



**Halcyon Ltd** Development Advisors

*Whitepaper*

## **Corporations and Cities**

Taking Advantage of Mixed-Use Sponsorship

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## **Global Corporate Environment**

For perhaps the first time in human history, a true Global Development Environment exists -- where Institutional, Government and Corporate Enterprise capital is now seeking productive placement. This Globalization is fueled by well-recognized factors--

- Enterprises seek new sales/ product production and distribution channels
- Consolidation and cost reduction initiatives seek lowest cost production
- Global transformation in Communications Technology and network capabilities
- Logistics Efficiencies in shipping + containerization + materials handling
- Significant expansion and efficiency of Air transport and new International airports
- Methodologies applied to Supply Chain Management and Just in Time Inventory
- Globalization of Scientific Research --in Pharma + Bio Sciences + Info Tech
- International Capital flows increasing Structural Complexity and better Transparency

An innovative Corporate economy draws much of its energy from cultural openness and intellectual and technical competition. For today's' evolving Global economy, three decades of trade and capital flow, together with resource mobilization, have driven significant growth. Now, as development shifts to more innovation, regional and global integration, and knowledge flows, Corporate growth depends on---

- Investment in R&D and the Business environment in which Corporate funds are used
- Support for a strong and efficient Business Services sector;
- Promotion of Info Technology as an end in itself and as a means of bolstering both manufacturing and business services;
- Deliberate integration with world Capital and Supply Chain markets.

### Inside Corporate Thinking

To take advantage of Corporate Development, Cities must first understand and counter the thought process typically used in considering Facilities.

Corporates are focused differently than cities, thinking ahead several Development cycles-15-20 yrs minimum as they are focused on specific enterprise-level Performance which in turn is driven by Business Units –whose scope and mission change frequently. Corporations have 3-5 year planning horizons—while Cities have longer Planning Cycles.

Most importantly Corporations have much more stringent Financing Benchmarks as Property must compete with Business Units for Capital--while Cities rely on low cost Municipal Financing with Tax-exempt Bond rates. Corporates have intense focus on Market share and Profitability – and use these filters to evaluate financial performance,.

Finally Cities are fixed spatial places with heavy investments in long-lived infrastructure—while Corporation can and often do, relocate Business Units or Functions.

Corporate Thinking / Focus	Typical City Approach
Concern with Specific Enterprise Profitability	Overall Economic + Tax Rate Growth
Business Units Drive growth	Population drives growth
3-5 Yr Planning Horizons	15-20 Year Development Cycle Planning
Deliberate Financial Hurdles as Benchmarks	Opportunistic approach to Tax Revenues
Challenged by Risk-Adjusted Return rates	Reliance Public Sector Financing rates
Footloose –Relocation of Units possible	Fixed Locale with heavy Infrastructure

### Influence of Location Advisors

A relatively small group of professional consultancies from 15-20 firms worldwide--have a disproportionate share of influence on corporate end user location decisions.

These firms are well known to Corporate real estate executives based on the proprietary methodologies which analyze expansion options and new facility requirements combined with cost vs. opportunity models which factor in Costs of Doing Business and offsets such as Incentives. Often these professional have invested time to understand the unique requirements of specific business units and are frequently closely attuned to the goals and aspirations of the corporate sponsors. A typical location analysis will illuminate regional differences in Workforce availability and skill sets, operational costs and history of Incentives.

Increasingly these professional advisors are guiding their corporate clients to locations which feature—

- Presence of defined Industry Clusters
- Critical mass in facilities, people and amenities
- Recognized Centers of Excellence with “Branded Research” and / or Educational Institutes
- Locations which favor diversified and sophisticated Live / Work options to attract Global talent

The art and science of Corporate Location Analysis pays special attention to the critical Business Factors required to profitably fulfill the Business Mission. Cities or Urban Regions seeking to capture Corporate Development must likewise concentrate on these Issues:

### **Business Factors**

- Enterprise Vision --the market share goals and economic performance measures sought by the corporate
- Market Dynamics / Size / Velocity ---the absolute size and growth potentials for the host market
- Workforce skill sets + labor rate + availability---based on business mission and match to local market sources
- Business / Occupancy Cost Factors ---costs of doing business including enterprise-level taxation--and commercial space / occupancy costs per employee
- Social Factors / QOL --degree of Diversity and Cultural openness sought and Quality of Life measures--Residential +Educational + Healthcare + Amenities, etc
- Govt / Legal Complexity --degree of difficulty compared to home venue for compliance to regulatory / tax/reporting requirements

### **Location Attractiveness + Success Factors**

Assuming the previously identified Business factors, certain other considerations also combine to drive the location Decision. These factors combine multiple viewpoints:

- Quality of Life in the intended location venue
- Business Drivers of HR / Workforce ,
- Operating environment--Market Share + Distribution Channels, etc and
- Costs of Doing business

### **Location Financial Impact Factors**

Labor is a significant financial impact for many industries, as is Info Tech Infrastructure due to Enterprise Management demands. Any Corporate seeking a new location will also create a comprehensive Financial Model to evaluate all costs of Occupancy, including:

- Facility Occupancy Costs--adjusted by Incentives as secured
- Labor Cost differentials to staff the new location
- Recurring Costs for Operations
- One-Time employee relocation costs
- Facility Production costs
- Equipment Investment --less any credits or grants

### Weighted Scoring of Locations

Business Category	Relative Importance	Weighted Score Factors
Market Access / Capture	20%	Scale of Opportunity
Logistics	10%	Transportation + Distribution Channels
Property Occupancy Costs	10%	Facilities + Incentives
Tele + Util Infrastructure	5%	(Presumed Available)
Labor / Workforce	15%	Skill Sets + Availability
Operating Costs	25%	Emphasis on Incentives
Businesses Risk	10%	Mitigated by IP / Legal Sys
Quality of Life	5%	Residential + Educ + Diversity
	100%	
<i>Source: Dennis Donovan</i>		

#### Collateral Factors --Peer Group Experience

Regions seeking to attract companies must counter each and every one of the perceived issues with a purposeful exposition including these attributes / endorsements --

- Operating Experience
- Peer group endorsements
- Special Industry targeted Incentives

Corporate End Users also make decisions based on those of Peer Groups --others they trust --- to validate their sense of acceptability. Leadership attitude is a critical determinant --and articulate existing Corporates are a strong advantage. Peer Group opinions which can influence location decisions include:

- Cooperative attitude of City /Regional authorities
- Perceived ease of securing As-Of -Right Approvals and Incentives
- Energy + Tele + Transport Infrastructure Reliability
- Quality Of Life and Diversity
- Workforce---Ease of Hiring and work ethic
- Other Corporates true experience with fully loaded Operating Costs

#### Why Should Corporates Sponsor Mixed-Use?

Corporations typically have single purpose facilities with highly customized layouts and tightly organized operations —why then sponsor Mixed-Use (MXD) projects with highly uncontrollable components as retail foodservice and lodging?

Cities recognize that MXD brings substantial Synergy and it the single best use of scarce Land Resources,. Corporates must be convinced with the following arguments---

- **Corporate Citizens**---Some Corporates really feel their responsibility as Citizens – especially those with long histories in the host City
- **Urban Image** –The Desire to project a highly efficient and sophisticated Urban Profile is met with MXD—as the combined uses allow a high more complex Architectural expression and public spaces
- **Amenities** ---Corporates need amenities for their employees and particularly for out leased space often included in the Corporate facility to reduce occupancy cost –MXD

offers access to Specialty Retail and imaginative Cafés and Restaurants + Health Clubs----all more efficient and user-friendlier than equivalent Corporate offerings



### **Citicorp Center**

*For the Manhattan headquarters of Citicorp, a mixed-use iconic Office Tower supported on five story legs located at Tower midpoints, with a sloped top to accommodate solar panels, the building became a recognized profile on the Manhattan skyline. A five-story atrium sheltered and international Market celebrating the Corporations global presence presence with Conran's from London, international cafés and specialty retail. This project was the first of many such corporate sponsorships of mixed-use development and was in many respects the most successful, as it created an instant destination well recognized by both visitors and residents alike. The public relations advantages to Citicorp dwarfed the economic return provided by the commercial elements*

*Stubbins Assoc Architects*

### **Champions for Repositioning Districts**

Corporations often lead in the restoration of underutilized or dilapidated Urban Districts—most commonly in self-interest with their physical presence being affected by the surrounding deterioration

- **Correcting Negative perception** ---important to intervene in the security and positive perception of an area as it affects their own Facilities
- **Competitive Set Influence**---creating a better environment to stay even with or exceed a Competitor
- **Strategic long-rang Mission**---long term hold means a commitment over time to a sustained Value and the facilities aren't mobile—so intervening when the host city cannot is possible

### **Joint Venturing with Developers**

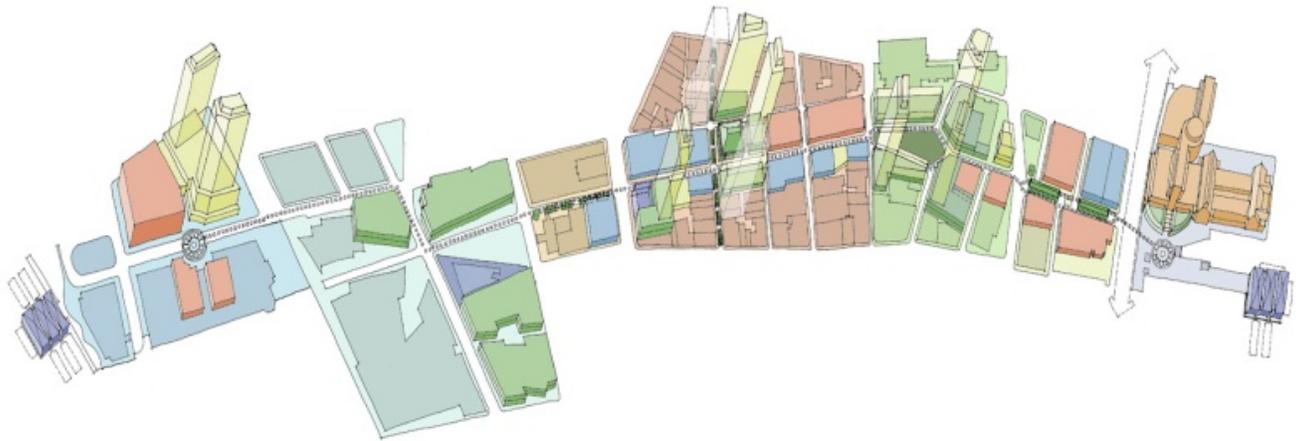
Corporates frequently use private developers to negotiate customized Build-To –Suits with specific layouts and configurations. Corporates can expense the joint venture or net Lease arrangements while developers achieve a preferred return

- **Lease Vs Own**—cost over the short term may be a leased facility —except for a bit more the Corporation can achieve a customized layout and build-out
- **Build To Suit with open book**—with a JV the open book cost review is shared between the partners and the financial deal based on actuals
- **Spec Space as cost reducer**—Developers can out lease the extra space constructed – reducing the carry cost of the project –while the Corporate can use the space later as expansion

### Corporate Contributions to host Cities / Regions

Corporate facility expansion is a coveted economic contributor to Host Cities and regions. These expenditures are typically not due directly to city Initiatives nor Financial Incentives---and are not specifically tied to Property cycles

- **Not Cycle Dependent**—rather based on internal business unit growth
- **Urban Image improved** –Corporates typical take pride in facility quality and will increasingly pay for Architectural expression
- **Jobs + Eco Dev Halo effect** –natural consequences are new or sustained employment –but even a bigger Indirect or “Halo” Multiplier Effect on Vendors and other services



### **Fulton Corridor Scenario Lower Manhattan**

*The deliberate battle to retain Talent in Financial Services is the focus of this River-To-River Fulton Street Corridor Strategic Plan proposed for Lower Manhattan Development Corp and its Corporate Board of Advisors. Re-Urbanizing scenario for Lower Manhattan identifies potentials for substantial increased density in this urban corridor which connects major upgraded Transit connections creating a new Working / Living / Shopping environment.*

*Genster + Halcyon Ltd. +Streetworks +Ernst & Young*

### Match Facility to Business Mission

The Holy Grail of current Corporate thinking is to match, as well as possible, the Corporate Facilities with the Business Mission. Since Real Estate is a long-lead Item, with significant timelines for development and construction, Leased space is a favored Corporate short term option –good for the local economy

- **Aligning Real Estate Presence with Corporate Strategy** –immediate fast pace growth out leased while consolidation and co-location initiatives go long term
- **Workplace Productivity** –Design and flexibility of layout combined with employee amenities produce productivity results

- **Retaining Talent** –increased competition for Knowledge Workers and defined Talent Pools means Facilities with features or settings that can attract

### Image Enhancing

Corporations typically carry quite high expectations for influencing positive perceptions within its stakeholders, investors, and customers. Therefore Corporates focus on Architectural Statements whenever practical to enhance their Brand---

- **Iconic Branding**—Corporates have always known, but are not always prepared to pay for. Imaginative Architectural Design statement which have proven value as Iconic brands
- **Signaling Customers** ---High Profiles assist in building Customer awareness of quality and permanence
- **Talent Hunt** –Strong Physical presence can greatly impact the recruiting of Talent –and the amenities provided in-house on-site or in the Urban setting are powerfully recognized by the Workforce Talent



#### **Bank Of America**

*Headquarters tower features a multi-story Atrium which is the focus for specialty retail and a variety of Foodservice offerings along with Performing Arts Theater Symphony Hall is a community resource for the city of Charlotte.*

*Pelli Clarke Pelli architects*

### Preserving Urban Historic Fabric

Corporations frequently support preservation when the Urban Fabric so preserved is in their deliberate self-interest

- **Corporate Executive Initiatives**—induced by personal interests and civic purpose
- **Developer of Last Resort** –Corporation sees itself clearly as Last Chance for action as market deteriorated and steps in to execute a plan
- **Committee of 100** ---frequently Corp. Execs are asked to serve on Civic Boards and special development entities –and become “The Bishops” facilitating local development



#### **Historic Arcade Square**

*Mead Corporation as “developer of last resort” led the effort to preserve this historic Dayton landmark, leading nonprofit organizations and retaining fee developer Halcyon Ltd, restored the*

*superb rotunda, provided destination cafés and specialty retail as a key part of a downtown revitalization strategy*

**Corporates vs. Community**

Corporations typically have arms length relationships with the host city—always believing they are on the wrong side of the value exchange as they contribute Jobs and Taxes. Further Corporations, when undertaking Property initiatives, often do not excel at defining Stakeholders—those in the greater Community to whom attention must be paid, for approvals and for other Incentives.

The Image of the impersonal Corporation is frequently one of not listening to Civic or Social concerns, that espouse Shared Values, but equally capable of Layoffs and Move-outs.

**The Search for Common Goals**

Common Goals can be readily agreed between Civic and Corporate along with the deliberate Collaboration between designated Civic Groups and Corporate counterparts which use proven Task Force and Planning Charrette methodologies can greatly assist in achieving consensus .

- Defining Stakeholders
- Image + Perceptions
- Practiced Listening
- Shared Values
- Common Goals
- Collaboration Methodologies



**Prudential Ctr., Boston**

*By careful listening to Community Groups from both Back Bay and adjoining South End communities, Prudential Realty provided retail articulated by the community such as a grocery store along with service retail to enable approvals for of ambitious remake of the Prudential Center public areas, providing a skylit enclosed shopping environment for specialty retail, with increased and Foodservice choices, and new workforce office towers*

**Corporate Differing Motivation and Currency**

Corporates and Cities have widely differing Development motivations and enterprise-level concerns. Their Facility decisions and development actions are therefore influenced by widely differing “Currencies” in their operations:

<b>Corporate</b>	<b>Developer</b>	<b>Urban Region /City</b>
Expansion Driven by Business Unit Growth	Space Absorption /Vacancy induce Development	Site Assemblage limits CBD Urban growth
Focus on Sales Expansion with Business Strategy	Focus on Return of Investment	Focus on Revenues and Economic Development

Internal Financial Hurdles set by CFO	Returns + IRR set by Equity + Outside Capital	Revenues based on Taxes with Limited Incentives
Balance Sheet Financing available	Dependent on Financing + Market Liquidity	City Bond Rating + Issuance overhang
Image aligned with to Business Mission	Image designed to support Sales & Marketing	Image as expression of Urban Region
Lowest Labor Cost matched to Talent Need	Attracting High Caliber Service Firms	Competitive Advantage vs. Other Cities/Regions



**PPG industries**

*Seeking a high profile iconic image to attract knowledge workers in downtown PPG Industries created a distinctive glass high-rise tower and oversaw the revitalization of Market Square as PPG Place with new Retail and Foodservice; PPG tower took inspiration from the Cathedral of learning at the University of Pittsburgh.*

*Phillip Johnson architect*