-II) are closer to the type of impacts that would be generated within IMPLAN at a county level if CSL's inputs for Tempe are used within the modeling. We only included this table to criticize CSL. We never attempt to estimate the impacts for Maricopa County in our review as we do not have access to "net new" model inputs for that jurisdiction.

GCI's analysis focuses solely on the value of the arena and music venue. It completely ignores the value of the office, retail, bars/restaurants, hotels, and new residential developments. That's akin to estimating the Phoenix Suns' title hopes based solely on Kevin Durant, while overlooking Devin Booker, Chris Paul, Deandre Ayton, and the rest of the team.

GCI casually dismisses our economic impact estimates of the office, retail, bar/restaurant, hotel, and residential components of the development without offering an alternative. Our modeling here is based on the direct employment of Tempe-based office workers, and the spending made at other Entertainment District entities. This is one of several standard approaches to IMPLAN modeling.

To calculate direct employment, we use the following CSL assumptions:

(Square footage of 383,000 sq ft/200 sq ft per employee) x Leasable Percentage 90% x Occupancy Rate 90%

This produces an annual average over 30 years of 1,479 office workers. This is lower than CSL's assumption of 1,915 office workers.

CSL's square-footage per employee is on the small side. Previous Seidman projects have used 250 or 300 square feet; but the expected occupancy rates are consistent.

To reflect the professional and technical focus of the new office workers, we aggregate several IMPLAN office worker categories. The direct employment of these office workers accounts for the high total employment impacts in Tempe. The indirect and induced effects are small. Our IMPLAN model also correctly assumes that most expenditures and activities will leak out of the city's economy.

In short, there is nothing "pie in the sky" or "miraculous" about our analysis. It is based on industry standard input-output modeling expected of an objective academic research institute staffed by economists. As policy analysts, GCI acknowledges that it "...does not have direct access to input-output software" of any variety.

GCI's hypothetical alternatives to the development, though, do appear to lack substance, perhaps because they are based in part on debatable assumptions.

GCI's first scenario assumes that development could occur a further 4-6 years in the future in the absence of the arena and music venue. This is a big assumption, and goes against the GCI Research Director's call for an anchor tenant broadcast on ABC15 this week:

"When you build a hotel, people don't come to Tempe because somebody built a hotel. And you don't open a business just because there's new office space there. So, it requires some kind of a demand, some kind of a pull that brings people in."

GCI's first scenario simply ramps up office space and housing to the detriment of retail, bars, and restaurants. This bizarrely contradicts GCI's questioning of the ability of Bluebird Development/Arizona Coyotes to fill a smaller amount of office space with companies new to Tempe.

In the absence of an anchor tenant, such as the arena, GCI has arbitrarily applied a 10% reduction to the appeal of the site.

Under this hypothetical alternative, there is zero income for Tempe taxpayers for a further 4-6 years, compared to the Coyotes' plan; zero insight on prospective tenants; and zero basis to their assumption that the reduction in attractiveness will only be 10%.

GCI's second scenario is based on an extension of the IDEA Campus, again without an arena or music venue.

To the best of our knowledge, no organization is currently waiting in the wings to spearhead any of GCI's alternatives; and questions must be raised about the attractiveness of either GCI scenario to be able to draw viable footfall from outside Tempe.

The Seidman Research Institute is the consultancy arm of W. P. Carey School of Business, Arizona State University. First established in 1985 to serve as an applied business research and consultancy resource for the southwest business community, our Institute is staffed by academics with expertise in economics, marketing, and fiscal analysis. Working on behalf of state and local government agencies, local and multi-national companies, utilities, and nonprofits throughout the nation, we are happy to accept commissions from any organization or entity on the strict understanding that they cannot influence our methods or results. Objectivity and academic rigor are central to all our reports and analysis.

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