

Introduction

Nomination Document

The Brownfield Opportunity Areas Program provides municipalities with financial assistance to complete area-wide planning approaches to brownfields redevelopment. Completion of the program leads to a New York State designation as a Brownfield Opportunity Area. The second step in the program is the Nomination, which provides an in-depth description and analysis of economic and market trends, existing conditions, opportunities, reuse potential and recommendations. This document, Analysis of the Proposed BOA, is the third section of the Nomination Document for the South Buffalo Brownfield Opportunity Area.

The South Buffalo BOA

The City of Buffalo is the second largest city in the State of New York¹ and the transportation hub of the Buffalo-Niagara Region.² The total area within City limits is 41 square miles. It is located on the eastern end of Lake Erie and also borders the Niagara River which flows northward, over Niagara Falls and into Lake Ontario. Buffalo is the fifth busiest trade city in the U.S. and at the center of North America's fifth largest market, with access to over 9 million consumers living within a 125-mile radius. The City is also the center of the Buffalo-Niagara region for law and administration, banking and business, technology and communications,³ media and creative services, health care and medical research,⁴ culture and heritage,⁵ sports and entertainment,⁶ restaurants and retailing.

Located south of downtown, adjacent to Lake Erie and the Buffalo River, is the 1900 acre South Buffalo Brownfield Opportunity Area (BOA). The BOA represents a unique opportunity for the City of Buffalo to capitalize on many of these regional core strengths and mitigate its market challenges, capture current and projected regional growth industries, and leverage the BOA's natural assets, both economic and environmental, in order to transform the BOA from an underutilized industrial site into an engine of growth for the City and region.

A sustainable, long-term economic resurgence within the BOA cannot occur within a context of local and regional economic stagnation. Thus, it is critical to first evaluate the local and regional economy to

¹ New York City is the largest city in the State of New York

² A robust multi-modal transportation system including major interstate highways (I-90, I-190 and I-290), an integrated bus and rail Metro system, the Peace Bridge crossing to Canada, and much more

³ A powerful technology and telecommunications infrastructure including the University at Buffalo "supercomputer" and a dense network of fiber-optic lines

⁴ World class medical research and clinical facilities in the Buffalo Niagara Medical Campus including the Roswell Park Cancer Institute, Hauptmann-Woodward Medical Research Institute, and the University of Buffalo's Center of Excellence in Bioinformatics.

⁵ Important histories and related heritage sites including the Erie Canal Harbor and local Underground Railroad heritage sites; historically significant architecture including H.H. Richardson's Buffalo State Hospital complex, Frank Lloyd Wright's Darwin D. Martin House, Sullivan's Guaranty Building; and, The historic parks and parkways system designed by the noted landscape architect Frederick Law Olmsted

⁶ Major entertainment and sports venues including HSBC Arena, home of the Buffalo Sabres and site of major concerts; Dunn Tire Park, home of the Buffalo Bisons; and the Erie Community College Flickinger Aquatic Center, a magnet for amateur athletics competitions

identify opportunities for growth within the BOA. In keeping with these ideals, the overall demographic and market trends in the nation, state, and region were examined and compared to those of the City of Buffalo, followed by a focus on the city's strengths, weaknesses, physical land base and emerging or sustainable industries. Ultimately a series of directions and strategies have begun to emerge for the BOA.

Within the region, there have been numerous redevelopment projects and plans for revitalization to initiate economic growth while improving the quality of life for local residents, particularly along the waterfront and in downtown Buffalo. The strategy for the BOA must acknowledge and respect these ongoing and planned efforts, in addition to the economic clusters that are emerging in other parts of the City and region. It is important to realize that the BOA can both benefit from emerging economic, academic, cultural and environmental sectors in the CBD and other parts of the region, and act as an engine of growth in complementary or new sectors. By using its unique site characteristics and assets to generate growth in new sectors, the BOA can play an important role in the economic resurgence of Buffalo and the diversification of its economic base.

Often the focus of development policy in industrial cities that have been losing population and not experiencing job growth, such as Buffalo, has been to search for one or a few economic solutions to solve the region's problems. The reliance on only one or a few companies, strategies, or initiatives to bring revitalization make a city vulnerable to changes in the economic climate and independent decisions of only a few businesses. Opportunities for long-term growth of multiple sectors are provided by the diversification of the labor force, the focus on several industries that have long term-growth potential, in the city, state, and country, and the incorporation of the inherent environmental, cultural and historic value of an area or city into its revitalization efforts. Ultimately this creates a residential and commercial community that is truly diverse and sustainable, with an emphasis on the environmental, economic and social attributes of the community.

3.1 Community and Regional Setting

This section of the report provides a detailed analysis of the demographic changes and market trends that have taken place locally and regionally over the last several years, including: population and household growth, household characteristics (income and age), labor force and employment growth (by sector), and commercial and housing market data.

3.1.1 Demographic Context

Population

While both the Region and the City continue to lose their populations, this rate of decline is decreasing. The United States and New York State experienced population and household growth between 1990 and 2007, but the City of Buffalo and the Buffalo-Niagara Falls metropolitan statistical area (MSA) experienced significant population loss (*Table 3.1*). The City of Buffalo lost 11% of its population between 1990 and 2000 and a further 6% between 2000 and 2007. Households experienced similar rates of decline with a 10% loss between 1990 and 2000 and a 4% loss between 2000 and 2007. Overall, the Buffalo-Niagara MSA experienced a much lower population loss and a marginal household gain, although recent estimates (2000 to 2007) show a decline in the region's households. As a comparison, both the State of New York's and the United States' households grew in both time periods. These

demographic growth trends in the City and MSA reflect overall demographic stagnation, as well as both the movement of people from the City into the suburbs and the changing demographic trend towards smaller household size.

In the 1950s, the City of Buffalo was the 15th largest city in the United States with just under 600,000 residents. The population has declined in every year since, particularly during the late 1970s and early 1980s, when the city lost nearly one-third of its population—much of its middle class—in only five years. The City of Buffalo, like many other historic manufacturing cities continues to lose population, but not at the rate it once experienced (*Table 3.2*). From the period of 1990 to 2000 the City lost 11 percent of its population—leaving approximately 293,000 residents, 123,000 households, and 67,000 families in the City.

Table 3.1 - Population and House Change

Area	Percent Change in Population		
	Census 1990-2000	Estimated 2000-2007	Projected 2007-2012
City of Buffalo	-10.8%	-5.9%	-4.5%
Buffalo MSA	-1.6%	-2.5%	-2.2%
State of New York	5.5%	2.0%	0.5%
United States	13.2%	6.5%	4.6%

Area	Percent Change in Households		
	Census 1990-2000	Estimated 2000-2007	Projected 2007-2012
City of Buffalo	-10.1%	-4.3%	-3.9%
Buffalo MSA	1.5%	-0.4%	-1.4%
State of New York	6.3%	2.5%	0.7%
United States	14.7%	7.2%	4.9%

Source: RCLCO; Claritas, Inc.

The Buffalo-Niagara MSA also lags behind other regions with regard to immigration, with only 5% of the population that is foreign born as of 2006⁷. Regions with strong economic growth typically attract large immigrant populations because of the opportunities presented by strong economic growth. Immigrant populations, conversely, also add strength to the labor market by adding diversification to the labor force, and allowing for the import of specific skills.

⁷ American Community Survey, U.S. Census Bureau

Table 3.2 - Historic America Manufacturing Cities Continue to Lose Population

City	City Population (1990)	City Population (2000)	Percent Change 1990-2000	Rank Among Top 100 Most Populous Cities
Chicago, IL	2,783,726	2,896,016	0.04	71
Minneapolis, MN	368,383	382,618	0.039	73
Des Moines, IA	193,187	198,682	0.028	75
Akron, OH	223,019	217,074	-2.7%	85
Louisville, KY	269,063	256,231	-4.8%	87
Milwaukee, WI	628,088	596,974	-5.0%	88
Rochester, NY	231,636	219,773	-5.1%	89
Cleveland, OH	505,616	478,403	-5.4%	90
Toledo, OH	332,943	313,619	-5.8%	92
Detroit, MI	1,027,974	951,270	-7.5%	93
Cincinnati, OH	364,040	331,285	-9.0%	95
Pittsburgh, PA	369,879	334,563	-9.6%	96
Buffalo, NY	328,123	292,648	-10.8%	98
St. Louis, MO	396,685	348,189	-12.2%	100

Income

Average income, particularly in the City of Buffalo, is considerably lower than the State average and there are relatively few well paying jobs that offer career potential. The City significantly lags the MSA with regard to median annual household income: \$27,600 in the City 2007 compared to \$44,900 in the MSA. The MSA still lags the State of New York, which had a median annual household income of \$50,300 in 2007. A majority of households have an annual income under \$35,000 in the City of Buffalo (60% of all City households) with relatively few households having an income of \$100,000 or over (6%) (Table 3.3). When compared to the MSA, where 40% of households have an income under \$35,000 and 14% have an income of \$100,000 or over, it is clear that the City is home to a much higher concentration of lower-income households, with relatively few affluent households. Put another way, in 2007 the City had 25% of the MSA's households, but had 38% of the MSA's households with an annual income under \$35,000, and only 11% of the MSA's households with an annual income of \$100,000 or over.

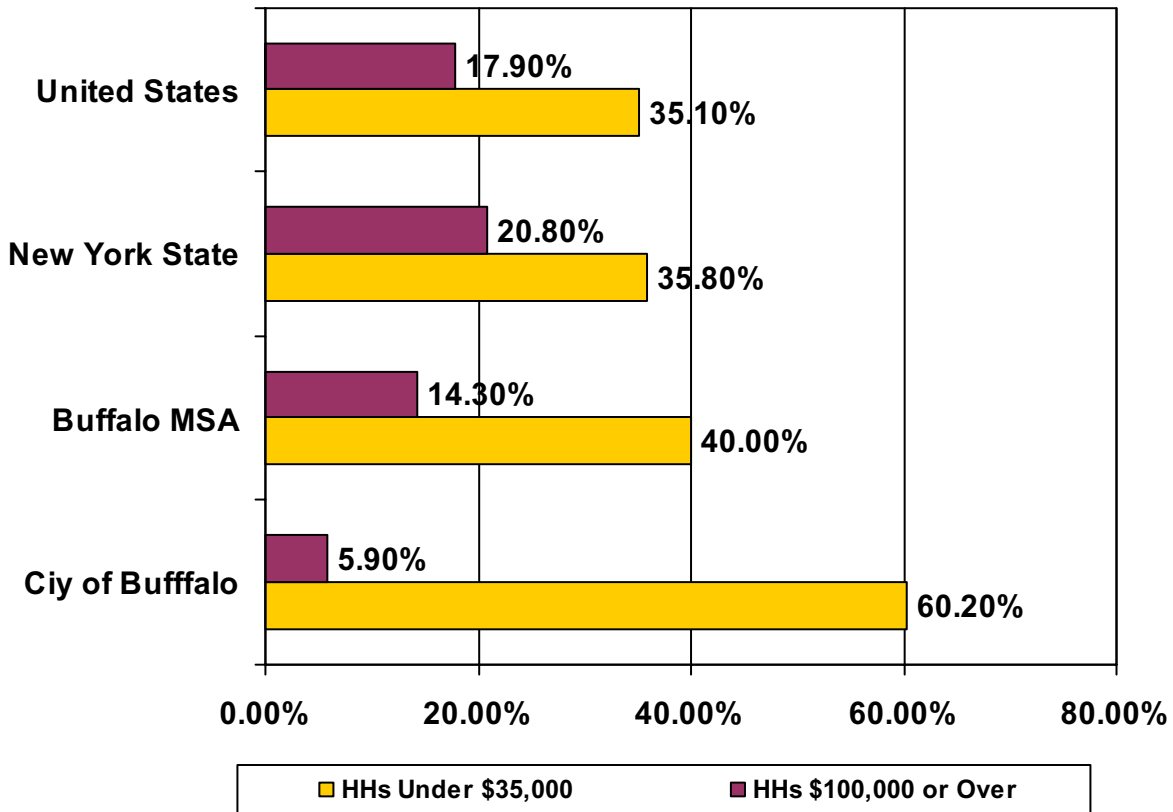
While it has long been assumed, a recent Federal Reserve study confirmed that as the U.S. continues to grow into a knowledge-based economy, human capital is truly the engine of economic growth. Therefore, "competition for future economic growth and vitality leaves states and large metropolitan areas vying to attract and retain the young, well-educated population within the U.S., commonly defined as 25-39 year olds with at least a bachelor's degree. These young professionals also exhibit certain general preferences, as they gravitate towards areas that have high job growth, high average pay, and an array of employment opportunities." ⁸Besides the direct advantages of high-wage jobs, the clustering of young professionals in an economy provides spillover benefits of knowledge and innovation through networks among firms and workers." ⁹ Amenities offered by populous urban areas are also thought to attract young professionals. They often prefer to live in lively neighborhood areas that are in, or within

⁸ http://midwest.chicagofedb.org/archives/2008/02/the_young_and_r.html

⁹ http://midwest.chicagofedb.org/archives/2008/02/the_young_and_r.html

a few miles of, the city center. Elmwood Village is an example of this type of neighborhood within Buffalo that has attracted a significant population of younger households.

Table 3.3 - Household Income



Source: RCLCO; Claritas, Inc.

Households

The City and Region have a relatively young population and high percentage of under 35 households but not the incomes jobs to support a large professional class. In 2007, an estimated 18% of the households in the Buffalo region were headed by an individual under 35, compared to 19% in the State and 21% in the U.S. The Buffalo region compares relatively well on this measure to other competitive regions, such as Detroit (19%), Cleveland (18%) and Pittsburgh (16%), but these regions are also struggling with much of the same socioeconomic issues that are affecting Buffalo.

The City does show a much greater concentration of younger households, with 26% of the households in the City under 35, which accounts for 36% of all such households in the region. However, 66% of the under 35 households in the City have an income of less than \$35,000 annually; nearly 50% of the under 35 households in the rest of the MSA (excluding the City households) earn less than \$35,000 each year. While having a large number of younger households is potentially a strong asset for a city or region, as of today the demographic data in the City and region indicates that these younger households do not represent a sizable young professional class. The missing ingredient appears to be a concentration of high-paying jobs with strong career potential that traditionally attract and retain a young, educated professional workforce.

Education

Despite below average incomes and a declining population, rates of higher education are on par with or better than State and national figures. The Buffalo region has the demographic base to compete in some segments of the global, knowledge-based economy. Buffalo has a number of colleges, universities, and technical training programs that contributed to its ranking as 18th in the U.S. for workforce education¹⁰. At least 13 nearby universities enroll over 77,000 students, and the Buffalo region ranked 4th in the number of science and engineering degrees per capita graduated each year¹¹. In 2006, 37% of the Buffalo MSA residents had at least an Associate's degree compared to 38% in New York State and 34% in the U.S.¹² The key is leveraging this existing, well-educated and well-trained workforce, while also generating and retaining younger graduates.

Key Findings

To sustain a young, educated and professional workforce, higher paying jobs that allow for growth should be fostered to cater to existing residents, to attract new professionals to the area and to capture and retain individuals from the region's many colleges and universities.

3.1.2 Market Context

Employment Trends

In the past decade, jobs in Buffalo have both declined in number and changed in composition. The loss of jobs is reversible, as Buffalo has added new jobs in growing sectors of the economy, such as the health and financial sectors. The trend away from manufacturing is indicative of a national restructuring, where jobs that rely upon a more limited skill set or training are moving to lower cost locations, either nationally or internationally.

The Buffalo-Niagara Falls MSA has experienced stagnant job growth since 1990, although there have been dips and gains in total employment during that period. From 1990 to 1993, the Buffalo region lost approximately 21,000 jobs, but from 1993 to 2000, the region gained back approximately 32,000 jobs – a net job gain during the 1990s of approximately 11,000 jobs. However, since 2000, job growth has once again declined, losing all of the jobs it had gained in the 1990s (*Table 3.4*). In 2005, the City's unemployment rate was 32% higher than that of the rest of New York State, 6.6% and 5.0% respectively.¹³

The regional economic picture is not characterized by outright decline, but more critically, by major shifts in the employment base. The manufacturing sector (including mining, construction,

¹⁰ The Metropolitan New Economy Index, 2001

¹¹ The Metropolitan New Economy Index, 2001

¹² 2003 American Community Survey, U.S. Census Bureau

¹³ Buffalo-Niagara MSA Unemployment rates annual averages 2002: 6.8; 2003: 7.3; 2004: 7.3; and, 2005: 6.6

manufacturing, wholesale trade, transportation, and warehousing) in the Buffalo region lost almost a quarter of its employment base from 1990 to 2007, with the most pronounced decline in manufacturing (losing nearly 35% of jobs in that sector). The retail sector also lost significant employment during this period which is consistent with demographic stagnation. During the same period the business sector (information, financial activities, and professional and business services) in the region increased by 25% and the Educational and Health sector grew by 17%.

Table 3.4 - Job Growth and Decline

Industry	NYS % Change 2001-2007	USA % Change 2001-2007	NYS % of 2001 Emp.	NYS % of 2007 Emp.	USA % of 2001 Emp.	USA % of 2007 Emp.
Total Nonfarm						
Manufacturing Sector Total	-6%	-1%	37%	35%	32%	30%
Natural Resources, Mining and Const.	5%	12%	8%	0%	8%	8%
Manufacturing	-16%	-11%	15%	0%	14%	12%
Wholesale Trade	-3%	5%	8%	0%	5%	5%
Transportation, Warehousing, & Utilities	0%	5%	6%	0%	4%	4%
Business Sector Total	1%	5%	22%	23%	18%	18%
Information	-15%	-12%	7%	0%	3%	3%
Financial Activities	15%	6%	1%	0%	7%	7%
Professional and Business Services	9%	11%	14%	0%	8%	8%
Retail Sector Total	3%	6%	22%	22%	25%	25%
Retail Trade	3%	2%	21%	0%	15%	14%
Leisure and Hospitality	4%	12%	1%	0%	11%	11%
Other Sectors Total	5%	11%	19%	20%	25%	27%
Other Services, Unclassified	5%	9%	17%	0%	11%	11%
Educational and Health Services	6%	13%	2%	0%	14%	15%
Total	0%	5%	100%	100%	100%	100%

Source: RCLCO; BLS

New York State and the U.S. experienced similar trends with regard to losses in manufacturing jobs and growth in business, educational, and health services, although the losses in the manufacturing sector have been more pronounced in the Buffalo region, particularly recently. The key finding here is that Buffalo is experiencing part of what can be considered a national or global restructuring of the labor force and economy.

The shift in manufacturing employment, for example, reflects in part the movement of manufacturing jobs to lower cost locations, either out of the country, or in the case of Buffalo, to lower cost areas within the country (*Table 3.5*). However, the manufacturing employment base nationally and locally has also been weakened – and will continue to be threatened – by the integration of advanced technology, which creates efficiencies that require less human resources. The Buffalo region still plays a key role in the global, high-tech manufacturing economic base, but nearly always higher-tech manufacturing means less jobs when compared to more traditional manufacturing.

Table 3.5 – Regional Manufacturing Employment Losses

Big Employment Losses, 2001-2007	Buffalo Job Loss	Buffalo	NYS	US
Fabricated metal product manufacturing	-1,444	-15%	-15%	-7%
Couriers and messengers	-472	-19%	-8%	-3%
Food manufacturing	-1,793	-23%	-8%	-5%
Telecommunications	-917	-23%	-31%	-25%
Miscellaneous manufacturing	-1,244	-26%	-20%	-9%
Nonmetallic mineral product manufacturing	-1,157	-35%	-22%	-6%
Electrical equipment and appliance mfg.	-1,267	-38%	-28%	-22%
Transportation equipment manufacturing	-3,427	-38%	-18%	-9%
Warehousing and storage	-719	-41%	17%	23%
Petroleum and coal products manufacturing	-744	-67%	-25%	-7%

Source: RCLCO; BLS

The Buffalo region has historically depended on industries that have experienced significant job losses and which will likely experience limited job growth in the near, mid, and long term future. However, the region has also shown significant strength in several growth sectors (*Table 3.6*).

Table 3.6 – Regional Employment Gains

Big Employment Gains, 2001-2007	Buffalo Job Gains	Buffalo	NYS	US
Accounting and bookkeeping services	417	15%	24%	2%
Scientific research and development services	761	20%	2%	13%
Educational Services	2,183	21%	13%	17%
Management of companies and enterprises	2,106	29%	9%	4%
Other professional and technical services	414	30%	8%	15%
Water transportation	131	35%	-2%	16%
Insurance carriers and related activities	3,366	39%	-1%	2%
Broadcasting, except Internet	326	40%	1%	-4%
Collection Agencies	2,164	81%	19%	10%

Source: RCLCO; BLS

Scientific research and development services, including bioinformatics and physical sciences research, experienced strong growth both in New York State and the Buffalo region compared to the rest of the country. This demonstrates the Buffalo area’s existing and growing competitive advantage within this economic niche, and the opportunity it presents to be an economic driver for the region in the future. Buffalo also experienced strong growth compared to the state and country in broadcasting, insurance carriers, collection agencies, and other professional and technical services, representing and potentially future growth industries.

Key Findings

Rather than relying on its traditional employment strengths, Buffalo should emphasize its emerging strengths, which are centered in employment sectors that are growing locally and nationally, particularly such sectors as scientific research and development services, education services, and insurance carriers or back-office functions, where growth in Buffalo is outpacing growth experienced throughout both New York State and the country. Encouraging a concentration of employment opportunities in these sectors on the South Buffalo BOA will create a distinct competitive advantage for the area, diversify its economic base and position the BOA as a significant economic driver for the region.

Housing Trends

Although new housing continues to be built throughout the Buffalo region, the City's total number of households has been in decline, creating a persistent oversupply of housing. It is anticipated that a portion of this oversupply will gradually be dealt with through city funded demolition. A chronically saturated housing market creates significant barriers to new housing construction. Recent housing that has been built generally lacks amenities and has been supported by subsidies and financing assistance. This approach is unsustainable, as subsidization of market housing is not a financially viable long term solution and, coupled with a declining population, could lead to additional vacancies elsewhere in the City. With little indication of a market reversal, there is no practical opportunity for new residential development in the BOA in the short and medium terms

Despite a broader context of household decline, the Buffalo region (the Buffalo-Niagara MSA) continues to add housing to its inventory – from 2000 to 2006, approximately 18,000 new housing units were permitted in the region, and according to a 2005 report by HUD, the housing inventory in the Buffalo-Niagara Falls MSA has increased by an average of nearly 1,600 units each year from 2000 to 2005. In the City, housing inventory has remained stagnant, despite significant rates of household decline that exceed the region rate, resulting in an increased number of vacant properties (*Table 3.7*).

Oversupply of housing inventory is a persistent and serious problem, regionally and within the City, as it depresses housing values and provides little market justification for new housing investment. In 2006, over 32,000 of the City of Buffalo's 143,000 housing units were vacant¹⁴, with an overall vacancy rate of over 22%. The City of Buffalo's "5 in 5" plan to demolish 5,000 vacant housing units in five years will have a positive impact on neighborhoods plagued by vacancies, yet will not make a significant dent in the city's housing imbalance.

Table 3.7 - Household Vacancies

	2000	2003	2006	2007	2008	2009	2010	2011
Buffalo City Housing Units*	145,574	143,107	143,373	143,462	143,551	143,639	143,728	143,817
"5 in 5 Plan" Implementation	0	0	0	1,000	1,000	1,000	1,000	1,000
Buffalo Vacant H.U.	22,854	25,147	32,647	31,647	30,647	29,647	28,647	27,647
Buffalo City Households**	122,720	117,960	110,726	110,726	110,726	110,726	110,726	110,726
Standard 5% Vacancy Rate	7,279	7,155	7,169	7,173	7,178	7,182	7,186	7,191
Total Oversupply	15,575	17,992	25,478	25,563	25,647	25,732	25,816	25,901

*Projection of housing units based on 2003-2006 trends

**To be conservative, assumes no household growth or decline after 2006

Source: RCLCO, U.S. Census Bureau

Even with this context of housing market dislocation, the City has experienced some investment in new housing projects, particularly a number of new construction multifamily projects and renovation projects that converted older buildings into apartments or lofts. These projects have generally been located in the prime areas for luxury multifamily housing – primarily the lakefront, downtown along Main Street, and in the Cobblestone district near the HSBC Arena. Infill, multifamily housing must be able to sell the consumer on the convenience and lifestyle associated with mature and amenitized urban

¹⁴ American Community Survey, U.S. Census Bureau

environments, and these areas are among the handful of locations in the region that can realistically sell this to the market.

Even the most attractive areas within Buffalo’s urban core do not yet offer the full range of urban amenities that truly drive urban housing demand, particularly among affluent move-down households and mature professionals. Further, the depth of market for households that are typically more pioneering is limited, particularly affluent young professionals. Given this limited depth of demand, today’s achievable multifamily rents and prices do not justify new construction – or significant rehabilitation – in nearly all areas of the city. As a result, many of the urban, infill multifamily residential projects that are planned or have been recently completed require significant subsidies or gap financing. Sources for this funding typically include historic tax credits, new market tax credits, tax abatements and payment-in-lieu-of-taxes, and financing from the Community Preservation Corporation, in addition to other subsidies and assistance from the city or local economic development agencies.

Key Findings

Residential uses should be a longer term goal for the BOA. Residential uses are a necessary component of a healthy mixed use community and would be most appropriate for some of the BOA lands, particularly along the river and on the lakefront, as they are a much higher value land use than industrial uses. Specific lands should be preserved for residential uses and all lands should be strategically planned to ensure that the potential for residential uses is not compromised by poorly sited infrastructure or industrial development.

Commercial Trends¹⁵

The City of Buffalo has a relatively strong office market with the majority of Erie County’s office space located in Buffalo, most of which is in the Central Business District. The City’s industrial market is smaller, both in number of square feet and as a share of the regional market, than its office market, though there may be potential for growth in higher tech manufacturing. A decrease in the number of manufacturing jobs, as noted in *Table 4* above, is not necessarily indicative of a decrease in the need for manufacturing space, as automation decreases the number of employees required. As well, part of the decline may be attributable to a decrease in the supply of manufacturing space rather than a decrease in the demand for such space.

By the end of 2007, there was 21.85 million square feet of commercial space (defined here as office, flex, and industrial space) within the City of Buffalo – this represents 25% of all such space in Erie County. Approximately 13% of this space within the City was vacant as of the end of 2007, compared to a vacancy rate of 8.5% in the rest of Erie County. The City has enjoyed a net absorption of 1.2 million square feet since the beginning of 2004, a little less than one-third of the 4 million square feet absorbed in Erie County.

¹⁵ Data from C.B. Richard Ellis, Buffalo

Office Market Trends

The City plays a very prominent role in the regional office market. Erie County has 18 million square feet of Class A & B office space, 53% of which is in the City (and 85% of the City office space is located in the central business district submarket). The office vacancy rate in the City at the end of 2007 was 9%, which was very similar to the office vacancy rate in the suburban submarkets. From 2004 to 2007, the City office market absorbed 1.5 million square feet of Class A & B space, the most of any submarket in the region. The second leading submarket in the region was the North submarket, which absorbed 735,000 square feet over the same period (*Map 3.1*).

The City's office market has been driven by recent additions to the downtown inventory, most notably the recent delivery of the 580,000 square foot Blue Cross Blue Shield of WNY headquarters buildings, as well as the delivery or repositioning of several other large Class A & B buildings over the past several years. However, areas just outside of the CBD have also thrived in recent years, including the emergence of the Larkin District (catalyzed by the very successful redevelopment of the Larkin Building into office space) and the Cobblestone District, adjacent to the HSBC arena. These submarkets outside the CBD are generally positioned as high-end Class B locations, and have drawn a range of tenants – including law firms, health care providers, and financial services firms – many of whom would have typically considered occupying back office space locations in suburban locations.

The City's strongest competition in the Class A & Class B office markets is the North submarket, which has 2 million square feet of Class A space and 2.6 million square feet of Class B space (this inventory in the North submarket represents 55% of all suburban office space). Office inventory in the North submarket is typically located in suburban, lower-density, single-use, surface-parked, business parks. The BOA relates, in many ways, to the suburban South submarket, which is not an established office market.

Office flex product, defined as commercial space that is primarily office in nature but also includes a quasi-office, light industrial, and/or retail back-office operation, is a common product type in the suburban markets, but is relatively unique within the City. There is 4.5 million square feet of office flex space in the suburban Erie County submarkets, the largest concentration (2.6 million square feet) being in the North submarket, while the City in its entirety only has 783,000 square feet of this type of space. Suburban office locations have an ample supply of lower-density office inventory in office parks which offer ample parking and strong access to the labor force residing in these suburban areas. In these regards, the suburban locations represent significant competitive threats to the City's office market. The City, however, has a strong competitive advantage as a central location with greater access to the region's urban amenities – an advantage that can't be readily recreated in the suburbs. The future distribution of office space demand in the region will depend greatly on the ability of these two

Map 3.1 - Office Submarket Map



Source: CB Richard Ellis, Buffalo

locations to leverage their own competitive advantages while mimicking, as much as possible, the competitive advantages of their key competitors.

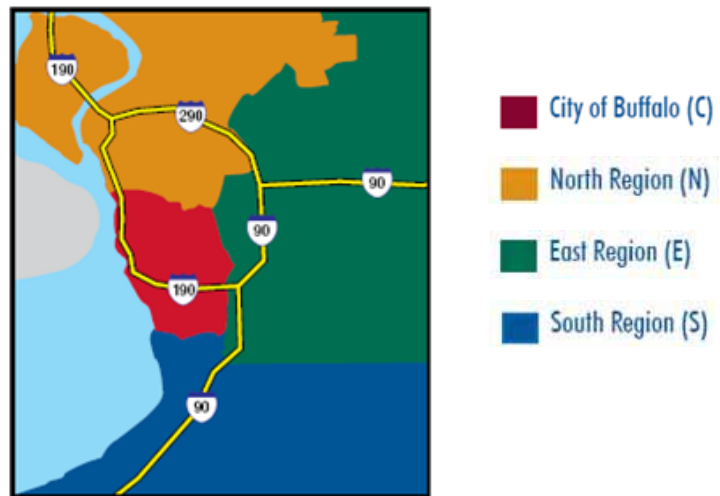
Industrial Market Trends

As of the end of 2007, there was 63.5 million square feet of industrial (manufacturing, warehouse, and industrial flex) space in Erie County – more than double the office inventory (including Class A, B, and C space, as well as office flex space). Industrial market vacancy in the County stood at just under 10% in 2007, a consistent level of vacancy for the past several years, with a total net absorption of 1.3 million square feet since 2004. In 2007, the City had only 11.7 million square feet of industrial space, representing only 18.5% of the total space inventory in the County. Further, the City’s vacancy rate at that time stood at 17.6%, with a total negative absorption of 224,600 square feet since 2004.

The weakness in the City’s industrial market is a function primarily of the presence of a number of larger, older facilities that become functionally obsolete once vacated even after pre-1950, obsolete facilities are taken out of the market survey. For example, the 17.6% vacancy rate in 2007 was primarily the result of the vacant space at the American Axle plant, which by itself placed 1.2 million square feet onto the market. Without this large vacancy, the total industrial vacancy would have been 7.4%, but reabsorbing the American Axle facility will likely be very difficult given its age and functionality.

Still, in 2007, the City’s 7.7 million square feet of manufacturing space represented 35% of the County’s total manufacturing base (*Map 3.2*). It is likely that more persistent vacancies are on the horizon as older facilities continue to outlive their usefulness. Given the City’s continued role as a center of manufacturing in the region, it is likely that moving forward the City can effectively compete for newer, modernized, high-tech manufacturing opportunities. It is important to note that the County has still absorbed a net of 1.3 million square feet of manufacturing space since 2004, despite continued declines in manufacturing employment. This is a strong reflection of the strength of the manufacturing economic base, but also the trend towards the building of new manufacturing facilities that require a smaller labor force because of advances in technology and processes. Declining manufacturing employment should not necessarily be confused with less demand for new manufacturing facilities.

Map 3.2 - Industrial Submarket Map



Source: CB Richard Ellis, Buffalo

The warehouse market has been relatively healthy over the past several years, with, as of year-end 2007, 23 million square feet of space, a vacancy rate of 11%, and net absorption since 2004 of approximately 520,000 square feet. The pocket of weakness in the County continues to be the East submarket, with 16% of its 12 million square feet vacant at the end of 2007; the East submarket has the County’s largest concentration of warehouse space, but has experienced a negative absorption of approximately 500,000 square feet since 2004, added to a significant increase in inventory due to a

surge of speculative construction near the airport. As of the end of 2007, the City held a relatively small share of the County's warehouse inventory (3.6 million square feet, or 17%), but showed a very healthy vacancy rate (6%) and a strong rate of recent absorption (250,000 square feet of net absorption since 2004).

The industrial flex market is defined by buildings with a primary industrial focus, but with a secondary office and/or retail component. The City has a relatively small share of this market (in 2007, 463,000 square feet, or 2% of the County total). This is a potential growth sector in the City, as it looks to compete more effectively with its suburban neighbors; industrial flex space can be more flexible than pure industrial users with regard to its compatibility with adjacent land uses.

The strength of the industrial market depends greatly on the form of the land use, with a greater propensity towards multi-tenant space than land sales and/or owner-occupied build-to-suit deals. Anecdotally, significant demand for high-quality locations exists in the build-to-suit market, although large tracts of available land in the desirable submarkets (including the City) are relatively unique. This is an opportunity that the Lakeside Commerce Park within the BOA has capitalized upon in recent years.

Key Findings

Both office and industrial uses should be encouraged to have a role in a redeveloped BOA. The currently healthy office market can rely on the BOA's central location, with potential for both prime office and back office. The industrial market indicates that either high tech manufacturing space or industrial flex space would be possible on the BOA. One key consideration will be how to best locate these uses so that they do not impede the introduction of residential, higher value commercial or additional recreational uses in the long term.

3.1.3 City and Regional Challenges

The Challenge of Reversing Decline

Many of Buffalo's challenges to future economic resurgence lay in its prolonged period of decline as a manufacturing center. Economic decline creates many real and perceived challenges, including urban decay, inability to retain and attract a quality labor force, decaying and excessive infrastructure, high cost of doing business, excessive and complicated tax burden, and complicated bureaucratic structure. It is clear from these challenges that managing the high costs of infrastructure maintenance, energy and taxation through subsidies is not a self-sustaining economic model. The subsidies cannot be indefinite but without the subsidies many existing business will fail or relocate and potential new businesses will look more favorably upon other regions. Subsidies are, at best, an interim solution and must be strategically targeted at businesses and industries that promote those economic sectors identified for long-term economic growth in the City and region.

Urban Decay

Particularly for the City, the challenge of prolonged urban decay is a challenge for businesses looking to locate or expand in the region. Urban decay has a number of impacts, including the lack of attractive urban cores that can help draw and retain a young workforce and decaying infrastructure that adds

directly to the costs of doing business. It also leads to the inability to sustain a rational tax policy, as decline forces tax rates up in an effort to maintain fiscal solvency.

Attracting and Retaining a Quality Workforce

The Buffalo region, in general, has been challenged to create an environment that can attract and retain the “best and brightest,” particularly younger workers who are a key engine of a knowledge-based economy. A quality labor force is attracted to vibrant economies, where a variety of job opportunities exist. While there is a strong university presence in the region and Buffalo statistically has a well-educated workforce, the region still generally functions as an exporter of young, educated professionals, as this segment of the labor market looks elsewhere for long-term career opportunities.

It is well documented that younger, high-quality workers are generally attracted to regions with an ample number of vibrant, urban cores. These types of workers – coined by Richard Florida as the “creative class” – generally want to live, work, shop, eat, and recreate in exciting, 24-hour environments. Currently, Buffalo has few of these places that meet this requirement. While ongoing efforts to revitalize the downtown and waterfront are encouraging signs, as of today Buffalo is still challenged to convince the creative class that the region and City is an exciting, vibrant place to live.

In the classic paradox, the real and perceived inability to attract and retain quality employees forces many employers to look elsewhere. Growing firms, especially in the emerging, knowledge-based sectors of the economy, look first and foremost to locate in regions that have proven track records of attracting high-quality employees – especially younger (and cheaper) college graduates. Thus, the inability to attract and retain high-value workers is a disincentive to create jobs, which is then a disincentive for high-value workers to choose to live in a certain area. Breaking this vicious cycle is certainly not easy, but generally requires a clustering of an emerging economic niche which can create market momentum on both the workforce retention and job creation fronts.

Decaying and Excessive Infrastructure

The Buffalo region suffers from significant decay in its basic infrastructure, including utilities and roads. Significant infrastructure decay particularly plagues older regions – and central cities within these older regions – compared to newer regions and/or competitive suburban locations because of the age of the infrastructure and use over time. As just one anecdote, water costs in Buffalo are unusually high relative to national averages, despite the access to a large body of fresh water, because much of the water infrastructure is in disrepair (reportedly much of the system still consists of the wooden pipes) which results in significant water loss and inefficiency. The lack of a quality infrastructure can increase costs, create inefficiency in a wide variety of activities, and therefore deter investment from businesses. With the continuing decline of both its residential and industrial bases, the city is also ‘oversized’, with an excess of infrastructure and developed land in relation to actual use and municipal tax return. Despite the reduced tax base due to population and business losses, the municipality continues to be responsible for maintaining and repairing the same amount of infrastructure once necessary for a much larger City.

High Cost of Doing Business

Despite aspects of the regional economy that generate low costs for businesses, overall the Buffalo-Niagara region ranked as the 57th most expensive region to do business in the nation¹⁶, with an index of

¹⁶ UB Regional Institute, Cost of Doing Business

106 (100 is the national average). Despite the higher cost of doing business, labor and office rents are more affordable than the national average, with indices of 86 and 80, respectively. The specific costs that contributed to Buffalo's relatively high costs were taxes and energy, with indices of 113 and 207, respectively.

High Cost of Energy

The region struggles with high energy costs, and was ranked as having the 2nd highest energy costs in the survey (defined as commercial and industrial electricity costs in cents per kilowatt hour).¹⁷ Large employers coming to, or expanding within, the region are often able to reach more favorable agreements with energy providers, particularly by providing access to cheaper hydroelectric power. However, access to these subsidy programs are limited and not wholly transparent, and even businesses that gain access to cheaper power have no guarantee how long that subsidy will continue.

Evidence strongly suggests that without energy subsidies (such as the Jobs for Power program, among others), the Buffalo region has an extremely difficult time competing with other places nationally, especially for businesses that use a significant amount of energy. Energy programs cannot be thought of as temporary subsidies, but instead as critical components to leveling the playing field relative to national competitors. Through stakeholder interviews, one local multinational firm confirmed that they had to decrease its operations in the City and believes that if the year-to-year power agreements were to disappear, they would have to relocate completely. These types of decisions are likely being debated in firms throughout the region.

Tax Burden

Population loss and a high concentration of poverty contribute to lower tax bases and greater demands for social services, undercutting a city's overall fiscal health. Perhaps even more important, such conditions undermine a city's ability to cultivate a skilled workforce and frustrate their efforts to grow and attract the firms so essential to building and sustaining a strong economy. Municipalities with lower property values or less commercial development have less tax capacity—a smaller pool of tax dollars with which to pay the bills for municipal services. And the bills are often higher, because these communities must pay for services not needed in newer or more affluent communities, like demolition of vacant buildings, repair of aging infrastructure, and support services for its senior population. In general the tax burden in the Buffalo region is excessive and complicated, creating significant additional costs and uncertainty for businesses looking to locate or expand in the region or City.

The tax burden can be mitigated with a number of available incentives and subsidies. For example, the City of Buffalo has a number of Empire Development Zones within its boundaries that provide financial benefits and incentives to companies located within the zone boundaries. These zones are beneficial for the city and create opportunities for the city to recapture jobs, households, and economic activity that it has lost to other regions and the surrounding suburbs. However, as with energy subsidies, these programs in most cases merely begin to level the playing field for the City relative to national and intra-regional competitors. In order to sustain any job growth created through these programs, the subsidies must provide long-term relief. In reality, a more systemic solution to the tax burden challenge will be required for the region to gain long term competitive advantage. As well, they can fuel interjurisdictional competition (and therefore deter regional policy solution), and often do not

¹⁷ UB Regional Institute, Cost of Doing Business

strengthen local economies as the public costs per jobs are high and businesses often close or leave the area shortly after receiving them.

Fiscal Solvency and Complicated Bureaucracy

Beyond the cost burden, businesses also face a complicated tax structure, which makes it difficult to compare costs in the Buffalo region with other regions, as well as compare the tax burden in the City to other jurisdictions within the region. This complication is enhanced by political uncertainty, particularly regarding the fiscal solvency of the City. Similarly, businesses looking to move into Buffalo face a complicated economic development infrastructure. Local economic development agencies and organizations are critical players in any strategy of regional and local economic resurgence. However, the sheer number of organizations, their overlapping jurisdictions, and often competing goals or incentives complicates the process for businesses looking to locate in the City or surrounding suburbs.

Key Findings

The longer term solution for the BOA should be to capitalize on existing strengths and promote new economic directions that support regional economic drivers and diversify the economy. This will help to establish companies that do not rely on subsidies, will create good jobs and will attract and retain a quality workforce.

3.1.4 City and Regional Strengths and Opportunities

Build on Existing Assets

The region and the City have a number of positive attributes that can provide true foundations for economic resurgence. Buffalo has a large pool of underutilized labor and it possesses many of New York State’s major medical, educational, and research institutions—all critical building blocks for Buffalo’s future competitiveness. The South Buffalo BOA in particular has extensive infrastructure, including rail and port access, and given the increasing cost of fuel this infrastructure will become even more relevant. The best approaches to help the City of Buffalo become successful will require strategies for the future that may be radically different from those that worked in the past. Ultimately, Buffalo must capitalize on its current economic strengths and grow new economic capacity.

Low Cost of Living

The Buffalo region is a relatively affordable place to live, with its cost of living just below the national average. An affordable housing stock and lower-cost health care are key drivers of affordability, even though utility, grocery, and transportation costs are higher than the national averages. Cost of living indices are not the primary factor determining economic strength – in fact, many of the most vibrant regions in the nation are also the most costly – but they are a relevant indicator of competitiveness for regions, such as Buffalo, who must retain and attract investment dollars (and human resources) when cost of doing business and living is a particular concern. Metro areas with higher costs of living than the national average and significant economic stagnation (Detroit and Cleveland are 9% and 5% more expensive than the national average, respectively) face difficulty attracting households when compared to less expensive growth areas such as Charlotte and Chattanooga (both are approximately 5% cheaper than the national average).

The affordable housing stock is particularly attractive given the rising housing costs in many other regions within the U.S – even areas once considered to be very affordable. Low cost of living for employees can translate directly into the cost of labor. The relatively low cost of home ownership also allows for younger and lower-income households to own their home, which provides a shorter path to long-term wealth creation, and is an attractive advantage for an increasingly mobile labor force. This regional strength should be actively marketed when recruiting new companies and households to the region.

Gateway to Canada

The Buffalo-Niagara Falls region sits at one of the primary borders between the U.S. and Canada, acting as a gateway for bi-national trade of goods, services, human capital resources, and research and development. Bi-national trade certainly creates strong demand for goods and services throughout the Buffalo region. The large population throughout the “Golden Horseshoe” provides access to both a large marketplace and a large labor force, which are major assets for businesses looking to expand or relocate.

Approximately \$1.2 billion in trade crosses the US-Canadian border each day; a significant portion of this trade is goods that are part of a production chain. While there are 147 border crossing points between the U.S. and Canada, a large portion of this trade flows through only a small number of points. The Buffalo-Niagara area sees \$57 billion worth of goods cross annually or \$156 million each day. The current weakness of the dollar will continue to create strong incentives for cross-border production of goods and services. Access to the labor force and markets on the U.S. side of the border are an even greater, long-term incentive for bi-national trade.

The City of Buffalo has a central location within the Western New York region, allowing it to capture many of the benefits of this region’s proximity to Canada. The central location is strengthened by the multiple points of access – particularly significant rail and water transport infrastructure – which will be increasingly important as fuel prices to increase trucking costs.

The border relationship between Canada and the United States also extends to tourism, where travelers and visitors flow daily across the border. In 2006, over 27 million passenger cars and 4.8 million non-commercial trucks used border crossings—benefiting the economies of both countries. In this same period, it is estimated that Canadians visiting the United States spent \$10 billion, 80 percent of which supported dining, hotel stays, and gift purchases. However since 2001 homeland security concerns and measures have slowed border and bi-national economic exchange. For example, new layers of security and more complex rules and regulations have been attributed to the decline in annual crossings. Canadian tourism spending in the United States should have risen with the strong Canadian dollar, but total annual crossings in 2005 compared to 1995 show a 50 % decline.¹⁸

Tourism

Tourism is a potentially important economic generator with regard to generating jobs, sales revenues for businesses, and tax revenues for the city and state governments. State and city initiatives and organizations, including the Buffalo Niagara Cultural Tourism Initiative, the Buffalo Niagara Convention & Visitors Bureau 2002 Marketing Plan, and the Olmsted Crescent Marketing Plan, have had an

¹⁸ Metropolitan Policy Program at Brookings, *The Vital Connection: Reclaiming Great Lakes Economic Leadership in the Bi-National US-Canadian Region*, 2008

important role in promoting tourism within Western New York. In August-September of 2007, 20% of the Buffalo-Niagara Falls MSA employment was in retail trade and leisure & hospitality.

A Waterfront City

The City of Buffalo's extensive waterfront, both lake and river front, represents a latent competitive strength. Buffalo's waterfront along its inner and outer harbor, and the Buffalo River, represents an opportunity to create significant cultural, entertainment, and recreational amenities, in addition to high-value residential and commercial development. Buffalo's waterfront need not be the classic tourism draw of Niagara Falls in order to have an important impact on the area's tourism economy. A revived waterfront will not only help Buffalo to capture a greater share of the current and future visitors to the Western New York region but also create the foundation and distinctive feature and therefore a focus for reinvestment.

An Urban Center

The competitive advantage of the City does not stop at the water's edge. Urban center cities have a unique positioning within regional economies. The value of an urban core, no matter how hidden by decades of decline, is a strong competitive amenity. Center cities have historical significance in addition to urban design that truly allows for mixed-use, vibrant neighborhoods – exactly the type of places that are increasingly desired among residents and employees, especially the workers in the knowledge economy. The genuine value of the urban core is also a competitive advantage that cannot be easily recreated in suburban locations. Through its Comprehensive Plan – Queen City in the 21st Century – the City plans to further rejuvenate and strengthen its downtown and achieve its social, environmental and economic goals for the City and Region by focusing investment in five areas:

- The Erie Canal Harbor and Waterfront District
- The Downtown Education and Public Safety Campus
- The Government Center and Business District
- The Theatre District
- The Buffalo-Niagara Medical Campus

Hard-Working, Educated, and Affordable Labor Force

Unlike many regions where the low cost of labor comes with a tradeoff of poor skills, the Buffalo region has established a reputation as having an affordable workforce that is educated and hard-working, making it a very attractive area for businesses looking to relocate or grow in the region. The quality of the labor force was known to be a significant draw for GEICO, when they decided to open operations in Amherst, and all reports suggest that their expectations were exceeded.

The quality of the workforce is due in part to the existing base of skilled labor force that is transitioning out of the manufacturing sector. Chemical manufacturing, for example, has a strong workforce base in this region with years of experience. Buffalo also has a strong base of colleges, universities, and technical training programs that contributed to its ranking as 18th in the U.S. for workforce education¹⁹. As stated earlier, 37% of the Buffalo MSA residents have at least an Associates' degree compared to 38% in New York State and 34% in the U.S.²⁰

¹⁹ The Metropolitan New Economy Index, 2001

²⁰ 2003 American Community Survey, U.S. Census Bureau

Part of a Research and Education Corridor

The University at Buffalo is the prime driver of research expenditures in the Buffalo region. In 2004, University at Buffalo research expenditures were approximately \$259 million, which ranked it 54th out of the 222 universities that had research expenditures over \$25 million (and had received some form of federal funding in the past decade). From 2000 to 2004, the research expenditures at the University at Buffalo had grown 8.4% per year.

Beyond the research at the University at Buffalo, there is significant research activity ongoing at a number of other Western & Central New York universities, including but not exclusive to: Rochester Institute of Technology, University of Rochester, Syracuse University, State University of New York College of Environmental Science and Forestry (SUNY-ESF), Cornell University, University at Albany, and Rensselaer Polytechnic Institute. Among this group, an estimated \$1.07 billion in research dollars were expended in 2004²¹, in addition to the expenditures at the University at Buffalo. The total expenditures for the entire Western and Central New York area was \$1.33 billion. To put this in perspective, the four universities in the Raleigh-Durham area (University of North Carolina – Chapel Hill, Duke University, North Carolina State University, and Wake Forest University) had annual research expenditures of \$1.36 billion in 2004. The impressive cluster of research activity in Western and Central New York does not even account for the significant research occurring within several universities in Toronto, Canada.

The potential to create a true academic cluster presents opportunities for future research collaboration, cross-university linkages, and eventually, a focus on applied research and technology transfer. Research clusters that can focus on translational research, which is the commercialization of research into market products, are engines of growth in the regional economy. Buffalo is faced with a unique opportunity to establish itself as the commercial center of this nascent research cluster.

Key Findings

Buffalo possess a unique set of characteristics and resources that can become vital competitive assets. These include an educated workforce, distinct physical features such as the waterfront on Lake Erie and the Buffalo River, access to a large bi-national market and regionally successful market sectors such as research and tourism.

²¹ Does not include any expenditures from RIT, which did not appear on the list of universities which received federal funding, and thus total research expenditures were not available.