

Office of Economic Development

Annual Report

2009

This report, prepared as of December 31, 2009 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 2009 – December 2009

(adopted EDC 1/19/10)

Introduction

This annual report is mandated by several city ordinances governing the Economic Development Commission (EDC), the Office of Economic Development (OED) and certain city programs such as the Enterprise Zone, as amended. Section One summarizes the activities of the EDC and the OED during the calendar year 2009. Section Two presents a review of the economic conditions impacting the city and incorporates into the narrative references to specific projects and programs within Stamford during 2009.

Section 1

Report on the Activities of the Economic Development Commission (EDC) for 2009

During 2009, the EDC was chaired by Joel Selden with Michael Pansini serving as Vice Chairman. The Commission had a full compliment of members including Fran Pastore, Denis Paterson and Barry Haines. The EDC is staffed by Mike Freimuth, Director of the Office of Economic Development and Lenora Cavaliero, executive secretary, OED. The minutes for the seven meetings during 2009 are maintained and can be found at OED and the Office of the City Clerk and are available via the city webpage at www.cityofstamford.org.

In January, the EDC joined with the city's Planning Board, the Stamford Partnership and the Stamford Urban Redevelopment Commission as a co-sponsor of the *Re-Inventing Stamford* initiative. During the year, this effort hosted a variety of discussions regarding the city's economic position within the greater metropolitan region. Incorporated into the meetings were a variety of subject matters including energy, education, environmental policy, new technologies and creative ways of conducting public and private business that are at the cutting edge of innovation in the world. The goal is to discern trends critical to Stamford's long term economic health, to develop new program and policy initiatives to position the city as a leader and to incubate new projects to be pursued in the near term. Over the course of the year, nearly 300 people representing Stamford citizens, non-profits, businesses, municipal government and local institutions participated in the sessions.

The EDC also held discussion with both Stamford Hospital and Charter Oak Communities (Stamford Housing Authority) regarding the expansion of the hospital and the reconstruction of the Vidal Court community in the city's West Side. In 2007 and 2008, the EDC sponsored the establishment of the West Side Neighborhood Revitalization Zone for the area.

The commission continued to monitor the creation of a light rail system in Stamford including reviewing the preliminary plans and studies by the city transportation staff. On a related note, the commission was briefed and reacted to plans to upgrade the city's main transit center in the downtown.

Other matters that were reviewed included the city's implementation of an energy improvement district, the status of the local tourism district, and the continued redevelopment of the South End including a site visit. In early December, the EDC met with the newly elected mayor to get his guidance as to what role the commission can play going into the new year as the new Administration takes shape.

Report of the Office of Economic Development for 2009

Completing the renovation of the *Old Town Hall* remained the top priority of 2009 as the OED staff managed the four entities created to oversee and finance the reconstruction project. As 2009 came to an end, the building obtained its certificate of occupancy and was formally 'placed into service'. The objective of 2010 is to lease the structure to private tenants, to open and manage the public space and to bring the project to some level of self sufficiency.

Also during 2009, an Energy Services Agreement was negotiated and approved by the Board of Finance and the Board of Representatives, providing the basis for the first demonstration project for the *Energy Improvement District*. The contract would provide for the installation of a fuel cell based energy system at Government Center to increase the building's and hence the city's flexibility in energy options, to show the workability of the EID concept to the private market place and to lower the city's carbon footprint.

As the year ended, the final documents readying the *Harbor Point tax increment financing* to capitalize on an expected 're-opening' of bond market were completed. As part of the packaging, \$16 million in federal Economic Recovery Zone bonds were also secured in an effort to lower the overall cost of the \$145 million bond offering. The TIF program was created to underwrite the infrastructure improvements necessary for the renewal of the South End neighborhood.

OED was made the city's '*stimulus czar*' for federal dollars provided under the American Reinvestment and Recovery Act adopted in February 2009. Working in tandem with the city Grant Office, OED has assisted in the preparation of a variety of funding applications for energy assistance, transportation projects, and environmental clean up and restoration. Since the office is also the city's *Office of Intergovernmental Affairs*, OED managed the city lobbying contracts in both Washington and Hartford and coordinated the grant application process with the municipality's legislative objectives.

OED continued its effort to secure the re-allocation of 171 housing certificates from an expiring federal contract and at year's end; the certificates were re-directed and secured for three other city housing projects, improving their revenue projections and consequently their project performance. Fundamentally, this action preserved 171 federal housing assistance contracts for families within the city.

The Office continued to serve the Community Enterprise Zone Board as it conducted its oversight role for the *Enterprise Zone, the Entertainment District and the Urban Jobs* program. OED also continued to represent the city on the boards of the *Stamford Chamber of Commerce; the Downtown Special Services District;* the local workforce board, the *WorkPlace Inc; the Stamford Partnership;* and the *Stamford Center for the Arts*.

The director was appointed to a special General Assembly authorized task force assessing the Stamford campus of the *University of Connecticut*, which met throughout the latter part of the year. He continued to serve as a working member of the national *Climate Communities* coalition seeking to secure a role for local governments within the proposed federal 'cap and trade' energy legislation and was a presenter for a federal EPA Webinar on local energy strategies. The director prepared articles for the Stamford Advocate Business Outlook section and the Connecticut Economic Quarterly published by UConn.

Overall Economic Conditions

The year 2009 started out in an economic free fall as the nation awaited the federal stimulus package, continued Federal Reserve and U.S. Treasury action on interest rates and credit infusion, and searched for the 'bottom' of the marketplace. As the year ended, most economists believed that the worst was over and that a recovery was beginning, though most areas of the country would 'bump along bottom' for a period. Debates continued to question whether a second economic dip would occur in 2010 and how long the 'jobless' recovery would go before significant new hiring would begin and consumer spending could ignite.

Real estate investments typically trail the economy and a reduction in commercial asset value occurred at a rate as high as 17% nationally during 2009. Areas such as Connecticut that had not seen the rapid expansion of the real estate building boom that was experienced in other parts of the country, would have a lesser fall in values as the 'overhang' in the market would be smaller. Still, values for local real estate settled back from peaks reached in 2007.

Connecticut experienced a significant job loss in 2009, totaling as high as 80,000 jobs statewide by some estimates. According to the Connecticut Center for Economic Analysis, Connecticut has not had net job growth in two decades and the loss in manufacturing has lowered the overall per capita wages and median income in the state. Most believe that hiring will slowly resume during 2010, most likely in the form of part time or consultant/contract based employment, eventually leading to more permanent hires as the year progresses.

Stamford's unemployment rate doubled during the year, averaging in the mid 7 to 7.5% range while the state was north of 8% and the national numbers approached 10%. As recently as late 2008, the city's unemployment rate was 3.5% and in 2007, the region was experiencing a labor shortage.

The number of Connecticut business failures in 2009 was up significantly according to the Secretary of State's office, nearly a 17% increase in the first part of the year. The number of new start-ups also lagged. Historically, there have been three new starts for every failure in the State, but this business creation index averaged a two to one ratio in 2009.

Connecticut was one of 12 states with an actual decline in economic output (0.4%), due in large part to the decline in the financial services sector but also due to a decline in manufacturing output and the slowdown in construction. Fortunately, the state is still working off a relatively strong economic base but its performance has shown its vulnerability and the need for greater diversity.

Indeed, much has been said about the financial services industry in Fairfield County and in particular, Stamford. But it is premature to consider the *local* industry as one in any real significant decline. The opening of the *RBS headquarters* has added over 2000 jobs to Stamford's labor force. The massive infusion by the world's central banks into the international financing structure has served to stabilize the large banks located in Stamford, both foreign and domestic based. The hedge fund industry climbed out of its decline with monthly increases in the industry index maintained by HedgeFund.net. Hedge Fund Research Inc. reported a late year burst in new hiring as an 'asset building frenzy' began within the industry as it rebounded from poor performance and fund withdrawals over the previous year. An estimated 80% of the state's securities jobs are in Fairfield County and nearly 10% of the county's employment is within the financial services sector generating 30% of the local wages.

Local banks are in strong position (*First County, Peoples United*) and late year infusions to smaller commercial banks located in the area (*Patriot*) show yet another strong building block within the industry. The reinsurance cluster, recovering from some large mid-decade hits, saw growth with firms such as *Endurance US Holdings* taking space in town and *Gen Re* committing to a long term presence that strengthens the local base that also includes the likes of *Odyssey Re, XL, and Ace* as well as others in surrounding communities. Venture Capitalists, heavily concentrated in Fairfield County, began to move cash into start ups and small enterprises as the year ended, a significant and positive difference from the end of 2008.

Other sectors of the local industrial mix had a difficult 2009 including education and medical services. Health Care, presumed to be recession proof, suffered losses in Connecticut during the year as a variety of events cascaded including the credit crunch, higher job losses leading to lower insurance coverage and the postponement of elective surgery and avoidance of health care, a negative growth in hospitals and consequent reduction in new equipment purchases and its associated hiring, while even Connecticut's low reimbursement rate for Medicaid and other publicly funded health care plans hurt the sector during 2009. Yet the aging baby boom, national health care legislation and a general recovery is expected to set the industry back on a growth curve. Locally, *Stamford Hospital* continues to move forward with its plans to upgrade its campus with plans for a \$220 million first phase to be completed by 2013 that includes a five story new hospital building and central utility plant.

Locally, the city experienced a burst of activity in the media industry including the relocation of *NBC Universal* from Chicago to Stamford during the year and the creation of the Stamford Media Center at the Rich Forum. Stamford is home to a growing digital media base and currently houses such properties as the YES Network; Versus, the NHL network owned by Comcast; NBC Sports – Olympic Division; WWE; and the Ascent Media group with its Lifetime, A&E, History Channel and other cable products that is projecting continued growth in 2010-2011. The Connecticut Film Center continued to develop its business and property in 2009 as well.

The Connecticut growth rate of 2-3% (as of late 2009) needs to be increased for the state to reverse the recent job losses and a 5-7% rate of growth is necessary to start re-hiring in significant numbers. The greater growth rate is especially critical for the commercial real estate market. Without the possible relocation of several major new tenants that occurred or were pending in 2009, the absorption of the city's office buildings during such a jobless recovery would occur at a slower rate than might otherwise be expected.

The metropolitan region continued to rank high in quality of life factors, listed as the fourth most livable city by Forbes in April due to its income, employment, cultural and crime statistics. The city was listed as #11 among cities with population of 100,000-200,000 as a 'Next Generation City' with the assets and amenities that attract young, educated work force critical to the future.

Late in 2009, the State Department of Revenue Services reported that 25% of the state property tax came from the four town region of Greenwich, Stamford, New Canaan and Darien. Nearly one half, \$2.5 billion, of the state's overall \$5.3 billion budget is generated in Fairfield County. The county in fact, produces more income to the state coffers than any six of the seven remaining counties in the state combined. However difficult the economy was in 2009, the region still remains the state's economic engine and will lead the state out of the current recession.

Commercial Office Market

Generally, when a year is book-ended with the opening of the 500,000 s.f. *RBS* headquarters with 2000+ new jobs and closes with the announcement of *Starwood Hotels* committing to 250,000 s.f. and 800 jobs while another 300,000 s.f. is in construction, it would be noted as a good year. Add to this snapshot the establishment of the *NBC-Universal* studios and its 200 new jobs and nearly 30,000 s.f. of space outside the main media center at the Rich Forum; and the re-emergence of *Purdue Pharma* and its relocation to its headquarters on Tresser Blvd; and one could report that the marketplace has had a year of significant achievements.

Citywide however, the vacancy rate for Class A buildings climbed into the mid-20s, reaching 25% according to CBRE at the end of the second quarter '09 with some tracking and brokerage services reporting higher rates, showing the depths of the current national recession. Class A rents settled back as landlords offered financial incentives in the form of tenant fit out allowances and rent concessions lowering net effective rent. Commercial rents in both Fairfield County and Westchester County were down 15% and 30% respectively, from one year earlier. Within Stamford, the highest rents were still found near the main transit center. Overall, office rents were reported down between 5 – 10 % depending on the survey source, with some brokers noting that owners are offering up to a 15% discount. Average asking rents are at \$42/s.f.

Class B/C rents fell only about 1% but demand remained low and vacancy was flat, averaging 20%, roughly where it was for the last few years. However, the lower quality buildings were less dependent on financial services and had an overall more diverse tenant base. Yet with Class A rents flat or falling, Class B tenants were inclined to trade up. As the year progressed, a few class B buildings were being converted to residential use, focusing on a more favorable re-use strategy with higher demand and income possibilities, a practice first noticed in the mid-decade years.

The largest single tenant relocation out of Stamford occurred in early 2009 with the announcement of the *UST* merger with the Altria group and its consequent move to Richmond, Virginia. UST had a short stay in Stamford, having moved into 140,000 s.f. at High Ridge Office Park with 350 employees in 2006. Nonetheless, by the end of the fourth quarter, all 140,000 sf of the former UST space was leased to the *Affinion Group* coming out of Norwalk and employing 350, the same workforce size as UST.

From a property perspective, the vacancy created at *695 East Main Street* due to the relocation of *GenRe* which operated the large building as a master tenant was especially concerning as a variety of smaller tenants moved from the building as well. Fortunately, most found homes in other Stamford properties. Of course, *GenRe's* relocation to Long Ridge Road with its 800 jobs and occupying 300,000 s.f. was a major success in 2009. Still, its former home will be vacant at year's end and plans going forward are unknown.

At the end of the year, the city was watching as *Pitney Bowes* announced a 10 percent reduction in its global workforce with the expectation that reductions in local employment at its headquarters in the South End neighborhood were likely.

The proposed expansion of the *WWE* operations was deferred early in the year and *Metro II Tower* totaling 325,000 s.f. was on hold as well.

During the year, smaller relocations to Stamford off-set some of the overall increase in vacancy as *Harmon International* moved its headquarters from Washington, D.C. to Stamford; *Tullis Dickerson* moved from Greenwich; and such firms as *Noble America's Group* grew as it relocated from 333 Ludlow to Four Stamford Plaza.

As the year ended, several large users were 'in play' and landlords reported an increased level of tenant interest and negotiations for the renewal of space. Notable 2009 commitments to Stamford included the leasing of 35,575 s.f. of space by *Ernst & Young* retaining 280 jobs, *McCarter & English* with 16,000 s.f.; *Korn Ferry* with 12,000 s.f.; *Spencer Stuart* with 24,000 s.f.; *Robinson & Cole* with 50,000 s.f. and *Identity Solutions* with 16,000 s.f. Hedge fund industry growth reported in mid to late year 2009 also led to several lease commitments.

Landlords were also furnishing and sub-dividing space to accommodate smaller and/or new start up firms as well as a movement of home-based businesses to commercial space at several locations including 700 Canal Street, One Stamford Plaza, Soundview Plaza, 6 Landmark and 1177 High Ridge.

During 2009, *Harbor Place* continued to construct two speculative office buildings (300,000 s.f. in total) in the South End while preparations, including the establishment of a new master plan for the former Manger Electric site for a new 500,000 s.f. office complex, to be known as *Gateway*, were progressing.

Industrial/Manufacturing

The city has approximately 7.7 million s.f. of industrial space and the year ended with a vacancy rate of 6.6%, a comparatively low rate nationally, even regionally, but high by Stamford standards that had been at 2-3% for most of the previous decade. However, this number is somewhat distorted by the availability of *23 Barry Place* (189,000 sf) as most of the available space is broken up into 1500 to 15,000 s.f. configurations.

A reduction in space demanded by the construction industry, a national slow down in manufacturing, and a reduction in inventory that is held by companies all contributed to the increase in vacancy within the sector.

Nonetheless, a conversion of the city's industrial space to higher tech uses continued in 2009. The teaming of *Fuji Film* with GE to manufacture a bio-molecular imaging system for *GE Healthcare*, one of GE's fastest growing units, was a positive note during the year as the alliance of two of Fairfield County's corporations showed the diversity and critical role of manufacturing in Stamford.

Fairfield County led the state with 17 of Connecticut's top 40 fastest growing tech companies including *Clean Diesel Technologies* (environmental/energy tech), *M2 Media Group* (new media), *L-1 Identity Solutions* (software) and *Protegrity USA, Inc* (software) located in Stamford.

P&G continues to market the former *Clairol* building which is not included in the city's inventory tracking as its final re-use strategy has yet to take shape. The 716,000 s.f. building has been vacated and large unique equipment is in the process of being dismantled and shipped to other P&G sites.

As noted earlier, the Connecticut Film Center continues to grow at 300 Stillwater, creating another new use for older manufacturing space though portions of the site were subdivided and sold for housing.

Enterprise Zone (per Section 5, Ordinance 724)

With the general economic slow down, interest increased in the city's enterprise zone and affiliated entertainment district and urban jobs programs. During 2009, 6 new firms entered the program including the large RBS deal. Another five firms were pending certification at the end of the year, potentially making 2009 one of the most active years of the city's 15 year history.

Interestingly, manufacturing continues to be a significant participant in the program with firms such as *Goodway Technologies*, *Accurate Lock and Hardware*, *Acme Rubber Stamp* and *Rollease* all expanding in the zone during 2009. Financial Services firms also made up a large contingent of new applications with RBS, *Entergy Nuclear Power Marketing*, *Rocket Solutions*, *Broadpoint Gleacher Securities*, *General Reinsurance* and *Ernst and Young* entering the program.

As is the case each year, companies leave the program upon their five year anniversary but in the past year, the city also removed *UST* and *Hearth Kitchens* from the program as they failed to uphold their employment and business commitments. In the coming year, 12 firms will graduate to full taxation.

The 33 applications active during 2009 represent over 750 jobs, and 620,000 s.f. of space. The Community Enterprise Zone Board met in February, September and December and monitored the progress of the program and discussed other development impacts on the zone including the opening of the Stamford Urban Transitway, the proposed closing of Henry Street, the continued growth of the HarborPoint project, and the placement of residents into jobs created by the zone.

OED conducted an audit of its program files along with the City Finance Office and the City Office of Tax Assessor to reconcile any differences and to assure accurate reporting to and reimbursement from the State. During the year, site visits continued to firms participating in the program.

Retail

Like the other components of the city's economic base, retail struggled in 2009. The first casualty occurred as the New Year began with the closing of the *Rite Aid* Pharmacy in Springdale. The Schallert Group, a retail industry consultant reported in early 2009 that the year would be one of the poorest retail periods of recent years. Schallert also noted that Stamford was fortunate in its demographic profile being "off the charts" and likely to sustain a strong retail base.

In fact, as the year developed, the vacancy rate remained in the 3-4% range, a healthy number. Average rental rates for retail in Stamford were approximately \$28/s.f. with higher end retail in the mid \$30s/s.f.

Notable projects include the new 80,000 s.f. grocery store in the South End to be occupied by *Fairway* Grocery as it expands into Connecticut, and the opening of a series of smaller retail outlets including *Walgreens* on East Main Street, a *Fairfield County Bank* branch within the newly built Eastside Commons complex, a *Key Food* at the edge of the central business district and a proposed new *Starbucks* in the city's west side, somewhat interesting in light of the chain's contraction throughout the nation including the closing of one of its newer stores on Newfield Avenue.

Retail sales generally increased during the year as consumer confidence grew. In August the U.S. Commerce Department reported the first glimmer of new spending and as inventories shrunk, it was expected that new orders would pick up as stores re-stock. Locally, retail construction remained slow, with a small renovation underway in the West Side and a long delayed pharmacy in Bulls Head. The large retail proposal for the *Lord & Taylor* complex was still in re-design at year's end and major initiatives that included retail in the downtown, remained on hold.

Hospitality Industry

The conversion of the former YMCA on Washington Blvd into a 97 room boutique guest facility called *Hotel Zero Degrees* occurred in late 2009. As the latest entry into the local hospitality industry, it brought the city's inventory to nearly 2600 rooms.

Statewide, hotels were running at a 10% reduction in capacity from one year ago, as tourism and business travel decreased in the current economic slump. Regionally, occupancy was hovering in the 50% range, considered a mediocre performance and the Average Daily Rate (ADR) dropped, by some accounts nearly 15% in the competitive market area during the year. Credit availability is also at an historic low for new hotel product and for the refinancing or the purchase of existing hotels while industry Revenues Per Available Room (RevPAR) declined throughout the year.

One of the industry's leading groups, the *Starwood Hotels and Resorts Worldwide, Inc* announced its movement to Stamford for 2011, bringing 800 jobs and occupying one of two towers at the 333 Ludlow Place office complex. This move not only will create new jobs within the city but the presence of Starwood is expected to lead to other investments in the south end in the coming years.

Housing

Though not a responsibility of OED, housing projects, especially larger ones have an obvious economic impact, whether they create long lasting physical change to an area, help underwrite a mixed-use real estate investment or simply create pedestrian traffic for retail businesses. Consequently, noting the activity during 2009 is important to understand the overall economic health of the community.

The largest and most enduring change is undoubtedly underway at the *HarborPoint* project in the South End as a 336 unit high rise rental residential tower is under construction while another 225 units are being converted from the old Yale and Town mill buildings as two parts of a 4000 unit build out program in the neighborhood. The *Metro Green* development opened the first 50 units of its residential component in the neighborhood at the end of the summer and the next building is in planning and has secured a portion of its initial funding commitments.

Stamford accounted for nearly 49% of the region's new housing in 2000-2008 and several projects were completed in 2009 including *Trump Parc* (171 units) . Meanwhile *High Grove* (97 units) topped out and should be completed during 2010. New projects were approved during the year including a 94 unit project at St. Andrews in the downtown and a 256 unit enterprise at *Davenport Landing*.

The former Stamford Housing Authority, now known as Charter Oak Communities continued its planning and land use approvals for the replacement housing critical to advance the *Vidal Court* Initiative. Among the agency's accomplishments during the year was the completion of the Fairgate project, completely rebuilding the early 20th Century public housing complex known as Fairfield Court, which will have a positive influence on Stillwater Avenue in the West Side.

Overall, 'for sale' activity was down 26% during 2009 from the 2008 levels as median prices fell, sales activity slowed and the number of permits was down. Of course, 2008 was below the sales level of 2007. Simply stated, the recession, credit tightness and job uncertainty continued to push home prices down from their peaks.

There are two sides to the housing statistics as advocates for more affordable housing saw advantages in the flattening and lowering of housing costs. Interest rates remained near all time lows and the federal first time homebuyer tax credit did stimulate demand and helped stabilize inventory. Meanwhile, residential rental rates were down only an estimated 2% but some properties lowered their rents to retain higher occupancies. In fact, rental building occupancies remained high throughout 2009, averaging 95-97%.

EDC Agenda for 2010

As part of its 2010 focus, the commission will focus on new initiatives for small business including a review of municipal policies and practices critical to business success such as acquiring permits. The EDC will also work to establish a new business innovation incubator, perhaps as a tenant within the Old Town Hall.

The Re-inventing Stamford Initiative is expected to present a variety of new ideas as the city repositions itself in the marketplace and the EDC will evaluate and test these notions as they evolve. Taking advantage of new industries in energy, digital media, entertainment, information management, and other knowledge based businesses will be critical to Stamford's future.

Specific energy and transportation projects will continue to be monitored and encouraged and the adaption of the right land use rules to create a desirable sense of place to live, work and entertain will continue to be assessed.