

# BDAC Recommendations

Tredyffrin Township Business Development Advisory Council

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## **Mission Statement**

The Tredyffrin Township Business Development Advisory Council (BDAC) will provide fiscally prudent recommendations to the Township Supervisors to enhance the economic vitality through business retention and attraction in a manner consistent with the character of the Township.

## **Analysis Background**

We approached this mission by independently analyzing the Township's financial situation and then supplementing it with interviews across a wide variety of stakeholders.

The analysis was naturally multi-dimensional in scope. In summary, we looked at the situation from two basic dimensions. The first dimension was the interface between internal (Township) vs. external (users of the Township). Basically, we needed to gauge the Township' performance, and then juxtapose this performance against solicited feedback from the Township's clients/users. The second dimension addressed each type of client/user, specifically: large corporate, small business, and residential. We agreed that each client type would naturally have different needs and wants.

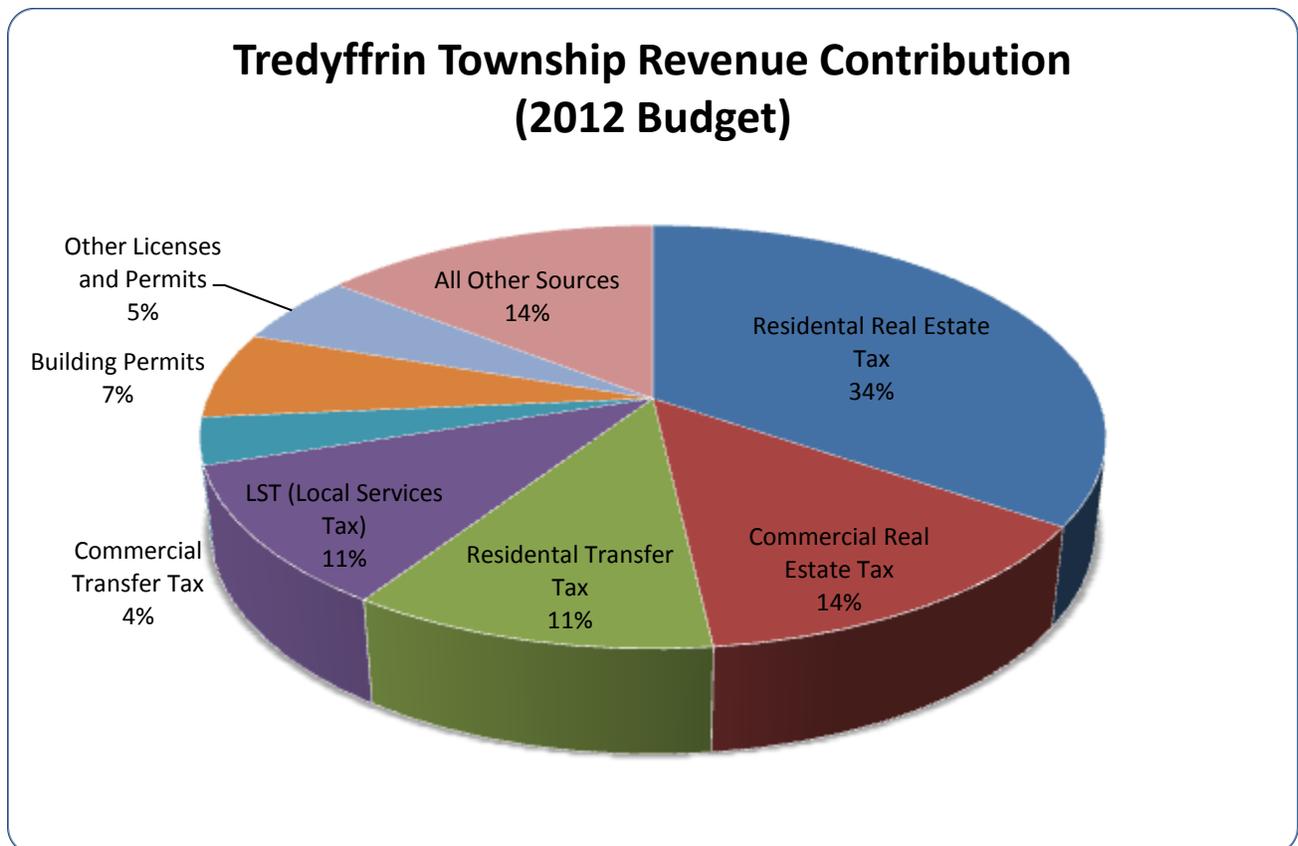
In addition to experience and perspective provided by BDAC members, we attempted to learn from as many people as practical to properly analyze the situation. Here is a summary of who we spoke with (in no particular order, though grouped by dimension):

- ❖ Tredyffrin Township Internal
  - Mimi Gleason, Township Manager
  - Tim Klarich, Township Finance Director
  - Tory Snyder, Township Planning
  - Emmy Baldassarre, Township Permitting
  - Kate Jones, Township Community Development Coordinator
  
- ❖ Other "Internal" (not Township employees, but helped us assess the internal dimension)
  - Natasha Manbeck, Chester County Transportation Planning
  - Bill Roth, Director of Special Projects of Lower Providence Township
  - Neighboring townships. We looked at nearly all of the surrounding townships to understand others' level of business development efforts. Specifically, we reviewed all of their websites and then made cold-calls into each of the townships to see how inquiries were handled.
  
- ❖ Commercial (large and small)
  - Jeff DeVuono, Executive Vice President & Senior Managing Director of Brandywine Realty Trust
  - Judy Huey and Robert DiSerafino, owners of Paoli Village Shoppes
  - Beth Brake, Small Business Outreach
  - Dave Rowland, Paoli Business Development
  - Margie Waldron, co-owner of Vintage Home

- ❖ Residential
  - Mary Specht, REMAX Realtor
  - Devon Petitions, public forum hosted by Sean Moir and Rich Brake
  - Friends, neighbors, ourselves

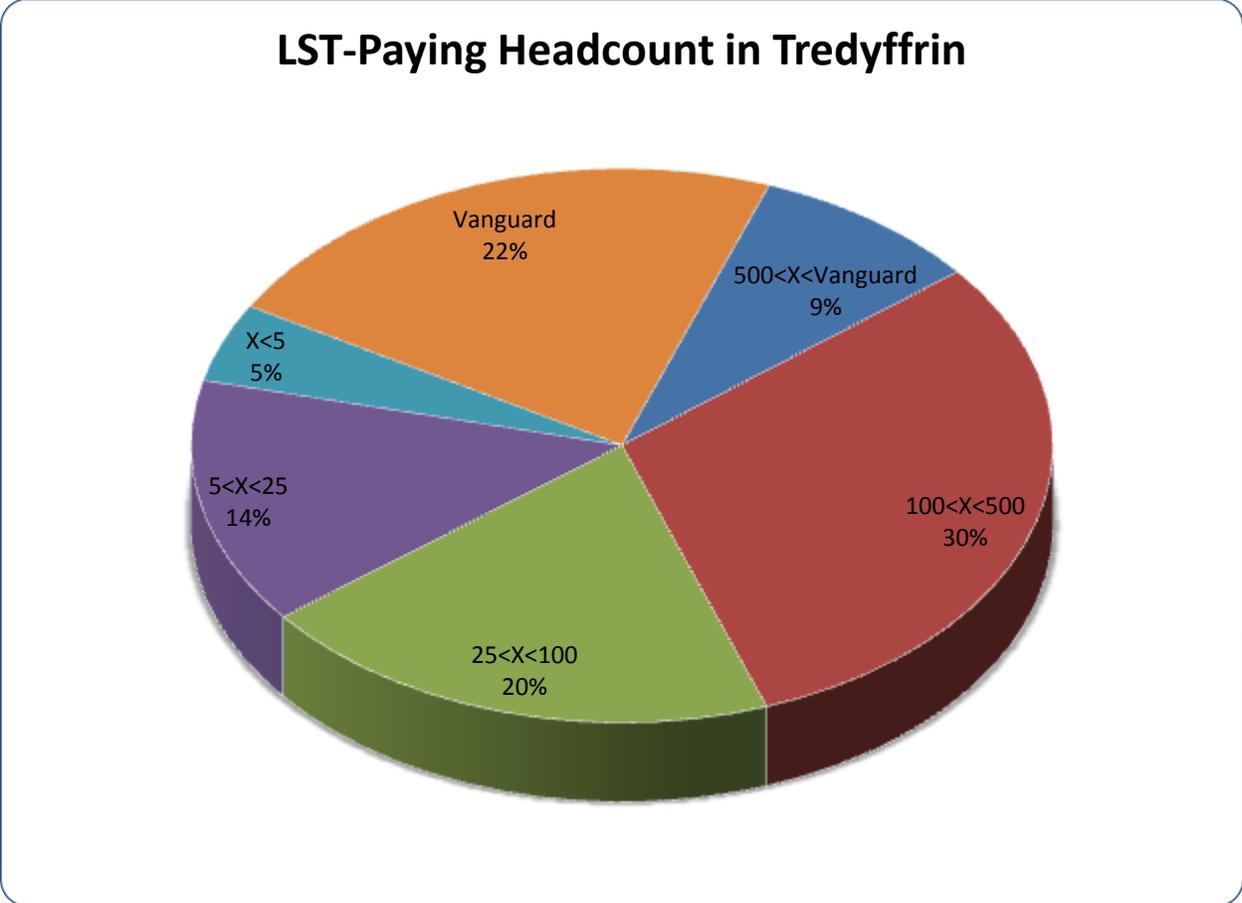
## Township Financial Analysis

For background, we focused primarily on the Township’s 2012 Budgeted Operating Revenue of the General Fund because we believe this is the best measure of revenue that our mission could have an impact upon. Our analysis shows that the Township’s income is predominantly driven by real estate. Specifically, nearly 50% of the Township’s operating revenue comes from property taxes (a function of assessed value effectively set by Chester County), of which about 72% is residential and 28% is commercial. The next two largest operating revenue contributors, each at about 11%, are residential real estate transfer taxes and LST (commercial Local Services Taxes).



In summary, we estimate approximately one-half of total operating revenue is residential-related and approximately 30% is commercial-related.

Looking at the situation from just the commercial perspective, we noticed there is a (healthy) wide range of company sizes located within Tredyffrin. One stand-out, however is Vanguard, whose 7,156 employees represent 22% of all LST-paying employees in the Township (approximately 32,258). To put its size in another context, Vanguard is almost 8-times larger than the second largest employer.



[Chart Note: “X” refers to the company size, so for example, 25<X<100 refers to a company that has between 25 and 100 employees. Each pie slice represents the number employees out of the total 32,258 LST-paying employees in the Township.]

### Township’s Economy Driven by Virtuous Cycle

We believe that the Township would be best served by promoting business development in the context of a virtuous cycle. Attracting and retaining larger companies (i.e., employers) provides incremental demand for residential real estate as employees move with the new company. A new company/employer to the Township also brings demand for services and amenities often provided by small businesses. Attracting small businesses provides the services and amenities needed by large companies and by residents (i.e., everybody likes a nice restaurant). And having a township that is a “great place to live” helps attract new companies by allowing them to more easily convince their employees the merits of making a move. Adding credence to this, we have heard from many different

sources that the selection of commercial real estate location can often be driven by the simple non-economic factor of where the CEO lives (or wants to live).

Supporting this virtuous cycle helps the Township in several ways. Most directly, bringing in a new company provides Local Services Tax for each new employee. Other direct benefits include: building permit fees for any facility improvements and real estate transfer taxes from new employees that purchase a home within the Township. More indirectly, adding new businesses helps lower the commercial vacancy rate and therefore provides support for lease rates and asset values over time.

While the Township does not directly get any benefit from lower vacancy rates per se, higher lease rates (which are inversely correlated with vacancy rates) are critical to attract the necessary capital for redevelopment. And this redevelopment directly benefits the Township by increasing the assessed value of a property. Commercial property owners typically base their investment decisions on future rent expectations. As such, low or declining rents decrease the probability of or the size of incremental investment. And the additional danger to the Township of having chronically weak rents (and therefore poor investment attractiveness) would be that property owners appeal to lower their assessed values. Said in a negative context: not supporting this virtuous cycle risks a secular decline for the Township.

## **Advantages**

Fortunately, we found that Tredyffrin has many advantages and positive attributes:

- Low and stable taxes
- Diversity of employer size
- Transportation/Location. Paoli transportation hub; regional rail system; proximity to major highways; access to international airport; alternatives to downtown Philadelphia; access to an educated workforce; and access to the Northeast corridor.
- Excellent school system
- Existing township efficiencies

## **Disadvantages**

We also determined the Township has several disadvantages:

- Land constrained/Redevelopment dependent. The Township is relatively land constrained, so the future will be increasingly dependent upon redevelopment rather than new development.
- Paoli Traffic/Parking/Walkability. The downside of having the Paoli transportation hub is that it attracts a lot of vehicular traffic. To make matters worse, there is a lack of parking in that area. Lastly, the relatively large width of Route 30 and the high level of vehicular congestion decreases walkability there.
- Danger of outdated office product. The majority of the office space in the Township was constructed in the 1980's and the early 1990's (see Appendix A). As this office stock has aged,

some (often large, higher quality) tenants have migrated to more modern buildings outside of Tredyffrin. Over the past 10 years, several older buildings have been renovated and re-skinned (for example the Valley Forge Office Center), but much of the office product in Tredyffrin is in danger of becoming outdated. Our worry is that if developers do not make the necessary investment to improve their office product, vacancy rates will likely climb and building values will likely decline. This concern also reflects observed trends over the past decade: rental rates have steadily declined (we believe, partially a reflection of declining quality), while vacancy rates have fluctuated with several large corporate vacancies (see Appendix B). If developers cannot economically justify reinvesting in these existing properties, then this outdated office product could perpetuate a secular decline for the Township, as we discussed earlier.

## **Recommendations Context**

Our recommendations attempt to optimize the following factors: probability of success vs. potential benefit vs. cost. These factors were extremely powerful constraints on many ideas and suggestions that were proposed. Just as an example, many expressed the need for municipal parking in certain areas. While we conceptually agreed with the desire for it, we could not economically justify such a large investment from the Township's or the resident/taxpayer's perspective. We strongly believe that given the current difficult economic environment, it is paramount that the Township invest its limited capital wisely. As such, we believe a better solution to this example is to have the Township work with developers such that the economic burden as well as benefit better align with the various stakeholders.

Broadly speaking, we encourage the Board to take a holistic approach to economic development. This mirrors the reality that the Township has a balanced dependence upon (and interdependence between) residents, large companies and small businesses. Although the Township receives a majority of its operating revenue from residential sources, we believe that the Township would be best served by directing incremental effort and focus on attracting new businesses, both large and small. Our logic for this is because attracting an incremental new business provides a greater amount of benefit to the Township (compared to attracting an incremental resident).

More narrowly speaking, a common theme in our recommendations is to be more "business-friendly". In no way should this expression of "friendly" be misconstrued to mean compromising standards. Our context is that the Township naturally interacts with businesses, but we believe that this interaction, or interface, should be as smooth and efficient as possible, i.e. user-friendly. Our desire for user-friendliness is also driven by the premise that the Township is in an extremely competitive environment to attract and retain businesses. And one critical factor that convinces a business to move or develop here is their perception of how difficult it is to deal with the Township.

Another theme throughout our recommendations is to be more proactive. The Township has many great attributes and does many things very well. But it seems that many constituents either don't know that and/or erroneously assume their negative perception of all townships applies here as well. So a generally more proactive approach would help spread the critically important message: "Tredyffrin

really is better!” Proactive also means that the Township should do more to actively attract new businesses and to prevent existing ones from leaving.

## Specific Recommendations

- **Senior leadership business liaison.** A very senior ranking Township employee is recommended to be the primary liaison between the Township and the business community. This structure is critical for the “business-friendly message” to permeate throughout the Township staff. Also, a senior staffer’s experience, context, and clout would be far more effective in communicating with a potential commercial entity, especially a larger, more sophisticated one. Obviously from a practical perspective, this senior ranking business liaison should not have to field every random inquiry, but clearly a structure needs to be in place whereby potentially important calls are handled appropriately.

This role needs to be specifically designated within that person’s job description, so that both the employee as well as the Board, understand how much emphasis should be placed on these “new” economic development efforts. In other words, this new role just can’t be dumped onto someone’s lap without any set expectations, otherwise these development efforts are destined for failure.

Our understanding is that the Township’s interactions with important businesses are often done on an ad-hoc basis, and often part of a “fire drill” response. We believe that this practice, while perhaps functional, is not as efficient as having some structure in place, with staff squarely behind the effort.

- **Continuous monitoring.** Someone needs to continuously monitor and communicate with the business community. “Keeping a pulse on the market” is an often over-used cliché, however the point needs to be well taken. It is important for the Township to understand who may be considering leaving and who may be considering coming, because even a minor influence by the Township may be the critical incremental force necessary to convince a business to move here. We heard many examples from Lower Providence Township’s Business Development point-person of when township touch helped produce a favorable outcome. And when put in the context of current economic conditions (it is clearly a “buyer’s market”), it makes sense that any bit of support from the Township may make a crucial difference.
- **Personal touch.** We encourage the Township to reach out to all new commercial (non-residential) tenants. A simple “welcome” can create valuable goodwill, and can also provide an important feedback loop for how the Township is performing. A new company will likely have just experienced Township red-tape given the likelihood of them making property improvements prior to move-in and of new employees moving with the company into the Township. A welcome wagon protocol could also be used to promote other local businesses.

- **Promote advantages.** A simple but very effective way of promoting the Township’s advantages is to create a webpage that succinctly and persuasively summarizes all the advantages that answer the question, “Why Tredyffrin?” And this information should be widely shared with area landlords and real estate agents (both commercial and residential).
- **Zoning code modernization.** Zoning code modernization is necessary to avoid a secular decline in the quality and value of Tredyffrin’s office stock. Modern zoning codes help encourage property owners to make significant capital investments necessary to upgrade buildings. For example, we noticed that building height limitations in the Township are currently inconsistent and also discourage owners from installing state-of-the-art mechanical systems such as those necessary for LEED or Energy Star certifications. LEED (Leadership in Energy and Environmental Design) and Energy Star certifications are required by higher quality corporations who have incorporated sustainability considerations into their corporate real estate objectives. Additionally, past building practices and restrictions have resulted in proliferations of dated, single story buildings in locations not adjacent to residential areas, even in locations along with Route 202 corridor where more recent buildings have 3 stories. Allowing midrise buildings in locations which are not adjacent to residences provides developers with the necessary density to justify making a significant investment in substantial building upgrades. These zoning changes should allow for interior spaces with higher floor-to-ceiling grid clear heights than those which are predominant in the Township, when owners install heating ventilating and air conditioning (HVAC) systems and lighting which meet LEED and/or Energy Star criteria.

A modern zoning code should permit mixed use development, thereby enhancing the vitality of the Township's office sector as well as its retail centers. This change is most appropriate in locations which have particularly good highway or mass transit access or, alternatively, where owners provide private shuttle services to minimize traffic impacts. Encouraging live/work/shop nodes attracts and helps retain young, educated workers as well as retirees, and adds to the vitality of the Township. This is consistent with current objectives of the Paoli District and should selectively be applied in locations such as the largely vacant Chesterbrook retail center.

- **Commercial user’s website.** The Township should consider making a user-friendly experience specifically for commercial clients. Most of the other neighboring townships do a poor and inadequate job of servicing businesses, and Tredyffrin should take advantage of that weakness. An existing business probably knows what forms to fill out (already did) and who to talk to within the Township. But a potential business that is considering Tredyffrin shouldn’t have to frustratingly hunt for answers. And even existing business stakeholders can be better served by our Township website. The Township home page should have a Business (or Commercial) tab tailored to commercial users. This commercial-oriented site should allow easy access to commonly sought items, such as: complete zoning requirements; permits; pertinent Township contact information; and checklists for submitting applications. We believe these website

elements would help minimize mistakes and oversights when initially submitting applications—an efficiency benefit to both the user and the Township.

- **On-line permitting.** Clearly, one of the largest interfaces between businesses (plus some residents) and the Township is permitting. Although we believe that the Township does an excellent job processing permits, we also believe that the overall experience could be improved by offering an on-line permitting solution. From the user/client perspective, it eases the burden of delivering physical documents to the Township, only during business hours. From the Township’s perspective, it would help improve throughput by reducing incomplete submissions, easier document management, and less need for verbal clarification or explanation. As with any software implementation, it will likely take some time and effort (for both internal and external users) to adapt to a new protocol, but in the long run, we believe it would be well worth it.
- **Education/Interaction Programs.** An important element of implementing any economic development initiative is educating or informing critical constituents. One method of achieving this goal is to host gatherings for a target audience, such as developers, brokers, contractors and/or potential businesses. The general premise is to provide a venue for meeting the Township and to better understand the Township’s policies, procedures, inclinations, etc. Just as an example, the Township could host an “open house” for commercial real estate brokers and contractors so that they can meet and mingle with key Township personnel/decision makers. Lower Providence Township has partnered with area developers to jointly host several of these events. They found that these events not only educated interested parties in a casual non-threatening setting, but also resulted in increased future communications by all parties. Another example is to host targeted informational or technical training programs for small contractors or small business owners, perhaps leveraging the Township’s small business outreach liaison.
- **Support the Paoli Transportation Project.** While progress on the Paoli Transportation Project (the proposed new Amtrak/SEPTA transportation facility) appears to have accelerated recently, it has basically gone from a standstill to glacial speed. If all goes as planned, the transportation hub will be done in 10 years. Parking and traffic are already problematic and the facility itself is well overdue for a makeover, so anything that can help minimize this time frame would be an improvement. Township support appears to be important for several reasons. First, it is vital that the project have a local supporter and advocate. If not, there is a risk that an angry vocal minority could potentially further delay this critical project because the project’s largest owners, Amtrak and SEPTA, may simply avoid the aggravation of fighting local opposition. Second, it is critically important to obtain any and all available funding for this expensive project. Every effort should be made to convince federal and state transportation infrastructure budget decision-makers that the Paoli Transportation Hub is a wise and important investment.
- **Residential appeal.** We strongly believe that Tredyffrin’s long-term economic success is predicated on having a virtuous cycle of (and balance between) large corporations, small

businesses, and residents. Although most of the above recommendations are commercial in nature, it is imperative that the Township continue to make Tredyffrin a desirable place to live. The Township needs to continue to support attractive amenities (like walking trails and parks) and attractive activities (like recreation programs and community festivals), within the context of financial feasibility.

The Township also needs to continue to support an appropriately diverse housing mix. A diverse housing mix helps our businesses attract and retain desirable employees. We observed that most of the larger businesses here in Tredyffrin have relatively well educated workers. And given that competition for finding these skilled workers is often keen, we believe having available appropriate housing is an important competitive strength.

### **Council member biographies:**

- **Daniel Fishbein**

Mr. Fishbein directed the performance of over \$1 billion of commercial real estate assets for BNY Mellon/Urdang and The Rubenstein Company over the last 15 years. He has led the planning, leasing, construction, and operation of significant corporate properties including for the Vanguard Group. Prior to moving to Tredyffrin Township with his family in 1989, Mr. Fishbein served as Director of Leasing and Planning at Boston's Economic Development Industrial Corporation. He has a Master of City Planning from U of P and has held leadership roles in organizations including CoreNet Global and GVFTMA.

- **Eric Kleppe**

Mr. Kleppe is a Managing Director on the Institutional Client Relations team at Turner Investments, Inc. He joined the firm in 2004 and has 21 years of investment experience. Mr. Kleppe received his bachelor's degree in management from Gettysburg College and later received his MBA in finance from Pennsylvania State University. He is a regular member of the CFA Institute and the CFA Society of Philadelphia as well as the Chartered Alternative Investment Analyst Association.

- **Stanford Nishikawa**

Mr. Nishikawa was a high yield corporate (AKA, "junk") bond analyst, covering the technology industry at various Wall Street firms, including Citigroup, Fleet Securities, and NationsBanc. He twice placed on *Institutional Investor's* All-American team. Since 2006, he has been managing his family's portfolio. He received a master's degree in finance and a bachelor's degree in biochemistry, both from Virginia Tech, and was a CFA charterholder until retirement in 2006.

- **James Sanborn**

Mr. Sanborn and his wife Nancy have lived in Tredyffrin for 26 years. They have 3 grown and married daughters. He is a graduate of USMMA, and following service as a line officer in the

Navy, and a deck officer in the Merchant Marine, he earned an MBA from Wharton. Since then, he has held executive positions in maritime companies transporting petroleum. In 1994, he launched a maritime consultancy, including assignments as a federal court appointed monitor in international marine pollution cases.

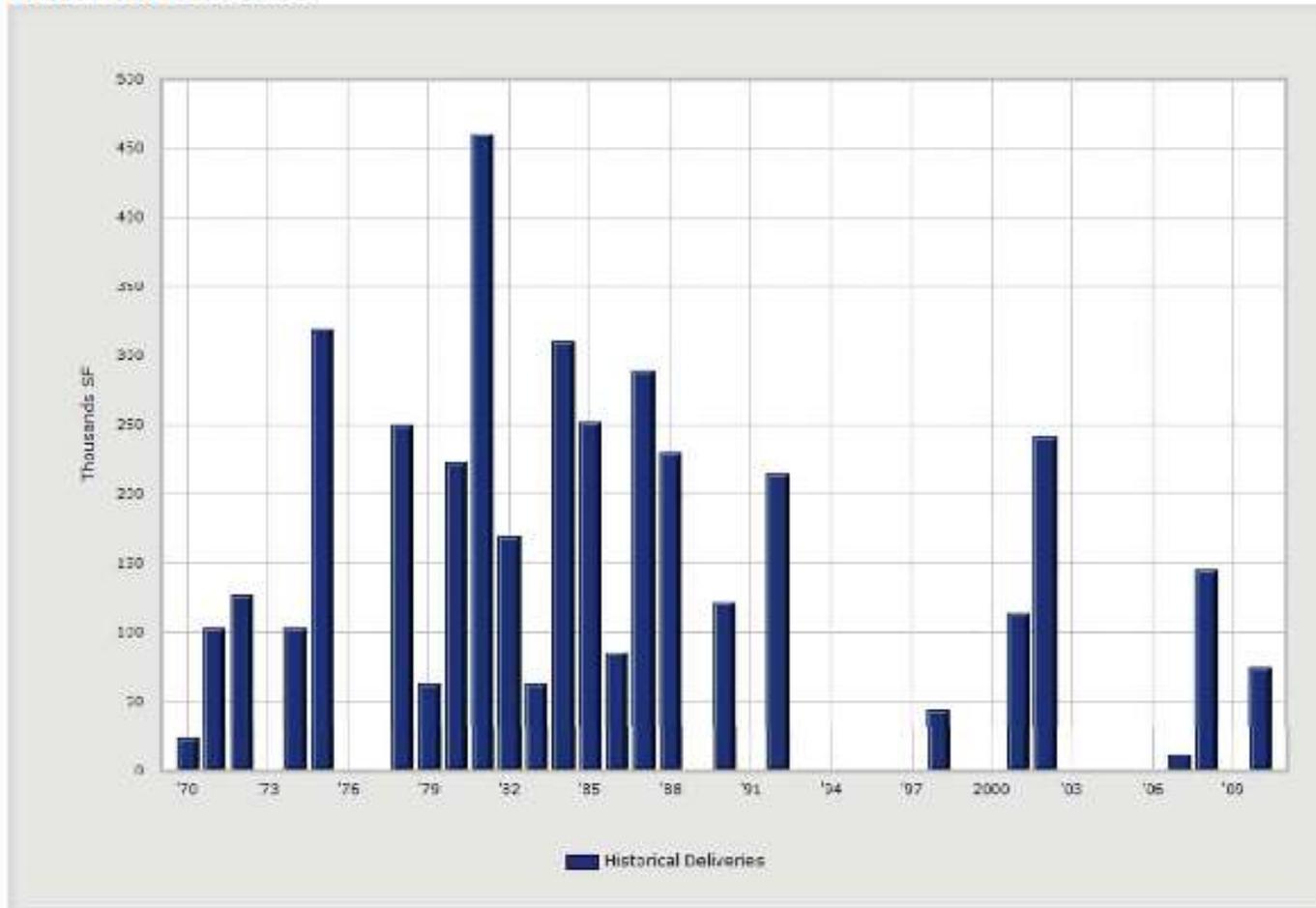
- **John Susanin**

Mr. Susanin is a partner with SSH Real Estate in the firm's Radnor office. John has 15 years of experience working in commercial real estate along the Main Line. He specializes in working with tenants, landlords and developers and has leased or sold over 1 million SF of space throughout the western suburbs. John has been a resident of Tredyffrin Township for over 10 years and lives in Strafford with his wife and 2 children.

- **William Thomsen**

Mr. Thomsen is a Senior Vice President and General Manager with Urban Engineers responsible for all planning, design and construction management for the firm's Public Transportation and Construction Consulting services. Mr. Thomsen has a BSCEE and an MS in Engineering Management, is a Professional Engineer and has over 30 years of engineering experience in the private sector. He leads major transportation programs for Urban nationally. Bill has been a resident of Tredyffrin Township for over 20 years and lives in Berwyn with his wife and 3 children.

## Appendix A.—Tredyffrin Township Office Stock Historical Deliveries



# Appendix B. –Tredyffrin Township Office Stock

## Vacancy & Rental Rates

