



## THE HEART OF CUYAHOGA COUNTY

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## MEMORANDUM

To: Mayor Gregory P. Kurtz  
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, April 21, 2023

Re: Finance Office and Related Topic Updates

### Some Higher-Level Topics to Think About This Week

Perceptive and effective long-term managers and leaders are not only keeping their eyes on their day-to-day operations and the future direction/visions of those operations, but they are also keeping a watchful eye on “bigger-picture” issues and trends that are happening on a higher/larger level.

Knowing these issues and trends, properly assessing the future impact(s) on their organizations and preparing plans to proceed forward in the face of those issues and trends, is how effective managers and leaders are better able to be in “pro” active mode instead of “re” active mode.

Today’s topics are not specifically related to the Finance office per say but have everything to do with being effective managers and leaders in the public sector.

### Office Space Market

More and more brokers, economists, and investors are spelling gloom and doom for office space and demand. A contrarian would perhaps start placing at

## Office Space Market - Continued

least some bets (investments) in the office market given the overriding negative sentiment that prevails now.

A recent *Crains Cleveland Business* headline was “Brokers on list expect office demand to fall further in 2023.” Some quotes from that article are:

- The results were much more negative than results Crain’s got when we asked the same question a year ago.
- *“We’re seeing a lot of downsizing...companies are using their real estate in a different way than they did before Covid.”*

The bright spot for Independence in this Crain’s article is that more and more office tenants who previously preferred to be in downtown Cleveland appear to be considering the suburbs now because remote/hybrid work has significantly decreased downtown foot-traffic, which has decreased the vibrancy there, a primary reason to be located in a central business district.

On the national level, the negative office market outlook is even more pronounced.

Kyle Bass, the founder of a private equity and Dallas-based hedge fund firm Hayman Capital was recently quoted as saying:

- *“Office buildings in cities need to be demolished because demand isn’t returning and it’s impractical to turn most towers into apartments.”*
- *“It’s one asset class that just has to get redone, and redone meaning demolished.”*

Steven Roth, the chairman of Vornado Realty Trust said in a recent shareholder letter:

- *“We are now approaching the eye of the economic storm, and I expect it will get even worse.”*

Legendary investors have won big by placing contrarian bets – when “the herd” is doing one thing, they invest their money in something the complete opposite.

With suburban office markets getting “looks” from urban tenants who may be open to suburban locations now, Independence is well positioned to take advantage of this trend.

But we’ll have to be “on top of our game” as far as knowing our office building inventory and determining how the City can partner up with office building owners to be able to offer the most market-demanded offices in Northeast Ohio. That’s how Independence can compete going forward in this tough sector and start to turn around the stagnating/declining income tax trend.

### **Parking Trends**

A recent *Wall Street Journal* headline: [America Has Too Much Parking. Really.](#)

It looks like the City was on the right track recently when it modified some of its parking requirements, as one of the statements from this article was:

- Local governments are scrapping decades-old minimum parking rules for new buildings.
- New office construction in 2022 included 2.29 spots per 1,000 square feet of office space, down from a peak of 3.66 spaces in 1999.

### **Facing the Music**

Life Science writer Allysia Finley of the *Wall Street Journal* had the following to say recently regarding taxes, spending, interest rates and public pensions:

- More than a decade of near-zero rates allowed state and local governments to borrow cheaply. At the same time, the Fed’s Quantitative Easing inflated asset values and prompted pension funds chasing high returns to pile into riskier higher-yielding investments. Now that the music has stopped, the bills for years’ worth of monetary exuberance are coming due.
- The balance-sheet risks for mismanaged states and municipalities have been hiding in plain sight just as they were at Silicon Valley Bank.
- Local government economic-development projects are already growing more expensive and less attractive to private investors owing to rising rates.
- The country is littered with profligate public-works projects that politicians use to buy votes.

## Facing the Music - Continued

- Taxpayers will be stuck paying debt costs on political pet projects for years to come at the same time as public worker pensions bleed them dry. A report by the research shop Equable estimated that the 228 largest public retirement systems were running a \$1.4 trillion unfunded liability at the end of last June.

This is why, agree or disagree, French President Emmanuel Macron recently succeeded (“forced” might be a better word) in raising France’s retirement age from 62 to 64 – starting in 2030. He knows the ugly but true math behind most public pension systems – that simply stated, too many benefits have been promised to too many people, without the necessary funding to make good on all those promises.

## There’s Not Much New Under the Sun?

Comments from a U.S. president:

*“Change in our climate...is taking place very sensibly. Both heats and colds are become much more moderate with the memory of even the middle-aged. Snows are less frequent and less deep. While the elderly inform me the earth used to be covered with snow for about three months in every year, it no longer is, nor do the rivers freeze as often as they used to.”*

The U.S. President who made these comments? Thomas Jefferson.

The time period when he made these comments? The late 1700’s!

## Community Living Room

The following description of Plaza Mayor in Salamanca, Spain, gives us hope that one day, Independence may have a similar location either along Brecksville Road in the Downtown Business District or even if the current open courtyard in the middle of the Community-Civic Center gets enclosed one day:

- Salamanca’s Plaza Mayor, Spain’s grandest square, seems to celebrate life.
- Our view is filled with people. Plaza Mayor has long been Salamanca’s community living room. The most important place in town seems to be continually hosting some kind of [event].
- [People] were out to see and be seen.