CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

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May 1, 1995

To the Honorable, the City Council:

The attached overview reflects discussions of the Economic Development Cabinet, consisting of myself, Richard Rossi, Susan Schlesinger, James Maloney and Jeanne Strain, about general policy directions for the City's overall economic development strategy. The overview describes in brief some of the key structural elements in the City's economy which are critical in considering an economic development plan. These elements include a review of the sectors in which Cambridge jobs have historically been located and where they are located now, identification of the potential growth sectors in the economy, and the cyclical nature of the real estate market. In addition, the overview suggest twelve goals as the basis of the City's economic development policy.

Over the next two months, we intend to work closely with an expanded Economic Development Cabinet which will include the Chairperson of the Economic Development and Finance Committees as well as the Mayor to further refine these goals and programmatic initiatives which grow from them. We then expect the policy to be submitted to the Council Committee on Economic Development and the public for review and discussion.

Very truly yours,

Robert W. Healy

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City Manager

The Cambridge Economy: An Overview of Key Issues

Employment Structure

The challenges and opportunities facing Cambridge's economy stem from it's transformation from a center for manufacturing in the first half of the century, to a service economy during the 1970's and 1980's, to a center for emerging technologies in the nineties.

These changes have had a dramatic impact on the structure of employment in Cambridge. In 1940, 40% of Cambridge residents worked in skilled and semi-skilled blue collar jobs, while less than one quarter worked in professional, technical and managerial jobs. Today, 55% of Cambridge residents work in professional, technical and managerial jobs, whereas 11% work in skilled and semi-skilled blue collar jobs.

In 1972 one in four jobs were in construction and manufacturing; today less than one in ten jobs are in this category. The service sector, which primarily represents higher skilled and white collar employment, grew from 40% of total jobs to 70% of jobs in Cambridge. In fact, a total of 10,000 jobs were added to the Cambridge economy during the eighties and the predominantly white collar workers holding them are doing well. However, this growth did not offset the impact of the loss of over 12,000 manufacturing jobs for Cambridge residents who do not have a college degree.

Harvard, MIT and the City of Cambridge are the three largest employers. The institutional sector, represented by higher education, government, and health services, comprises 27% of the city's total employment. The level of interdependence between the institutional sector and the business community is high. The founders and technologies of many of Cambridge's companies are rooted in the academic community. Business consulting firms such as Abt Associates and Arthur D. Little, software firms including Lotus and engineering and technology firms such as Bolt, Beranek, and Newman all rely on a workforce trained at the local institutions.

Cambridge entered the nineties facing significant employment challenges. None of the city's three largest employers project employment growth during the decade. In fact, Harvard has had layoffs and MIT is undertaking a planning process to eliminate 400 jobs. Between 1990-1992 Cambridge experienced a net loss of 2,670 jobs, many of them in precisely those firms that had added employment in the eighties: Polaroid, Lotus, Badger and Bolt Beranek, and Newman to name a few. While these firms are repositioning and entering new markets, substantial employment growth is not on the near term horizon.

Although the unemployment rate remains low, 3.9% in January of 1995, underemployment remains an issue. Cambridge is faced with the challenge of integrating workers with less than a college degree into the technology economy during a time when the large employers are retrenching. The technical positions which form the middle tier of this new economy require one or two years of post-high school training to qualify for an entry level position. In 1991 a survey of Cambridge employers reported that residents filled just over five percent of all jobs for technicians. Those least likely to have technical training: displaced manufacturing workers, new immigrants, and high school drop-outs, all face an uncertain economic future.

Real Estate Development and Taxes

While the Cambridge real estate market remains strong, it too, presents challenges. Real estate development has been highly cyclical. Where Cambridge brought only 2 million square feet of new real estate development on line from 1964 -1984, over eight million square feet was added to the City's commercial landscape, allowing Cambridge to expand its tax base. This building boom during the 1980's was part of a national demographic trend. The coming of age of the baby boom generation necessitated the construction of workspace. Economist David Birch estimates that 46% of the total commercial space constructed in the history of the United States was built during the 1980s, when the baby boomers took their place in the workforce.

New construction dropped off sharply in the region with the on-set of a recession and an excess supply resulting from over-building in Boston and the suburbs. Only three large new construction projects have been brought on line in Cambridge since 1991: Lotus, Biogen and the Whitehead Institute. The City's total assessed valuation peaked in FY 1991 and is expected to stabilize in 1995, following several years of decline. In recent years Cambridge has approached its levy limit, but in 1995 an increase in excess capacity is expected. In order to maintain a stable level of services, a 2% growth in commercial taxes resulting from new construction or a comparable increase in residential growth (3-6%), will be required in addition to the 2-1/2% increase allowed under the law. At the 1995 commercial tax rate, $35-70 million dollars of commercial assessment growth as a result of new construction would be required. It is difficult to translate this amount into a need for a certain square footage of new commercial build-out. In recent years personal property tax revenues have grown .5% annually from newly added accounts and additional new tax revenues have come from the renovation and reuse of older buildings, such as the building occupied by Lifeline. Overall, tax revenues from new construction have grown by about 1% per year during the real estate slowdown, indicating a need for an additional 1% growth. It is conceivable that as de-control of rent controlled residential properties proceeds over the next 3 years, the resulting revenue growth could lower the amount required from new commercial development.

Many segments of the Cambridge population need City services to augment their quality of life. One in six Cambridge residents have not finished high school. It is estimated that over two thirds of Cambridge's immigrants have incomes below the federal poverty guidelines. Cambridge ranks in the bottom 10% of income among 101 municipalities in the Boston Metropolitan Area. Non-white Cambridge residents are twice as likely as whites to face unemployment. One in four black children live in poverty, compared to one in ten children of all Cambridge residents. Without an improved tax base, services and the quality of life for many Cambridge residents will erode significantly.

The slow down in real estate development had some short term benefits, as commercial rents declined to levels close to suburban levels, and older industrial buildings were retro-fitted for research and development activities. Expansion of the biotechnology industry during 1991-3 peak absorbed an average of 300,000 square feet per year of older industrial space, turning around decades of vacancies in Cambridgeport, leaving few older buildings empty in East Cambridge, and spilling over to Alewife. Worldwide capital markets in biotechnology entered a downturn in 1994, with only 200,000 square feet of absorption during the year and only 150,000 projected for 1995. The current vacancy rate for biotechnology space is very low, about 3%.

While the growth of the biotechnology industry has revitalized the city's stock of industrial buildings, the growth of small software companies has brought the commercial office vacancy rate down to the single digit level for the first time since 1988. The overall commercial vacancy rate at year end 1994 was 7.8%, significantly lower than the regional or national rates, which fall in the 12-13% range. At this point in time some sectors of the commercial market in Cambridge offer prospective tenants or owners very little choice: virtually no built-out restaurant space is available, very little space is available large enough to accommodate either owners or buyers over 70,000 square feet.

Although the Cambridge market could benefit from new supply, the suburban market still has a substantial supply of vacant space. Now that the baby boom generation has been provided with workspace, the long term demographics do not indicate a great need for growth. With the passing of the "build it and they will come" era, it is unlikely that developers will build or banks will lend for speculative commercial development until more of the suburban excess capacity is absorbed. Without the addition of new supply in the Cambridge market, firms will increasingly be forced by the tight supply of space to choose suburban locations.

Maintaining Competitive Advantage

The federally mandated parking freeze has imposed an unfair competitive disadvantage on Cambridge. The city has been relatively fortunate that implementation of the freeze occurred during the recession, when expansion was slow. The parking freeze has exerted a chilling effect on the city's overall business climate. The city is actively advocating at the state level for the freeze to be replaced with a trip reduction program. It is hoped that prior to the Summer of 1995 positive negotiations to substitute the Trip Reduction Program for the freeze will be completed.

As Cambridge positions itself to achieve the growth needed to maintain a high quality business environment, regulatory stability and maintenance of an active economic development program are required. The city currently offers many programs and services designed to increase Cambridge's value added as a place to do business and to expand the job opportunities available to Cambridge residents. In the first quarter of 1995, the economic development office has provided service to 139 clients ranging from customized site searches and assistance obtaining permits, to helping small companies develop and implementing capitalization strategies. The economic development staff successfully advocated to the city's Pension Fund that 5% of the fund should be made available for venture capital investments in Cambridge firms. These funds are being managed by a private venture capital firm and will increase the amount of capital available to firms choosing to locate here. The publication of the Cambridge Women's Business Directory enables women owned firms to purchase from each other and identifies them to our larger firms as possible sources of goods and services. Other activities include support of commercial revitalization efforts in Central Square, infrastructure improvements to support expansion of the tax base such as the CDAG at University Park, and marketing materials developed jointly with the Chamber of Commerce. Ongoing support to the Cambridge Business Development Center supports the formation and growth of new enterprise.

While Cambridge's primary strategy is to focus on being a good place to do business, alternate strategies including tax incentives are available through M.G.L. Chapter 121A and the state Economic Target Area designation to induce new building or the renovation of existing buildings. To date the city's only commercial tax abatement was for Biogen. These incentives must continue to be available but will be used only in limited circumstances and under established guidelines.

The Economic Development Cabinet suggests the following twelve goals as discussion points towards an economic development policy for Cambridge.

1. Promote the growth and diversification of the job base by supporting the expansion and retention of existing Cambridge businesses.
2. Attract appropriate new businesses to Cambridge through increased marketing efforts and, in particular situations, through tax incentives.
3. Promote the formation of new enterprises to enhance the employment base over the long term and to make entrepreneurship a viable choice for populations under-represented in positions of ownership, including minorities and women.
4. Assist small businesses in accessing to the capital and other assistance they need to grow and create jobs.
5. Maintain thriving commercial districts that serve the retail, and entertainment needs of residents, while providing office and retail space to local businesses.

6. Revitalize Cambridge's older industrial districts as places where emerging technology and manufacturing suited to the Cambridge environment can thrive and provide a diverse mix of jobs for Cambridge residents.
7. Provide infrastructure which supports development while mitigating impacts on neighborhoods.
8. In accordance with "Towards a Sustainable Future", the city's growth policy document, leverage the resources of the Economic Development Division of the Community Development Department by participating in collaborative ventures with other city departments and organizations that have compatible interests.
9. Increase overall communication with all sectors of the business community.
10. Maintain a sufficient tax base to provide needed city services while maintaining, to the extent possible, stable commercial taxes rates.
11. Pursue the replacement of the parking freeze by the Vehicle Trip Reduction Ordinance.
12. Maintain a stable regulatory environment and seek to simplify the permitting process.

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