



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, March 26, 2021

Re: Finance Department Updates

Miscellaneous Friday Musings

Interest Rates

While the recent increases in longer-term interest rates haven't materially impacted the short-term interest rate market yet, when I asked one active participant in the tax-free municipal market about the relationship between short-term and long-term tax-free municipal borrowing rates, the reply back was:

"There has been pressure on shorter maturities and no doubt short term rates will rise with other longer yields. It is just a matter of when, not if."

Forbes' Markets Contributor John Kosar recently wrote the following in an article titled "Prepare Yourself for Much Higher Long Term Interest Rates":

- *"It represents an emerging long term trend change toward significantly higher long-term US interest rates in the weeks, months, and potentially years ahead."*
- *"40 plus years as a financial market analyst has taught me to pay close attention to history because the market has a memory, and history repeats."*

Remote Work

I don't know if anyone has the perfect crystal ball right now to know exactly what the office of the remainder of 2021 and beyond is going to look like.

It seems that for every Sherwin Williams out there that is adamant that they are going to be a "we work from the office only" company, there is a Ford out there who is preparing to make upwards of 30,000 of their office employees permanently remote and many more hybrid.



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

Remote Work Continued

Economic Development Director Hyser is fielding consistent inquiries from prospective new business relocations to Independence, which is a very positive sign. Yet some existing Independence businesses have indicated that they haven't utilized their Independence office space for 12 months now and since "things worked out just fine" during that time period, they are already wrestling with what decision to make when their current lease nears expiration.

Renew a lease for the current amount of office space? Reduce the office-space footprint? Or don't renew any space and pivot to being a substantially remote-work-only enterprise?

There likely will be some push-and-pull between employers who will push for a substantial return to the office and employees who feel that their production working remotely during the last three quarters of 2020 and the first quarter of 2021 was on par with prior to 2020.

Microsoft released the results from a global survey it recently completed and:

- 73% of workers said they want flexible work policies to remain permanent, but
- 65% of employees also reported wanting more in-person time with their teams after the pandemic.
- 66% of businesses were considering redesigning offices to accommodate hybrid work environments.

What shakes out regarding this dynamic will certainly impact Independence in one way or another. With a quoted figure in the range of 4.0 million square feet of office space in the Rockside Road Business Corridor, Independence's financial future is currently highly predicated on the success of that office market.

The questions that will be answered over time will provide direction as to needed "Next Steps" that Independence needs to take to solidify its future and not fall victim to changing market forces are:

1. How much office space will companies need and want going forward?
 - a. As much as they want/need now?
 - b. More because they are optimistic about future growth?
 - c. Less due to a high likelihood of remote-work becoming a permanent working model?
2. Will communities like Independence still be able to fully or partially tax people who either work entirely remote? Or those who employ a hybrid work model and work partially remote and partially in an Independence-based office?



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

Remote Work Continued

- a. If so, will any of those local taxes now have to be allocated between where the employer is located and where the employee is performing some of that work?

As clear or foggy as the crystal ball is right now, it's probably the safest for the City Leadership Team to plan on:

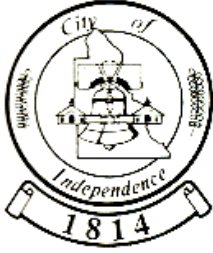
- Most (but not all) office employees eventually coming back to the office.
 - Most of those office employees will substantially work in the office.
 - But they will also have a remote work option a few days a week.
- Some percentage (potentially a smaller percentage than the group above) of employees will adopt the remote-work only model permanently.

Multi-Generational Housing

Independence does not have a material supply of multi-unit dwellings or even single family homes with in-law suite type sets ups. But the National Association of Realtors (NAR) recently reported that 15% of home purchases during the pandemic have been made by people who *"plan to have multiple generations living there."*

Some additional quotes and facts from a recent *Wall Street Journal* article on this topic might give community leaders reason to consider if current building codes and restrictions need reviewing for potential modifications to adapt to more accurately reflect societal shifts.

- *"Many millennials are moving back to their childhood homes, and GenX-ers are putting in garage apartments or backyard houses for elderly parents."*
- Homebuilder Lennar launched its Next Gen homes designed for multigenerational households in 2011 in response to the growing need for elder care.
 - Next Gen home sales rose faster than overall Lennar sales during the pandemic and the company plans to build a larger share of Next Gen homes.
 - Lennar attributes some of the current demand to multigenerational households and some wanting the additional suites for home offices or recreational use.



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

How a Company Can Help a City

Wall Street Journal columnist Andy Kessler recently wrote about audiobook company Audible moving to Newark, NJ in 2007 “*without government proffered incentives.*”

Then founder Dan Katz started paying employees \$500 after tax for monthly rent if they moved to Newark – his way of incenting Audible employees to “live local.”

He said that people called him crazy, but he noticed “*measureable productivity just from walking to work. Young professionals want to be part of an urban recovery.*”

This is why the Independence leadership team has been focused on replicating such success on an albeit much smaller scale in Downtown Independence, and why the future development of the Northwest Quadrant is so important.

Then rather than complaining about a lack of a qualified workforce surrounding Audible’s headquarters, which Mr. Katz described as being “*in the vortex of single-parent, welfare existence,*” Audible set up an intern program to teach coding to local youths who didn’t have credentials or experience, but who were “*gregarious and bright.*” Graduates of the program now make up ten percent of Audible’s workforce.

The private sector and business communities oftentimes get bad raps. But the Audibles of the world provide proof that the private and public sectors are critical to each other’s success, and getting that dynamic and partnership right is the key to long-term prosperity for a community.