

ECONOMIC DEVELOPMENT

ANNUAL REPORT

2007

This report, prepared as of December 30, 2007, 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 the period

January 2007 – December 2007

(Adopted EDC 1/15/08)

INTRODUCTION

The first section of this report summarizes the activities of the Office of Economic Development (OED) and the Economic Development Commission (EDC) in accordance with reporting requirements of Stamford Ordinances. It also presents the bi-annual report of activity within the City's Enterprise Zone in conformance with Ordinance 724 that established the zone.

The second section of the report presents a capsule of the economic development developments and trends that occurred during 2007 as well as a quick summary of other related OED issues.

Section 1

ECONOMIC DEVELOPMENT COMMISSION (EDC)

The Commission met seven times during 2007 and had a full complement of commissioners including Joel Selden, Chairperson; Michael Pansini, Vice Chairperson; Fran Pastore, Secretary; and Commissioners Denis Paterson and Barry Haines. The EDC is staffed by Michael Freimuth, Director of the Office of Economic Development and Lenora Cavaliero, executive secretary, OED. The Minutes of the EDC are maintained with both the OED and the Office of the Town Clerk and are available via the city webpage, www.cityofstamford.org.

Commission activity this year included meetings with organizers of a new West Side Neighborhood Revitalization Zone (NRZ), with the leadership of the Hispanic Chamber of Commerce, with members of the Antares South End development team, and a joint meeting with the Stamford Planning Board and the Mayor to understand economic trends impacting the city's master plan of development.

The Commission monitored progress in the city's Enterprise Zone and individual commissioners were active in the review of city minority procurement policies, the establishment of an Energy Improvement District program and participated in the creation of the West Side NRZ.

The EDC met with Robert Simmons, State of Connecticut Small Business Ombudsman to discuss statewide business concerns and the need to make regulatory and legislative changes. The Commission also toured the city's major economic development projects in May and reviewed early reports on the changing nature of business investments due to climate change produced by UBS-Warburg. At the end of the year, OED participated in the formation of a national coalition of municipalities on climate change as a result of the increased concern of those in the business community about this environmental trend.

OFFICE OF ECONOMIC DEVELOPMENT (OED)

Additional legislative duties were assigned to the OED this past year that include the responsibility to oversee both the Hartford and the Washington, DC oriented lobbying firms. This necessitated multiple trips to both Hartford and Washington during 2007 and the office worked on a variety of major legislative initiatives including the state budget, the creation of new brownfield legislation, the new energy law and was active on a variety of transportation issues in Hartford at the General Assembly.

OED was also instrumental in the city's overall efforts in Washington including securing funds for transportation projects such as the *Atlantic Street* underpass as well as the statutory foundation and the funding for the *Mill River* park improvements. OED represented the city at national *Waterfront* and *Climate Change* municipal coalitions. The office also played the lead municipal role with federal agencies (such as the U.S. Department of Housing and Urban Development which needed to approve such projects as the Tresser Square/St. John's mixed use project).

OED represented the city at major regional forums including the One Coast, One Future economic development coalition that facilitates cooperation and marketing for the county; with the WorkPlace, the multi-jurisdictional workforce training organization that serves the economic region; and in one of the more high profile exercises, OED represented the city at the Alliance for Sensible Airspace Planning as it formed to oppose major *Federal Aviation Administration* changes to airline routes into New York City airports.

The office continues to serve as staff to the Economic Development Commission, the Enterprise Zone Board, the Old Town Hall Redevelopment Agency and will serve the Energy Improvement District board once established. OED's line responsibilities include the management of the enterprise zone, the urban jobs program and the entertainment district projects. The director of OED represents the city on the Stamford Chamber of Commerce, the Downtown Special Services District, the Stamford Partnership, the Stamford Center for the Arts and as a board member of the Community Economic Development Fund, a statewide small business lending organization.

The director made presentations during 2007 before the Connecticut Business and Industrial Association (CBIA), the State General Assembly, the Real Estate Finance Association of Fairfield and Westchester Counties (REFA), the Real Estate Forum sponsored by Robinson and Cole LLC and the Connecticut 21st Century Program.

Articles by OED were published in the Stamford Advocate covering the city's economic development plan, the state of the local retail market, a status report on activities before the General Assembly impacting Stamford, and a piece on international trade and its impact on the city.

Programmatic initiatives of the office during 2007 included the passage of both state legislation and local ordinance to establish an Energy Improvement District (EID), the solicitation and hiring of an energy consultant, the review and assessment of the city's minority business procurement programs, the establishment of a West Side NRZ and the completion of the final financing package for the renovation and re-use of *Old Town Hall*.

Business recruitment and retention efforts continued throughout the year with the office working with a variety of local real estate developers and property owners. OED also prepared (with activation scheduled for early 2008) a series of internet based marketing videos promoting the city.

OVERALL ECONOMIC CONDITIONS

During 2007, New England continued to lag the nation in growth with only Connecticut and New Hampshire averaging near the national growth rate. After eight quarters of decline, job growth recovered during 2007 and the state added enough jobs to hit the employment peak of the early part of the decade just prior to the last recession. Interestingly, overall economic performance outpaced job growth suggesting that productivity gains were significant.

Nonetheless, the Milken Study continued to list Connecticut as an expensive state to conduct business, ranked 5th when measured by a composite index that considers wages, taxes, electricity and commercial space cost. Electricity remains a major cost issue and together with the subprime mortgage crisis, presents two hurdles for the state economy in the next year.

Looking at a more micro picture, Fairfield County continues to outperform the state and now generates one-third the income within the state while housing one-quarter of the population. Stamford alone among the state's five large cities grew in population and is expected to grow 19% by 2030 according to the State Department of Economic and Community Development. The county tends to be younger than the state as a whole and is having success in attracting the knowledge based worker so critical to long term economic health. In fact, Fairfield County growth in both 2006 and 2007 was among the top gainers in the country even outpacing the growth in Katrina recovery areas according to the Federal Reserve Bank.

Within specific sectors, the state saw growth in its manufacturing sector spurred by the value of the dollar, productivity gains and product specialization. Financial services continued to grow in Fairfield County, employing some 16,000 workers at high wages. The industry has several cautionary flags including the still uncertain impact of the subprime mortgage problem and recent analysis by Putnam Lovell, a subsidiary of Jefferies & Co that sees nearly one-fifth of the existing hedge funds disappearing by 2012 as globalization and the ascendancy of the Asian market grows, the influence of retirement linked products wanes, and uncertainty grows about oversight and possible regulation.

It has been said that the state labor force is within a 'perfect storm' with the baby-boomers retiring, the youth movement to other parts of the country and immigration patterns in extreme flux. Within lower Fairfield County however, the labor pool is increasingly coming from the west (New York City, Westchester County) as compared to the more traditional attraction from the east. At the close of November 2007, the city's unemployment rate was 4% (while the statewide average was 4.2%).

While a federal stimulus package will likely be debated and possibly approved during the national election year, the national economy is still likely to slow during 2008 due to energy costs, an adjustment to subprime mortgage lending, the large national trade deficit as well as national budgetary debt and an expected upward adjustment in interest rates as an inflationary hedge. Cap rates are expected to increase as well, thereby helping to throttle the commercial space buying frenzy that dominated a good portion of 2007.

COMMERCIAL OFFICE MARKET

Dominating 2007 was the rapid rise in real estate values within the commercial office space market. In fact, values jumped so quickly that the city opted to recalculate its property tax revaluation.

During the year, each sale seemed to out-pace the previous, with values topping out at over \$500 per square foot (2187 Atlantic Ave.). While this sale was unique and had several reasons to be priced so high, large transactions such as the sale of the Equity Office buildings that totaled 1.8 million square feet within seven different buildings sold at \$850 million or \$472 per square foot. Other notable transactions included the sale of Harbor Park to Antares at \$344 per square foot; the sale of 1010 Washington Blvd. to SL Green at \$265 per square foot; and the sale of Seaboard Properties to Antares that included some marina space at over \$300 per square foot. Even older commercial properties such as One Atlantic sold for over \$250 per square foot.

By the end of 2007 it was a general consensus that prices had peaked and were falling back. A variety of factors were at play including the credit crunch that manifested itself in higher interest rates, less risk taking, and the requirement to place greater amounts of equity into deals.

County rents ranked 5th in the nation, contributing to the increased value of commercial properties. By year's end, average rents were in the high \$30s to low \$40s per square foot. Overall rents were up 11% countywide and up 13% in Stamford during 2007.

Corresponding vacancy rates continued to decline, dropping below 10% in the central business district according to a Cushman and Wakefield end of year report. Most services reported the citywide vacancy rate between 13% and 17%.

Growth within the financial services sector continued to drive space absorption with the notable expansion of *UBS* (258,000 s.f.), *PriceWaterhouseCoopers* (34,590 s.f.), *Morgan Stanley* regional operations (13,000 s.f.), *Sorin Capital Management* (17,500 s.f.) and the relocation of *Greenwich Associates* (40,000 s.f.). Growth within the hedge fund industry placed the Stamford-Greenwich area on the world stage with London and New York.

The city also saw *Lloyds Offshore Ltd.* open its first Northeast U.S. operation during 2007 and the *Bank of Ireland* continued to grow after its relocation to the city last year. The reinsurance industry continued to expand locally with *RLI* of Peoria, Illinois establishing a local office thereby joining other local reinsurance firms helping to maintain Stamford as a key location for the industry.

Affiliated support services continued to grow along with the financial services sector, generating nearly 2.5 jobs for every one job created by the financial firms.

The city was able to absorb the loss of *Xerox* and *Fitlinxx* to Norwalk with the attraction of several other companies including *Heineken* and the stabilization of *Purdue Pharma* which took 158,000 s.f. of space at 1600 Summer Street. *LeggMason* reduced its size in Stamford but nonetheless exercised rights within its lease to continue its large occupancy at Stamford Place into the year 2024.

The major renovations at office complexes like *1600 Summer Street* and at *High Ridge Office Park* proved extremely valuable this past year as both facilities enjoyed higher occupancies and rents. Citywide, few large space configurations remain with only *750 East Main Street* being available at this size. The *Xerox Campus* will be renovated during 2008 and fully utilized by *GE Energy* beginning in 2009, representing one of year's largest lease deals in Fairfield County. Once *GE Energy* moves, their current location at 120 Long Ridge will be scheduled for renovation along with the adjoining 260 and 292 Long Ridge and will also offer large space configurations. Older Class B space continued to be re-positioned with the scheduled conversion of 100 and 111 Prospect Street into housing.

Construction of the large 400,000 s.f. *RBS* facility began in earnest in 2007 with partial occupancy scheduled for 2008. Other large scale commercial real estate projects continued to evolve including the proposed 325,000 s.f. *Metro Green* complex at the transit center and the proposed commercial building at the former *Manger* site on Washington Blvd.

The forecast for 2008 is that rents, driven by speculative purchasing in early 2007 will now level off. But since the city maintains a cost advantage over mid-town Manhattan and Greenwich, the absorption of space is expected to continue at the newly stabilized rent level. Premiums will continue to be paid for properties near the transit center.

INDUSTRIAL/MANUFACTURING

As of the third quarter 2007, the vacancy rate within the city's industrial market was below 2% (1.97%) with only 145,000 s.f. available citywide within the 7.4 million square foot inventory. No space larger than 15,000 s.f. was available with the majority of space configurations in the 2,500 to 7,500 s.f. range. Rents averaged from \$10 -\$14/s.f. on a net basis.

Notable industrial expansions/attractions this past year include the relocation of *Carolee* to its Hamilton Avenue address taking 41,000 s.f. and bringing 152 jobs to Stamford. Besides its expansion at its facilities on West Avenue, *Fuji Film* also expanded at Riverbend taking 26,000 s.f. The flex industrial/commercial space at Riverbend also attracted the expansion of another local company, *Cervalis* (30,000 s.f.) as it grew out of its Bedford Street location.

Other local manufacturing operations saw improvements this past year including the renewal of *ACMI* operations on Stillwater Avenue, the continued growth of the *Crane Company* at First Stamford Place and the high profile increase in *film industry* activity due to new state tax incentives to jump start the industry here in Connecticut.

The year 2007 did bring the expected announcement from Proctor and Gamble of the closure of the *Clairol* operations on Blachley Road and late in the year, *Bare Naked* bakery announced its relocation to California due to a buy-out of the company. Finally, another change in the city industrial sector was the shifting of the *Advocate's* printing operations to a Danbury facility.

Still, to the surprise of many, Stamford continues to rank among the leaders in Connecticut manufacturing sector with nearly 200 firms employing an estimated 8000 people. The city also has one of the most active enterprise zone programs in the state as well.

ENTERPRISE ZONE *(per Section 5, Ordinance 724)*

Seven additional firms utilized the city's enterprise zone/urban jobs program in 2007, bringing the total number of active files to 36. These seven new companies brought 567 new jobs to Stamford and occupied nearly 300,000 s.f. of additional commercial space.

The loss of manufacturing land within the South End neighborhood of the enterprise zone continues to be a concern especially as the Yale and Town complex is demolished. The nature of the firms benefiting from the enterprise zone incentives continues however to be service oriented (such as *UST*) and includes entertainment companies such as *Televise Media* and the *Versus Network*, home of NHL Hockey broadcasts.

Within the Waterside section of the zone, a tension exists between the expansion of firms and the residential area adjoining them. One firm, *Creative Metals* was successfully relocated to another section of the city because it could not grow with the existing enterprise zone facility.

The Enterprise Zone Board met quarterly during 2007 and reviewed the program's performance, the regulatory and reporting changes being discussed by the State Department of Economic and Community Development, how to improve linkages to the Community Economic Development Fund loan programs and assessed the impact of the proposed Antares project.

RETAIL

The reconstruction and re-opening of the southern wing of the *Town Center Mall* was the highlight of retail in 2007. Two large new stores and five of seven restaurants opened in November and have charted new sales records while also drawing new crowds into the facility. Redesigned to be oriented to the street as well as the office complexes on Tresser Blvd., the change-over of the mall is expected to continue into 2008 with a new food court and at least a dozen new concept stores replacing some existing operations within the fully occupied shopping complex.

Meanwhile, the city's land use boards were busy with a variety of new retail proposals. In March, the Zoning Board denied the proposed *Home Depot* on West Main Street, a decision that has been appealed. At the end of the year, the Zoning Board was considering the proposed \$150 million reconstruction of the *Lord&Taylor* retail complex that included an expansion of the existing store by 40,000 s.f., the construction of a 60,000 s.f. *Whole Foods* grocery and 50,000 s.f. of complimentary retail stores. Proposals by Antares to include 400,000 s.f. of new retail were also approved as part of a general plan of development and specific project details are expected to be presented in early 2008 as the redevelopment of the Yale & Town area advances.

Within the central business district, the Retail Advancement Program of the Downtown Special Services District (DSSD) began making grants to attract retail stores, successfully helping three new (non-restaurant) operations with start-up costs such as remodeling, inventory, and working capital.

Retail formats continue to change with new products, new store concepts and new ways of shopping and the area remains highly attractive to retail real estate developers due to the high median income and the recognition that Stamford has not built its retail at the same pace and scale as others in the region such as White Plains, New Rochelle, and Port Chester NY, as well as parts of Norwalk. During 2007, a MapInfo Corporation study noted that Fairfield County is the second highest average household expenditure in the country, just behind Marin County, California. (Westchester County was 7th while Nassau County was 10th).

The city's overall inventory of retail space is estimated at 3 million s.f. and store fronts do not remain vacant for long as national retailers seek the Stamford market. Notable examples are the re-use of the former 24,000 s.f. Bongiorno's by *Petsmart* and the opening of *Modell's* sporting goods store taking 20,000 s.f. on the second floor at Ridgeway Plaza. The downtown's residential construction pipeline is expected to further increase demand for retail space.

HOSPITALITY INDUSTRY

No new rooms opened in 2007 and the city's inventory remains at 2500 rooms, the second largest concentration in the state (only the actual casinos in eastern Connecticut have slightly more plus they are surrounded by other national and local owned hotel properties).

While no new inventory was built, three hotels were approved by the land use boards during 2007 including the *Ritz Carlton* with 198 rooms as part of the proposed Atlantic Center complex incorporating the historic downtown post office and two 150 room hotels as part of the Antares South End general plan of development.

Reflecting national trends, the year saw changes in ownership as the *Holiday Inn* and the *Fairfield Inn* were sold, the latter to the *LaQuinta* chain. At year's end, it was expected that the *Westin* would change names and the *Sheraton* was also reported as being prepared for sale. Major upgrade investments were being made at most hotels as the renovation and repositioning of the product was advantageous over new construction costs.

OTHER ECONOMIC DEVELOPMENT ACTIVITIES

Housing

Housing has not historically been part of the economic development report or the activity of the OED and EDC, but mixed use projects and large scale residential construction activity in the downtown CBD should be noted due to their growing prominence. Two large scale luxury projects began construction in 2007 including the *Trump Parc* tower with its 177 units and *HighGrove* with its 97 high end units. Other large scale housing activity in 2007 include the *Glenville House* (146 units) and *East Side Commons* (110 units) projects with the continuation of the *Village at River's Edge* (177 units) and demolition in preparation for the start of construction at the *Dorr-Oliver* property.

Other housing pipeline activities include the work of the Stamford Housing Authority (SHA) as it begins the replacement programs for the Fairfield Court and Vidal Court projects. Among the new construction projects underway by the SHA is the *Post House* (60 units).

In yet another large scale project, Lowe Enterprises received its clearance from the U.S. Department of Housing and Urban Development in late 2007 to purchase Tower A from the St. John's Development Agency and to relocate the tenants. This effectively removes a major hurdle on the way to the redevelopment of the site into *Tresser Square*, an 835 unit mixed use project with 135,000 s.f. of retail in the downtown CBD.

By year's end, nearly 7500 housing units were in the 'pipeline' including the proposed 4000 units as part of the Antares project.

The State of Connecticut lags the nation in new housing starts, ranking 49th according to a University of Connecticut study. Housing activity leveled off in 2007 due to the subprime financing problem and excessive inventory. Resale prices leveled off in Stamford with an average single family home in Stamford selling for \$610,750 in October 2007.

While Connecticut ranked low nationally and saw the decrease in the number of new start permits, Stamford nonetheless ranked number one in new starts with 500 permits pulled during the year and the Mid-Fairfield County Association of Realtors reporting that moderate and top end housing still 'moving' but at a slower pace than 2006.

Small Business Programs

With the assistance of OED, the Community Economic Development Fund (CEDF) recapitalized its southwest Connecticut fund this past year with new participation by several local banks including First County, Washington Mutual and New Alliance. The city also connected the national "Grow America Fund" with local businesses.

Film Industry Activity

State tax credits took hold during 2007 that were designed to attract and nurture the film and entertainment industry resulting in multiple films being produced in the area. Efforts to meet production demands for stage, equipment and post-production work are underway in order to sustain and nurture the industry. Secondary benefits were evident in local hotels, with support services such as dry-cleaning, catering, and transportation and at certain types of small retailers such as hardware stores.

Minority Business Procurement Assessment

OED solicited and contracted a minority and small business consultant to assess the city's minority business procurement efforts. The preliminary analysis indicates a need to produce a clearer public policy directive, to increase outreach, to revise the purchasing ordinance, and to establish a cooperative effort with other nearby communities. OED has begun meeting with both Bridgeport and Norwalk to develop a common program that will not only increase minority business participation in local projects and in municipal purchase, but increase the pool of eligible contractors for local construction projects.

Marketing

The city contracted with CGI to produce a series of web based videos to promote the city. The service was part of a national effort by the U.S. Conference of Mayors and should be on line in 2008 linked via the city webpage.

The city also participated in the production of a regional marketing piece that promoted the Fairfield County area. This was part of the One Coast One Future Initiative funded by the U.S. Small Business Administration.

University of Connecticut – Stamford Campus

The arrival of a new President at UConn and the concern about the physical condition of the Stamford campus garage created several opportunities in 2007 to present a new framework for the UConn Stamford Campus. Working with the State delegation, OED presented a multi-faceted approach to improving the programs at the campus including the academic offerings within the business school, the arts and within nursing programs; the use of other city resources such as the Palace and Rich theaters; more community involvement; preparation of students to meet Stamford labor force needs; and improving campus facilities including the possibility to meet residential living demands.

EDC AGENDA FOR 2008

The EDC will focus on a variety of issues in 2008 including the establishment of the energy improvement district, implementation of the minority procurement recommendations and the changes within the South End as proposed by Antares.

City Ordinance asks that the EDC make annual recommendations to improve economic development and while many of the business trends impacting the city are macroeconomic, there are a variety of public policy initiatives that the city and the EDC can focus on during 2008:

RECOMMENDATIONS

Regional Cooperation

Efforts to coordinate outreach and growth within the minority and disadvantaged business community can be pursued as the city has already begun discussions for a regional effort with neighboring towns. But a regional effort can be beneficial for the city's overall economic health by coordinating labor force training and recruitment by working with the WorkPlace, Inc., various Westchester County efforts and utilizing the One Coast One Future initiative. This later opportunity also gives the city the means to expand its marketing and to encourage regional infrastructure solutions that could benefit the city such as improvements to I-95 to the north of the city.

Linkage to Educational Facilities

Promoting the expansion of both the physical campus and the curriculum at UConn – Stamford has been requested by the business community. This is especially true within the financial services industry and an expansive effort linking to Norwalk Community College is also an important element of the city's labor force strategy.

Besides financial services, programs offering international skills and healthcare are important to the city's long term economic health as well.

Tax Efforts

Re-directing the hotel taxes generated by Stamford hospitality sector to better support and sustain Stamford based arts such as SCA are increasingly necessary as state financial support for the local arts continues to fall. A legislative effort will be launched during the upcoming General Assembly 'short' session.

Modifications to the Connecticut Estate Tax which has been identified as a disincentive to higher income individuals maintaining a Connecticut presence is also necessary. Such an effort must be launched at the General Assembly. Higher income individuals are the venture capitalist and investors that driving a good portion of the local economy.

Land Use Modifications

Loss of manufacturing land to residential and retail/commercial uses is increasingly a concern as the sector has lost many options to grow in the city. The economic realities of land and construction cost limit the marketplace's willingness to create more such space, so that the loss of such space is of critical importance for some 200 industrial base users located in Stamford. An assessment of industrial space in the city is critical within the context of the city's master plan especially with the massive repositioning of real estate in the historically industrial south end.

Transit based development offers Stamford a competitive edge over other Connecticut cities and will offer the city a long term sustainable economic strategy especially for the downtown CBD, south end, east side, Glenbrook and Springdale neighborhoods. Its encouragement and promotion remain important elements of the city's land use policies in 2008.

Energy

With the costs, reliability, capacity and quality of electricity a major economic development concern, the city's establishment of an Energy Improvement District as well as advocacy for smarter energy systems and regulations is necessary.