

# MASSACHUSETTS PLANNING

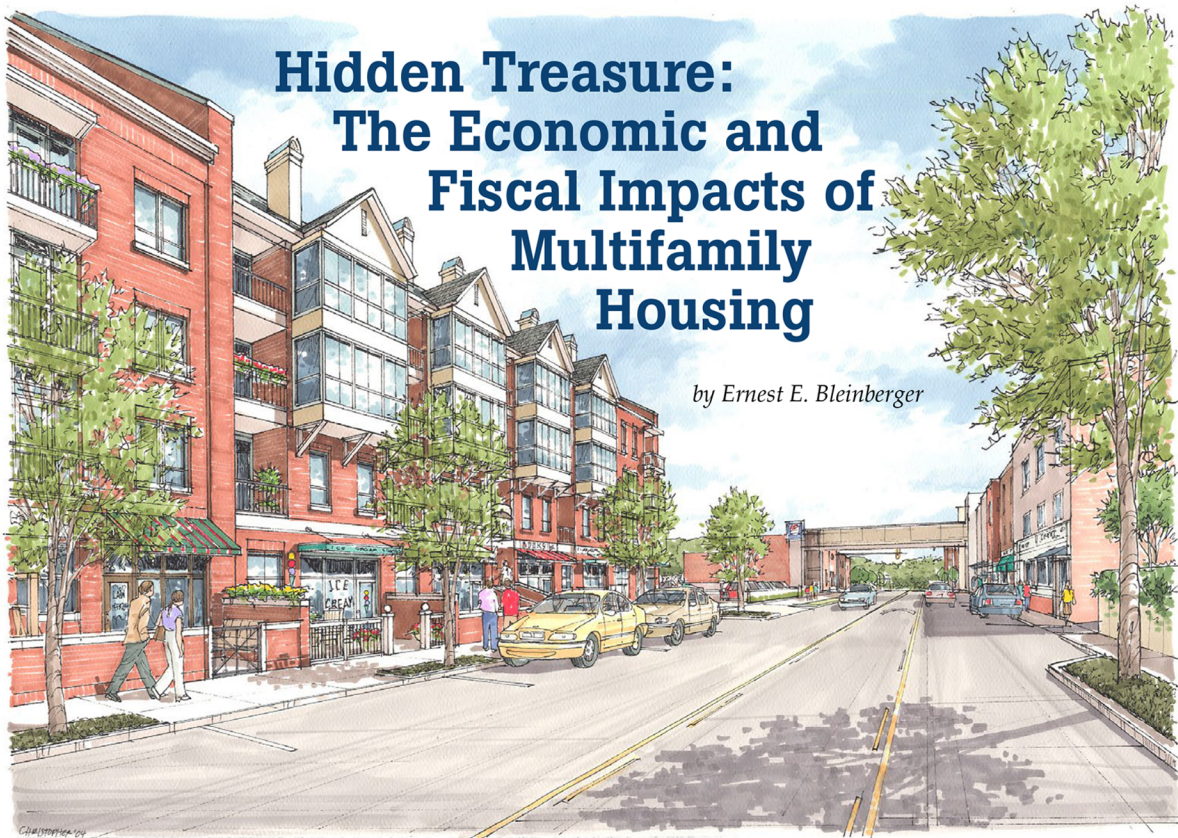
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## Hidden Treasure: The Economic and Fiscal Impacts of Multifamily Housing

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Multifamily residential development carries not only inherent fiscal and economic benefits on a project basis; it may also have a significant impact on overall downtown revitalization and overarching economic development objectives.

They say every cloud has a silver lining. I'm not so sure about that, but within the cloudy, complex, and often controversial subject of housing in America, there is a treasure of sorts that is often overlooked or underestimated in public and professional discourse. The treasure doesn't glitter like silver or gold, but it's there, hidden in plain sight, waiting for astute planners and policy makers to recognize its value, and to mine it for everything it's worth.



This article is intended as an introduction to the subject for those entering the planning and economic development fields, and as a reminder to seasoned housing professionals about the financial benefit potential of multifamily housing in the community.

The treasure exists in the form of economic and fiscal impacts associated with the development, construction, operation, and habitation of housing that provides for

multiple dwelling units in a single project – multifamily housing. This article provides an overview of the basics in understanding, quantifying, and applying monetized values to the overall housing discussion, while also recognizing the cost side of the equation. It's not a treasure map, but it may be a guide to encourage further research and application in current or future housing development considerations in your town.

The two basic categories of impacts involved are: 1) Fiscal Impacts, and 2) Economic Impacts.

■ **Fiscal impacts** are associated with government revenues and costs. Revenues are derived from property taxes, sales taxes, motor vehicle taxes, personal property taxes, building and permitting fees, and other contributions from the private sector. Fiscal costs include categories such as funding for schools, fire and safety, police, public works, and other services provided to the community.

■ **Economic impacts** are associated with capital investment in development including hard and soft building costs, spending by operations in property management, maintenance, and employment—and importantly—spending by residents’ household income as expended across various market sectors. Economic costs could include redistribution of employment or wealth, environmental impacts, and property value considerations.

Okay, so how much is this “treasure” worth? A quick run-through of the numbers using a conceptual multifamily development model may serve to illustrate the potential involved. Our model includes 100 market-rate apartments with affordable units, newly constructed, and subject to a typical tax framework, understanding that every project and every jurisdiction produces its own unique regulatory, development, and operating environment. *It is important to note that there are dozens of variables that affect the outcomes involved. Therefore, estimates and projections are approximate, provided for context, and subject to factors that are unique to any specific project under consideration.*

Key **fiscal impacts** could include, but are not limited to, the following revenue streams:

- \$40 million capital investment in land, building and construction costs.
- \$500,000 per year in property tax revenue paid to local government.
- \$500,000 in one-time, up-front permits, fees, and approval requirements.
- \$100,000 per year in motor vehicle taxes, personal property taxes, and fees.

Fiscal costs are also generated by development. Based on typical budget allocations, these costs are offset by the contributions from the revenue streams noted above. Our studies have shown that fiscal costs associated with multifamily development are often either absorbed by the existing budget framework or mitigated by the population loss/replenishment dynamic experienced by many towns. Nonetheless, allocations of revenues could include the following. Note that results will vary depending on individual tax frameworks of jurisdictions, development agreements, applicable rules and regulations, and other factors:

- \$180,000 contributed to schools and education based on pupil generation.
- \$50,000 contributed to fire and safety.
- \$40,000 to police and law enforcement.
- \$30,000 to public works.

*\* Note that results will vary. Estimates are for illustrative purposes only.*

Total fiscal costs covered by the estimated \$600,000 in annual fiscal revenues equal approximately \$300,000. Therefore, the net fiscal benefit of the 100-unit multifamily project illustrated herein would be conservatively estimated at about \$300,000 annually as well. Over a ten-year period that would equate with a \$3 million fiscal benefit, above and beyond coverage of any additional fiscal costs that may be generated. Of course, a project would continue to contribute fiscal revenues for decades.

Key **economic impacts** could include, but are not limited to, the following revenue streams:

- Approximately \$12 million in annual household income from the residents of the 100-unit development, distributed across market sectors including housing, transportation, food, healthcare, insurance, and discretionary purchases. This resident expenditure potential will be spread among local and other businesses based on their ability to capture market share.
- The initial capital investment of approximately \$40 million will drive several economic impacts including about 200 FTE construction jobs, purchase of materials, fixtures and appliances, landscaping, and other development components. This investment will also cover the cost of money, outsourced professional services, and a financial return to the owners, much of which will likely be reinvested.
- The project is not only a concentration of dwelling units, it is essentially a commercial project with ongoing operational costs and associated spending including building cleaning and maintenance, climate control, waste removal, landscaping, security, property management and upkeep, and the employment of full and part-time personnel, engagement of contractors, purchase of supplies, etc. These recurring economic benefits based on spending by operations could equal between about \$500,000 and \$1 million per year.

The topic of economic and fiscal impacts is not very sexy, nor does it offer the sparkle of jewels or the glow of gold. However the money is real, the benefits are real, and the importance of these impacts in the housing discussion is real. The treasure may be hidden within the labyrinth of the housing discussion, but it’s there — waiting.

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