



COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
APPROVED SUMMARIZED MINUTES

Thursday, March 8, 2018

4:00 P.M.

Kiva Conference Room, City Hall
3939 N. Drinkwater Blvd., Scottsdale, AZ 85251

PRESENT: Mayor W.J. "Jim" Lane
Councilwoman Linda Milhaven
Councilman David Smith (arrived at 4:03 p.m.)

STAFF: Danielle Casey, Economic Development Director
Rob Millar, Economic Development Manager
Mark Paratore, Economic Development Manager
Josh Utterback, Economic Development Specialist
Rachel Smetana, Chief of Staff to Mayor Lane
William Hylan, Assistant City Attorney

GUESTS: Andrew Cheney, Principal, Lee & Associates

Call to Order/Roll Call

Mayor Lane called the regular meeting of the Council Subcommittee on Economic Development to order at 4:02 p.m. A formal roll call confirmed members present as stated above, noting the presence of a quorum.

1. Approval of November 9, 2017 Minutes

COUNCILWOMAN MILHAVEN MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 9, 2017 MEETING OF THE COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT AS PRESENTED. MAYOR LANE SECONDED. THE MOTION CARRIED BY A VOTE OF TWO (2) TO ZERO (0). COUNCILMAN SMITH WAS NOT YET PRESENT.

2. State of the Commercial Real Estate Industry in Greater Phoenix and Scottsdale

Danielle Casey, Economic Development Director, introduced Andrew Cheney, Principal of Lee & Associates, noting that his firm represents Plaza Companies, which developed SkySong.

Mr. Cheney thanked Mayor Lane and the subcommittee committee members for their leadership and noted the many good things that are happening in Scottsdale. In 2008, Arizona was at the bottom in terms of job growth, but that grew to near the top in 2012/13. Currently, Arizona is 10th. While California has one of the top economies in the world, it is also very expensive. More companies are maintaining a presence there but choosing

to expand in gateway states such as Arizona. Scottsdale is often viewed as one of the key spots of choice. Growth is somewhat slow, but positive and steady. Average absorption of office space annually is 25 million square feet. At the height of the recession, the entire market was 27% vacant. Today it is 19.6% vacant. The Phoenix market typically sees higher than average vacancies because of the ease of development here and amount of room to grow. Office sale prices hit a peak in 2007 and have yet to return to that same level.

Mr. Cheney stated that Scottsdale remains one of the better places to develop in the greater Phoenix area. Tempe and Scottsdale have been the tightest submarkets. There is 2.2 million square feet of subleased space in the market, which is a decent level right now. Scottsdale's reputation as a livable city continues to grow. The trend among many companies locally is to move into newer, multi-story office buildings, which is leaving a glut of single-story existing office buildings southeast of the Sky Harbor Airport.

Mayor Lane said the double-digit vacancy rates force older office buildings to remodel in order to compete, though this does impact new development of office space. He feels good about the overall situation, and it is nice to see his observation substantiated with actual numbers.

Mr. Cheney said incentives have influenced several notable deals, but the majority of cases do not come down to incentives. Scottsdale can promote a strong combination of workforce talent, product, and location, without having to rely on incentives to attract companies. Mayor Lane said he feels some pull back is starting to occur with the massive incentive packages that some states have offered, which in some cases has done damage. It does not look good when a community cannot afford to build a school because the school tax money was given away to a company as an incentive.

3. Economic Development Update on Real Estate Trends

Danielle Casey, Economic Development Director, said the structure of the Economic Development Department was adjusted recently. With the departure of Bob Tunis, Mark Paratore was promoted into a program manager position. Two managers will now be focused on industries, one will be focused on marketing, and a specialist will support the whole team's efforts.

Mr. Paratore said that when companies determine whether to consider a region or community, they typically work with representation. That makes building a relationship with the commercial brokerage industry critical. It is important for Economic Development to help promote existing assets in the community, analyze trends, and encourage the supply or redevelopment of projects.

Councilman Smith inquired whether talent is considered from a regional perspective. Mr. Paratore responded that Scottsdale plays a role in the entire region, but it is important to have good relationships with ASU, the community colleges, and the different workforce partners in the region. Scottsdale prides itself on being able to get these partners in front of company decision makers.

Mr. Paratore summarized the top factors in company relocation decisions. If a community does not have the talent available, it is hard to sell that location to management. Companies that want to be located in specific areas from a branding and marketing standpoint also want to be there to attract the right type of talent. Mayor Lane noted that as Scottsdale has built up specific clusters, the people who work in those industries do not exist in isolation, and this helps attract more people who want to work in those sectors to Scottsdale.

Mr. Paratore said real estate, talent costs, vacancy rates, nearby amenities, and walkability all factor into company relocation decisions. Tax climate and incentives will always be part of the discussion, but they are not solely what companies base their decisions on. Economic Development works to build relationships with the commercial real estate industry. It is helpful to have access to good research tools because staff can access the same information that the industry utilizes. It is important for staff to track and monitor projects after the ribbon is cut, to ensure that they have access to the resources they need to keep growing in Scottsdale.

Councilman Smith noted that Scottsdale has been challenged in that the people who live here often do not work here, and the people who work here largely do not live here. This creates substantial problems with ingress and egress every day. He inquired whether staff tracks the types of jobs citizens of Scottsdale actually work in and tries to attract those companies that respond to their employment needs. Ms. Casey said that Maricopa Association of Governments (MAG) has some good information on occupation inflow and outflow. Databases are also available that look at skill sets in occupations. It is harder to get to some of that data because people do not necessarily report their occupation per household; that information has to come from their employers. It's important to respond not only to the existing employee skill sets, but also to the future skill sets demanded by industries that are growing.

Councilman Smith requested empirical evidence supporting the assertion that new companies are hiring Scottsdale residents. Councilwoman Milhaven noted that average salaries are a good indicator. Ms. Casey added that a very low unemployment rate is a good overall indicator for the region. The reason that certain industries are choosing this region is because they are finding that talent is concentrated here. Councilman Smith responded that the talent might be coming from the broader region, but he would like to know more about what is being done for Scottsdale citizens.

Mayor Lane said that by engaging in business retention, Scottsdale is addressing the needs of the local workforce. Much emphasis has been placed on maintaining workforces that are associated with businesses here in Scottsdale. Not long ago, Scottsdale's largest business was the hospitality industry with a workforce that in large part did not live here. The transition to higher wage and more technical, scientific and professional jobs has motivated business attraction efforts. Councilman Smith said it would be helpful to understand what percentage of jobs created by companies that have moved to Scottsdale are occupied by Scottsdale residents.

Ms. Casey explained that staff does ask companies what percentage of their employees are Scottsdale residents, but they are not always comfortable sharing that information. What is known is that large employers have a direct positive impact on other industries and retailers in the area. People are more likely to patronize other businesses that are close to their work. Staff also tries to understand the number of people from out of town that visit businesses in Scottsdale. Some companies bring in many people from around the country for visits and training, which also impacts the tourism industry.

Mayor Lane stated that a variety of factors attract the type of younger workers that employers are looking for. A strong work/play environment in Scottsdale will cut down on traffic and hopefully create more Scottsdale residents living in close proximity to their workplace. This will improve quality of life not only for those employees, but for everyone else. Councilman Smith noted that the last census shows that 29,000 people both live and work in Scottsdale. He felt it would be interesting to know how that number compares to historical records, as this would shed light on whether the efforts are having the desired impact. Ms. Casey explained that staff has not studied these numbers in the past but will do so in the future.

Mayor Lane said he feels Scottsdale relies less on imported workers than had been the case ten years ago. Efforts to develop a strong live/work environment also create a market for the overall housing stock.

Mr. Paratore emphasized the importance of understanding the trends and opportunities related to the availability of state, city, and privately-owned land, and how these opportunities play into the overall vision and goals of the community. Staff coordinates with other City departments including Planning, to understand various redevelopment opportunities and how to better position Scottsdale. Quarterly campaigns are distributed to the real estate industry to keep Scottsdale at the forefront. A number of resources are featured on the choosescottsdale.com website, including a quarterly real estate snapshot, and a quick business development update.

Mr. Paratore provided a current project status report. Currently 45 active projects are in the pipeline. Of those, a little over half are retention and expansion related. This amounts to about 900,000 square feet of expansion for companies and over 3,000 jobs within the first three years of operations. If existing businesses are not supported with the right types of resources, it doesn't matter how many new ones are attracted. Many companies are growing their footprints locally because they see there is a great pool of talent here.

Mayor Lane said as companies outgrow or are bought out by other companies, staying in touch with what happens with those assets is important.

4. Economic Development Department Report

Danielle Casey, Economic Development Director, introduced Josh Utterback who joined the Economic Development team on Monday. She said his skill set will be very beneficial as the department interacts with the commercial real estate development industry. Josh

said he is an Arizona native who has worked for the City of Mesa as well as the private sector.

Ms. Casey presented the Economic Development Second Quarter Report. North Central University, West Pharmaceuticals, Aspire, and JDA Software all invested in the community and worked on expansions that staff helped facilitate. These opportunities might not have happened had Scottsdale not had a strong business retention outreach program. Staff reached out to site selectors through targeted media campaigns and news blasts. Website users are encouraged to click on a link to a white paper that describes Scottsdale's efforts in talent attraction. As a result, responses jumped by 13%, proving that this is exactly the type of information site selectors want to see.

Ms. Casey announced that the team is heading to South By Southwest next week. This year, Scottsdale will be in the trade show area, which is visited by 75,000 people on average. The attendee demographics are favorable, with many owning small businesses and having high incomes. Two concurrent messages will be put forward: that decision makers should consider Scottsdale; and that talented individuals will find many good companies to work for in Scottsdale. The Greater Phoenix Economic Council (GPEC) will be there, as will an innovation representative from Arizona State University. Scottsdale will also introduce a mascot designed to appeal to millennials.

Scottsdale is the first city in Arizona to launch a new job board tool that is housed on the Economic Development website. Any Scottsdale company can post their jobs there. The site also provides quality of life information on Scottsdale that a generic job board would not provide. Staff uses the tool to market to talent and interested companies. The response has been very positive so far.

On January 17, 2018, the Downtown Small Business Gathering drew 120 people to the Museum of the West meeting room. A training class on social media was also offered. The next gathering will be held on April 18, featuring keynote speaker Craig DeMarco, founder of Upward Projects. This event will also feature a social media class.

5. Open Call to the Public (A.R.S. §38-431.02)

6. Future Agenda Items

Adjournment

With no further business before the Subcommittee, the meeting adjourned at 5:05 p.m.

Respectfully submitted,
eScribers.