

Sept. 2005

East Hampton Economic Development Commission

Expanding the Local Economy from Within

Encouraging Small Office / Home Office Businesses

In the draft 2005 Plan of Conservation and Development prepared for the Town of East Hampton by Planimetrics (Eric Barz, Senior Planner) one of the recommendations presented in Chapter 4 "Guiding Appropriate Development" is to "Expand the local economy from within by encouraging small office / home office businesses (SOHO). As stated in the draft plan:

Given East Hampton's attributes as a business location, attempting to attract major employers to town is not a good use of limited economic development resources. With much of the job growth in the U.S. economy occurring in small startup firms, East Hampton's best strategy is try to grow from within.

In today's wired, global economy, multi-million dollar businesses are being conducted out of residential dwellings. As businesses add employees and outgrow their home environment, many owners will look to move locally rather than uproot their families. By protecting its community character and promoting home-based business, East Hampton can put its positive residential attributes to work by becoming an attractive place to live and start a business.

To promote home based businesses, the Planning and Zoning Commission (PZC) should examine their home occupation regulations to ensure that they are flexible without compromising residential character in the process....By registering all home based businesses, the Assessor can issue forms for the home-based business entities to declare personal property used for the business and the EDC can keep better track of business activity in the town.

The EDC strongly supports this recommendation from the consultant hired by the town. An initial baseline assessment conducted in cooperation with the Town Tax Assessor and the Town Tax Collector has demonstrated that in fact there is a substantial base of SOHO entities already established and thriving in East Hampton. There is a great diversity of the types of businesses and collectively they provide a substantive tax contribution. Below are the highlights of our findings to date:

- Total number of business entities captured through the 2004 personal property declaration: **532**
- Total number of business entities deemed to be home-based: **196**
- Percent of known home-based businesses compared to the total: **36%**
- Tax contribution of all home-based entities combined: **\$36,960.51**
- Average tax contribution: **\$188.57**

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- Breakdown of business by category:

Category	# of Entities
Other	32
Construction/Contractor	28
Home Improvement	27
Web/Technology	11
Farm/Food/Forestry/Campground	10
Landscaping/Environmental Services	10
Financial Services	7
Plumbing	6
Marketing/Communications	6
Photography/Art	5
Health & Beauty	4
Electrical/HVAC	4
Seamstress	4
Crafts	4
Dance/DJ/Music	4
Sales/Internet Sales	3
Cleaning Services	3
Graphic Design	3
Masonry	3
Jewelry	3
Transportation/Marine	3
Consulting	2
Automotive	2
Stable	2
Pets	2
Medical/Dental	2
Manufacturing/Equipment Design	2
Publishing	1
Interior Design	1
Travel	1
Realtor	1
Total	196

NOTE: *These findings are based on a cursory review of the 2004 personal property tax declaration list conducted in cooperation with the Tax Collector's office. All business entities for which tax bills were assessed and sent to residential addresses were deemed to be home-based business. Anecdotal evidence suggests that a significant number of home-based business entities exist beyond those captured but are not registered with the Town and therefore are not reflected on the tax roles and were not included in this summary. Potential reasons for non-registration could be due to a lack of knowledge of the requirements on the part of business owners, and labor-intensive, non-systematic tracking methods among and between town departments that are doing the best they can with existing resources.*

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Regulatory Considerations

Planimetrics suggested in the draft plan that a hierarchy of permits be created to allow the most innocuous uses as of right, such as for professional office and artisan type business operations (financial consultants, internet sales, interior design, jewelry, etc.). These types of business entities typically have limited if any employees, regular deliveries or visitors, or use hazardous materials. Stricter regulatory controls and inspections could be articulated to limit the intrusion of businesses that could potentially have a greater impact on residential settings such as construction, landscaping, automotive and manufacturing. For instance, specific regulations could be designed to limit the number of vehicles that could be stored on premises, the number of allowable deliveries per day or week, and the types of materials that could be stored on-site.

Currently, the Town regulations on residential uses have no specific reference to business use beyond the keeping of domestic livestock and related "farm" use. As indicated by the breakdown of businesses by category, only 12 of 196 identified entities fell into the "Farm/Food/Forestry/Campground" and "Stable" categories. Regulations need to reflect the current realities of how individuals are using their property if the Town is to realize the tax contribution potential of home-based entities. More clearly articulating the regulations regarding home-based entities would encourage greater consistency and compliance with other Town offices such as the Tax Assessor, Tax Collector and Town Clerk. Additionally, as stated by Planimetrics in the draft plan, EDC could better track business activity within the town.

Capitalizing on a Growing Trend

Following are excerpts from articles on the increasing significance of home-based businesses to local economies and the factors influencing the continued growth of this trend:

Home-based business is a **\$427 billion** a year industry. That's more than the pharmaceutical industry, food industry, and consumer goods industry - combined! How? Because of the sheer numbers of people in business for themselves who are now working from home. The extremely low start-up costs, flexible hours, and the Internet are fueling the growth of the home business segment. By 2005 as many as 150 million people, in North America alone, will be enjoying the freedom and benefits of owning their own Internet business.

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Statistics from International Data Corp. (IDC)

- A recent survey indicates that the average income for income-generating home office households is **\$63,000** a year.
 - Home-based businesses represent 52 percent of all small firms and provide 10% of the total receipts of the economy, about \$314 billion.
 - Running and owning a home-based business offers new owners a very inexpensive entry point. Forty to 44% of all home-based businesses require less than \$5,000 for startup.
 - According to IDC, a top national research firm, there are between 34.3 million and 36.6 million home office households in the United States alone. These include income-generating home offices (18.8 million to 20.3 million) with the rest being made up of corporate telecommuter households.
 - Between 1999 and 2004, IDC predicts a 7.4% annual growth rate for households with income-generating home offices - almost seven times greater than the 1.1% growth rate forecast for all households. The growth rate for corporate telecommuter households is predicted to grow by 4.8% per year during the same period.
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Statistics from the National Association of the Self-Employed

- According to a 1998 U.S. Department of Labor survey, 6.1 million U.S. households – about 6% of all U.S. households – have home-based businesses.
 - A total of 23.3 million people do some work at home, including paid and unpaid work, full-time and part-time work, as well as first and second jobs. But about half this number (11.1 million) are wage-and-salary workers who are not expressly paid for their work at home – who “bring home work from the office.”
 - The 12.2 million workers who do paid part-time or full-time work from their homes represent 9% of the 135-million-member U.S. workforce, or one worker out of every eleven in the United States.
 - About 6.5 million self-employed individuals – more than half the nation’s self-employed – do some work at home. This represents almost 5% of the entire labor force.
 - Most home-based businesses – 4.1 million – are operated by self-employed individuals, the Labor Department study found. (But the number of wage-and-salary workers doing paid work from their homes doubled, from 1.9 million to 3.6 million, between 1991 and 1997.)
 - Of the self-employed who operate home-based businesses, the study found that 1.7 million are managers and professionals. Another 726,000 are in the construction industry. And 532,000 are in retail trades.
 - About half of the self-employed who operate home-based businesses work full-time at them. About half work part-time. The average workweek for a home-based business is 23 hours. Ownership of home-based businesses is evenly split between men and women. More than 70% of these owners are married.
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The way we work is changing. We are in the middle of a tremendous workforce pattern change. Since the early 1980s, there has been a resurgence in entrepreneurial spirit. The 'new entrepreneurism' is different from the past – this time we are working from home.

Changes in the economy and the family have precipitated changes in attitudes toward the separation of the home from the work place, resulting in the rapid growth of home-based businesses. In addition, the change from an industrial based economy to an information and service based economy, and new communication technologies have dramatically increased work-at-home opportunities. Home-based businesses are now recognized as a viable source of new jobs and economic growth. People are choosing to create their own jobs at home rather than seek employment elsewhere.

Self employment, including home-based business opportunities, offer flexibility and adaptability to the rural economy and adds diversity not only to employment choices but to the mix of services and products available in rural areas. Helping small, entrepreneurial home-based businesses to start or expand is a community development strategy that many people either dismiss or don't think of because it lacks the impact of recruiting a major employer. But, the cumulative effect of many home businesses can make a difference.

Continued growth is predicted, especially in rural areas. That's good news for local governments seeking to expand their economic base. Based on any reasonable measure of gross sales, jobs created, or earnings, home-based work is making a significant contribution to the nation's rural economies. The home has been referred to by some as, "The new American workplace." If the unprecedented growth continues as expected, most Americans will work at home in the 21st Century.

A more recent development that will most assuredly have an impact on the continued interest in and growth of home-based businesses is the rising cost of commuting. With gas prices well over \$3 a gallon, people are reevaluating the cost-benefit of driving long distances to work. It is a financial reality that is giving many individuals pause to consider telecommuting from home or starting a home-based venture. As the average home size has increased considerably in recent years, it is easier for people to convert a room without compromising their living space. In combination, these are key influencing factors as individuals consider transitions from traditional employment settings to home-based operations.

Recommendations

EDC would like to encourage PZC to embrace the concept of encouraging home-based businesses as potential engine to grow and diversify the economic tax base for East Hampton. As a commission, we would welcome the opportunity to work collaboratively with PZC to research regulatory options and craft appropriate solutions for consideration. Beyond this, we would encourage working collaboratively with PZC and other town departments to develop procedures and communications to ensure consistent compliance and tracking.

