

# **ECONOMIC DEVELOPMENT**

## **ANNUAL REPORT**

**2006**

**This report, prepared as of December 29, 2006, is in accordance with Article IX, Section 6-47 and Article XVIII Section 40-57F of the Stamford City Charter summarizing the activities of the Economic Development Commission and the Office of Economic Development for**

**January 2006 - December 2006**

**(approved at EDC meeting 1/16/07)**

## **INTRODUCTION**

In accordance with Article IX, Section 6-47 and Article XVIII, Section 40-57F of the Stamford Municipal Code, this report summarizes the activities of the Economic Development Commission (EDC) and the Office of Economic Development (OED) respectively for the period January 2006-December 2006. Further, it provides an update on the Enterprise Zone per the bi-annual reporting requirements of that program as called for within Section 5 of Ordinance 724.

## **COMMISSION (EDC)**

At the end of 2006, the EDC had a full complement of five commissioners with Joel Selden serving as Chairman, Michael Pansini as Vice Chairman, Fran Pastore as Secretary and two new commissioners, Denis Patterson and Barry Haines. With this full complement, the EDC met each month during the last quarter of the year but could only meet three additional times earlier in the year due to quorum difficulties. A total of six meetings were held in 2006. The Commission is staffed by Michael Freimuth, Director of OED and Lenora Cavaliero, executive secretary, OED. The Minutes of the EDC are on file with the Town Clerk as well as with the Office of Economic Development.

During the year, the Commission explored the problems created by the recent change to the State of Connecticut Estate Tax and its adverse impact on venture capital formation and the long term critical role it presents for local and regional business development; continued its review of the ongoing problems with the city's energy supply, its reliability and costs; reviewed the development proposals for the South End neighborhood; participated via the appointment of one of the commissioners to the newly formed West Side NRZ; assisted in the development of a MBE/DBE procurement policy; assessed such projects as the proposed Tresser Square and High Speed Ferry proposals; and reviewed the performance of the city's enterprise zone initiative and the closely related entertainment district, which has been coupled with a new state tax incentive to encourage film production in the region.

## **OFFICE OF ECONOMIC DEVELOPMENT (OED)**

OED is staffed by two employees, the director and an executive secretary. OED is primarily responsible for the oversight of the Enterprise Zone, the Entertainment District and Urban Jobs program, is the city's business ombudsman for businesses seeking assistance to expand or locate in the city, works closely with city regulatory agencies with regard to economic development initiatives and trends, coordinates larger real estate projects and is the city's primary interface with state and federal agencies regarding business and real estate development projects.

The Director is a city representative to the Downtown Special Services District, is a board member on the Stamford Chamber of Commerce, a member of the board of directors of the Stamford Partnership, a commissioner on the regional workforce board, the Workplace Inc., a member of the UConn-Stamford Advisory Committee and serves as staff to the Enterprise Zone Board, the EDC, and the newly created Old Town Hall Redevelopment Agency. He also serves as a board member of the statewide Community Economic Development Fund that lends to small businesses within the city.

For OED, the year's primary focus was securing the necessary approvals in Hartford and in Stamford for the *Royal Bank of Scotland (RBS)* Banking Center on Washington Blvd. Other large scale projects involving the office included the *Tresser Square* residential-retail mixed use proposal; the *Old Town Hall* project, including the establishment of a new agency to manage and finance the renovation; conducting site visits to each enterprise zone firm; review and discussions with *Antares* regarding economic development issues, particularly the retail elements of that project and the proposed financing schemes for infrastructure; continuing the development of an energy demonstration project to promote microgeneration as an economic development tool; the initiation of a minority business outreach procurement program; the recruitment of several business possibilities, including the successful attraction of *United States Tobacco (UST)* corporate headquarters and the *Carolee* production facility; and a variety of regional initiatives including the One Coast One Future program of joint economic development policy making within Fairfield County and the "WIRED" Program designed to convert the workforce to the new demands of businesses established in the region.

The Director testified before the State General Assembly regarding both eminent domain and energy policy. He also testified before the State Brownfield Task Force and made presentations to the New England Tax Assessors Conference on waterfront economic development and taxation; the International Council of Shopping Centers regarding eminent domain; and presented an overview of Stamford to the Connecticut Industrial and Office Real Estate Brokers Society as well as other real estate organizations.

Articles by OED were published in the Stamford Advocate Business Outlook section on a range of topics including retail development, international trade, upcoming General Assembly developments with regard to urban land use and business growth policies. An Op-Ed on Old Town Hall was also published. Presentations to several real estate symposiums sponsored by business organizations and law offices were also made in Stamford during 2006.

A summary of general economic development issues, trends and activities of OED and within Stamford follows:

## OVERALL ECONOMIC CONDITIONS

Connecticut's economic recovery outpaced most of New England and New York but still lagged considerably behind fast growth areas in the Southwest and South. Forbes ranked Connecticut as 43<sup>rd</sup> in both the costs of doing business and regulatory environment, with the state finishing in the bottom half of states for growth prospects according to a September 2006 Forbes assessment.

Quality of life rankings still served Connecticut well however. The state was ranked as fourth in quality of life and its unemployment rate was below the national average (Conn. 3.8% unemployed versus national average of 4.1% as of Oct. '06). Stamford's unemployment rate was reported at 3.1% in October 2006.

The low unemployment number is considered by economist as 'full employment'. Since the region's labor force is aging while population growth is essentially flat, concerns about labor force viability in the near and longer term are growing. Attracting the young knowledge based workers, retraining the existing population and capitalizing on immigration patterns are necessary components of long term economic health.

As the national economy shifts to one based on ideas and innovations then the value of dense real estate development patterns increases according to the Brookings Institute study on American Cities released earlier in 2006. Mixed use projects, open space and parks, pedestrian orientation, transportation smart redevelopment and entertainment venues are all critical to attracting this knowledge based labor force that in turn sustains today's business development.

Exports, thanks to the low value of the U.S. Dollar relative to foreign currencies, are up by 28% for Connecticut companies over the last year with nearly \$6 Billion shipped from Connecticut companies overseas, reflecting an adjustment to the new world economy.

Financial services continue to dominate the Stamford marketplace. As an indicator as to how strong the hedge fund component of the industry has become, hedge fund transactions totaled \$56.2 Billion in Fairfield County during 2005 as compared to \$9.8 Billion in neighboring Westchester County, N.Y. Of course, the growth of *RBS* and *UBS* as well as others such as *Sempra Energy* and the multitude of new retail bank openings continue. Both the FDIC and a survey by CBIA show that commercial loan demand is up in Fairfield County although a hint of caution exists due to interest rate increases and a slowing of the economy in nearby New Jersey and Long Island suggesting that lending activity will level off during 2007.

Other economic trends to note include the expected growth in the health care industry primarily due to an aging population that is demanding new facilities and services. This also raises workforce readiness issues.

Energy issues have jumped to the forefront of business concerns as new rate increases are only the latest in a series of energy problems that include the area's transmission and distribution capacity as well as its reliability. The EDC has gone on the record in support of the use of alternative energy systems and the establishment of an Energy Improvement District demonstration project.

Real estate investment has continued at a notable pace in spite of higher construction costs due nationally to post-Katrina shortages in labor and material and internationally as demand for materials such as steel and concrete soar.

In spite of higher interest rates and a generally dampened housing industry, the city continued to see residential growth in 2006. Besides the downtown CBD and the Route 1 corridor, areas such as Springdale (*Village at River's Edge*) and Glenbrook experienced new activity.

Nationally and locally, developers are turning more to mixed use projects to hedge their bets and banks and developers have moved to apartment rental construction and away from condominium development while supply and demand get re-adjusted. Considering the area's high income base, its limits on available sites, capital flight from over-heated markets such as Florida and the shift in focus by investors to hold properties rather than sell (tending to force up rents and occupancies and hence overall values), the local real estate market is positioned for a 'soft landing' period rather than a hard fall.

In sum: the city's business community remains concerned about the high costs of housing and the continuing transportation bottlenecks. Energy issues, health care costs and the aging workforce represent the remainder of the top five economic development challenges. Besides lessening the regulatory environment and burden of government on the operations of businesses in the city, the EDC supports changes and expansion of employment training programs to meet new business needs and to train Stamford citizens to meet the demands of the business community.

## COMMERCIAL OFFICE MARKET

The 2005 Annual Report identified several trends within the commercial office market (significant decline in sublease activity, an average square foot rent increase, a lower vacancy rate, and the repositioning of buildings for multi-tenancy with corresponding increases in physical plant upgrades) that proved true throughout 2006. The results have been an increased average rent of \$35.12 per square foot for Class A properties, topping out at over \$50 per square foot. Meanwhile, the languishing Class B marketplace has seen rents topping \$25 per square foot.

At the end of 2006, Class A office vacancies had dropped to 14.1% in the downtown central business district according to Cushman & Wakefield. Projections are for this vacancy rate to continue to decline. Citywide vacancy which includes the office parks found along the water, on I-95 near the Darien line, on High Ridge and Long Ridge Roads has fallen to 17% according to Newmark Realty Services. CBRE also reported increased rents, decreased space availability, larger leases, lower vacancies, overall positive absorption and continued demand throughout 2006. The Federal Reserve Bank of New York reported that office availability rates in Fairfield County had reached a five year low.

The tightness of both the mid-town Manhattan as well as the Greenwich marketplaces has contributed to gains in Stamford as has the overall growth in business and employment. New York City rents have been reported at \$100 per square foot and Greenwich rents in the \$60 + per square foot are common. Greenwich based firms moving to Stamford include the *UST Headquarters, the Bank of Ireland, Asset International, TNS Research, Ivans, Inc, Aon Insurance* and even the *Antares* headquarters operation.

Major investments into and the re-positioning of *High Ridge Office Park* as well as other properties such as *1600 Summer Street* have brought on line a high quality product at a time that the market was seeking such space.

The growth of local business has also contributed to the improved office market. Included is the continued growth of *UBS*, the early arrival of *RBS* employees and the re-emergence of *Purdue Pharma* after a series of patent related setbacks in 2004/5. *Stamford Hospital* has taken space in the downtown office market and the overall growth in medical related businesses has become evident. Major renewals such as *Legg Mason* and *Philips Domestic* have off-set the loss of *Mead Westvaco* and *International Paper*.

The market still has not seen new speculative office construction although the proposed 325,000 s.f. *Metro II* complex has begun preliminary planning review. *RBS* banking center has begun construction, adding 400,000 s.f. to the local inventory while a few smaller office buildings such as 1515 Summer Street are being converted to luxury residential use.

Properties in Stamford continue to show a growth in value and have attracted national attention with the sale of the Reckson holdings to SL Green, a major real estate holding group and the proposed sale of the Equity Office Buildings located along Tresser Blvd. The *Xerox* Long Ridge Road campus was sold at the end of the year and the company is seeking a smaller amount of space.

For the first time in several years, the lack of office inventory in the right configurations and locations is beginning to concern members of the commercial real estate community.

## **INDUSTRIAL/MANUFACTURING**

The Manufacturer's Registry lists Stamford as the second largest concentration of manufacturing firms in Connecticut with 195 companies employing nearly 8000. This number is higher than State Dept. of Labor counts of an estimated 6000 employees that work within the industrial sector of Stamford (although this variation in statistics may be attributable to definitions used and whether or not headquarter operations are counted as actual manufacturing jobs or white collar service jobs).

The vacancy rate for manufacturing space is at an all time low of 2.2% (Dec. 2006). This lack of space frustrates the growth of existing companies that want to be in this area for market and transportation reasons but may be forced eastward in Connecticut or to other regions of the country by this lack of space and the already existing high cost of labor.

Further complicating this market is the loss of two major industrial complexes: *Pitney Bowes*, and *Yale & Towne* and the demolition of unused buildings at the *Cytec* campus. The tolerance for paying rent by industrial users maxes out at \$14-15 per square foot. However, such rents do not drive the new construction of space and are below the rents (and land prices) that alternative users are willing to pay.

Stamford has had some success in attracting new industrial users such as the recent decision of *Carolee* to move its jewelry production businesses into Stamford. Some others have been able to secure alternative spaces or secondary space but such moves require the companies to increase their management overhead.

New uses such as those found in technology based industries like entertainment are attracted to industrial properties and other uses such as fuel cell sites will continue to demand industrial space within the city. While the redevelopment of the city's industrial sites has and continues to offer much in the way of new taxes, retail stores and other amenities, the continued demand for such space by traditional users as well as new types of businesses underline the importance of moving with caution in re-zoning industrial land or allowing special exceptions.

## RETAIL

Perhaps no other Stamford economic sector had as high profile as retail did during 2006. The demolition of the former *Filenes* was completed by the Taubman Company, owners of the *Town Center Mall*. Under construction and due to open by late 2007 is a long awaited major new investment in the facility. The expansion includes 110,000 s.f. with two new large retailers, seven restaurants and a redesigned public plaza and garage entrance on Tresser Blvd.

Leases were announced for the first level of the Target property on Broad Street and the first tenant has moved into the newly constructed *Landmark 7* retail wing at the corner of Atlantic and Broad. The *Super Stop&Shop* opened on West Main Street. The city's retail marketplace has approximately 3 million square feet of space and an overall vacancy rate estimated at 3-4% (tracking is notoriously difficult in this sector).

Retail is a component of multiple projects planned for the downtown and along corridors such as U.S. Route 1. In the land use review stage are 135,000 s.f. of retail for the *Tresser Square* project and 145,000 s.f. for *Home Depot* on West Main Street. Recently approved are: 10,000 and 15,000 s.f. as part of two new residential projects: *Glenview House* and *East Side Commons*; and 11,000 s.f. as part of *Corcoran Jennison's Phase 2* apartment complex on lower Summer Street.

The most controversial proposal is for the creation of 400,000 s.f. of retail space as an element of the *Antares* South End redevelopment project at the Yale & Towne site. After considerable debate and negotiation, the Planning Board approved a master plan change allowing this use.

While the city's demographics continue to suggest a strong retail market, it is important to note that the overall market share has drifted away from Stamford towards Norwalk Route 1 as well as Westchester County sites in White Plains and Port Chester. The newly constructed projects as well as the many proposals working through the review and approval pipeline seek to capitalize on this marketplace phenomenon of high residential income demographics but retail dollar migration away from the city.

Retail itself continues to change (note the closure of record and video stores). Once large users such as auto dealerships no longer can justify the land mass dedicated to storage and display and the Internet has redefined how people shop. Retail banking has made major investments in new branches over the last year and changes are likely to come to some more conventional style retail such as *Lord & Taylor* and its site in the Bulls Head area. The pressure noted in earlier reports and created by large 'big box' retailers desiring entry into this market are still evident.

## **HOSPITALITY INDUSTRY**

A rough equilibrium between supply, demand, profitability and yields exist within the hospitality industry in 2006 that reflects the culmination of the slow recovery from the trauma of the post 9/11 travel world. According to U.S. Lodging Industry surveys, the REVPAR (room revenue per available room) was up 8.5% nationally. Another measure, the value of rooms, was reported up 13% within Stamford during 2006.

Both investment equity and debt are pursuing the hotel industry. The purchase and repositioning of hotel properties have become common (in Stamford, this is likely at the *Holiday Inn*) while new construction is being contemplated throughout the Northeast. Several projects identified for Stamford include a proposed *Ritz Carlton* as part of a mixed use residential/hotel project at the intersection of Atlantic and Tresser and two smaller hotels as part of the proposed South End redevelopment plan. The Marriott chain has also announced a *Renaissance Hotel* product for Stamford, but no site has been identified.

The city's inventory stands at 2500 rooms. Although no new hotels opened during 2006, a new hotel opened in each of 2005 and 2004.

Local hotel managers report the same concerns as the industry does nationally including a noted labor availability issue, increased costs of construction and rehabilitation, over-branding of the product lines, technological changes in booking, marketing and managing the properties and ever changing demographics.

## **DOWNTOWN CENTRAL BUSINESS DISTRICT**

The CBD confronted two large public policy issues during 2006. First and foremost was the concern expressed by the Downtown Special Services District (DSSD) of changes to the master plan to accommodate retail development in the South End. Primary to the concerns of the downtown community was the fear that a competitive area would be created outside the downtown core.

A second area of attention had to do with the promotion of continued residential development in the central business district and several projects earned the support of the DSSD and downtown community including the high rise proposal known as *Trump Parc* and the large redevelopment proposal from Lowe Enterprises for *Tresser Square*. The *Metropolitan*, a conversion of an office building to luxury residential use began construction in 2006, but the proposed *Citiplace* and *High Grove* projects had not progressed beyond demolition as of year's end.

Commercially, the downtown saw two major projects move into construction including the *RBS Banking Center* and the expansion of *Town Center Mall*. Two other construction projects were completed including the *new municipal garage on Summer Street* and the 40,000 s.f. retail addition known as *Landmark 7*.

OED sponsored in partnership with the Stamford Chamber of Commerce and the DSSD a downtown retail seminar for area brokers and developers in June 2006. OED also worked with the DSSD in creating a small grant program for downtown merchants to improve their storefronts. The DSSD is supportive and extensively involved with the restoration of Old Town Hall.

## **ENTERPRISE ZONE**

In accordance with City Ordinance 724, Section 5 OED submitted a semi-annual report of the activities within the enterprise zone on June 30, 2006. As of mid year 2006, 28 firms were active in the Stamford program employing over 3200 people and occupying in excess of 1.4 million square feet of space. Three major users have or will exit the program during 2006 including *UBS* (opted out when next construction phase was deferred), *Purdue Pharma* (completion of five year term), and *International Paper* (relocation).

OED visited each company participating (with one exception) in the enterprise zone/urban jobs program this past year in a major monitoring of the program that is in mid term of its most recent five year authorization.

Since the mid year report, six additional firms have been approved for the program and another half dozen are pending review either within the city or with the State Department of Economic and Community Development (DECD).

The Entertainment District component of the basic enterprise zone initiative has seen a noticeable increase in interest over the last few months and it is expected to be used more extensively in 2007. The EDC supports the marketing and use of this incentive as this industry is nurtured through other similar state programs to promote its growth.

The General Assembly approved two different acts that will impact the EZ program. First, there are a variety of reforms and revisions to the basic reporting requirements that will increase city staff management time and individual participating company reporting time. As of close of 2006, the city was still waiting for guidance from the State DECD that oversees the statewide program. Secondly, the reduction and eventual removal of personal property taxes for manufacturing equipment will reduce the overall value of the EZ benefit package as a business incentive relative to other non-EZ areas.

The Enterprise Zone Board met quarterly during 2006 and has a full complement of commissioners. Its minutes are on file with OED and the Town Clerk. It participated in a general review of the program as the monitoring trips were conducted and advised on specific EZ business requests such as an expansion/relocation issue with several participating firms.

## **OTHER ECONOMIC DEVELOPMENT ACTIVITIES**

OED sponsored the Mayor's *Small Business Initiative* meeting with Ruth Sherman, a business marketing consultant, on January 17, 2006 along with the Women's Business Development Center, the Chamber of Commerce and UConn. Approximately 50 small businesspersons attended.

OED began assessment of the proposed *TIF financing* program for capital improvements critical to the success of the South End Antares redevelopment.

The *Old Town Hall Redevelopment Agency* was created in May 2006 by the Board of Representatives and began meeting in late summer as the successor to the Mayoral Task Force on Old Town Hall. Staffed by OED, its minutes are on file with the office as well as the Town Clerk. Two public hearings were held during 2006 on the project. The new redevelopment agency is completing the financing and architectural work and has begun advertising for commercial tenants. A public use area is also preserved within the Old Town Hall.

A *West Side Neighborhood Revitalization Zone (NRZ)* Committee was formed in late 2006 to guide and encourage development in that neighborhood. OED was part of the creation of this organization while the EDC will also have a commissioner serve on the newly created West Side NRZ.

The *One Coast One Future* Initiative built up steam this year and OED participated in the health care industry subcommittee as well as the marketing committee focused on promoting Fairfield County. OED also represented the city as part of the overall strategic planning committee that met to discuss inter-relationship between the county's major urban centers.

With regard to city sponsored small business lending program, the special segmented fund of capital raised by Stamford area banks and matched by state funds through the *Community Economic Development Fund* and lent to Stamford small businesses has been exhausted. A recapitalization is underway for 2007 and OED, as a board member to CEDF will participate in this effort.

OED developed a request for proposals in late 2006 to undertake an assessment of city minority and disadvantaged business procurement outreach. This *MBE Initiative* will begin in 2007 and a member of the EDC will participate as an advisor to the effort.

OED continues to be active in national and state policy developments within economic development and will be part of several work groups in 2007 on eminent domain, reform of state economic development programs, energy policy and brownfield development.

As part of the *Mill River* Collaborative Task Force, OED is assisting in creating a sustainability operating agreement, modeled after others such as Bryant Park in New York City as a program for the long term maintenance and protection of the new park.

#### **EDC AGENDA FOR 2007**

The EDC will continue to focus on the energy issue as well as the redevelopment of the South End during 2007. In particular, the EDC will actively promote the use of alternative energy systems and the Energy Improvement District concept. It will also advise on the proposed Tax Increment Financing structure suggested for the South End.

The EDC will meet with the Planning Board in January and will tour economic development projects as well as the enterprise zone during the spring. Other issues will focus on broader city infrastructure concerns as they relate to business growth and on the West Side as it experiences change.