

# City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

## **MEMORANDUM**

To: Mayor Gregory P. Kurtz  
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, April 15, 2022

Re: Finance Office and Related Topic Updates

### **Office-Leasing Market**

According to a Wall Street Journal article this past week, the leases on 243 million square feet of office space in the United States are set to expire this year – the most in any single year since this data started to be tracked by real estate firm JLL.

Apparently a popular trend with expiring office leases the last two years was for many companies opting to renew leases for just an additional 12 or 24 months, giving themselves some time to see how the Covid-19 and resulting work-from-home business models played out. That dynamic is now resulting in a high percentage of office leases expiring here in 2022.

Real estate analytics firm Green Street is estimating that *“hybrid work will cause a 15% drop in demand for office space”* as office tenants start to decrease the amount of office space leased.

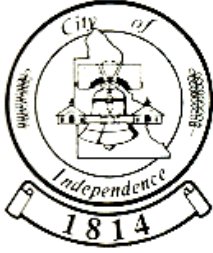
Jeffrey Peck, the vice chairperson of commercial real-estate brokerage Savills said *“I don’t think the landlords have felt the pain yet. Now they’re going to start feeling the pain.”*

Office-leasing activity and levels are very important to a city like Independence that has historically been highly dependent on office-type employees commuting into it for a steady and formerly-increasing income tax revenue stream (See next Topic).

### **Income Tax Collections**

April’s income tax collections disbursed from the Regional Income Tax Agency (RITA) are in, and therefore there is now approximately 1/3 of the year’s income tax revenue *“on the books.”*

Through the first four months of the year, income tax collections are now trending lower than in 2020 and 2021 as follows:



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## **Income Tax Collections Continued**

	1 <sup>st</sup> Four Months
2022	\$11,100,803
2021	\$11,413,925
2020	\$11,206,528
2019	\$10,521,143
2018	\$10,707,294

It's a challenging dynamic that local communities like Independence find themselves in:

- It's not like the private sector where prices for products and services can be raised in the short-term to cover cost increases
- The work-from-home/hybrid work model and local taxes now staying where the work is being performed, not necessarily where the employer is located, is placing unprecedented pressure on local government revenue streams in communities like Independence
- Inflation is raging in percentage terms that haven't been experienced since the early 1980's
- Consequently, operating costs are increasing quickly
- The cost to acquire capital equipment for departments has also escalated rapidly
- The City has also experienced the ravages of raging inflation in the infrastructure world too
  - The winning (low) bids of projects that are scheduled to be completed here in 2022 are coming in a lot higher than previously-provided cost estimates

The dual trends of rapidly increasing costs combined with a declining trend in the City's primary revenue source are not ones that can be sustained over the long haul. But the City's leadership's team's heads will be up and eyes will be open - plowing forward through both good and bad situations - the only option available.

## **Diligence – Persistence - Rigor**

Alicia Graf Mack, the dean and director of the Juilliard Dance Division had the following to say when asked about the importance that diligence, persistence and rigor have played in her success:

*"I have been doing the same plié combinations at ballet class probably every day since I was three years old – and I'm 43 now."*