

MEETING MINUTES
Office of Economic Development
Economic Development Advisory Board
57 E. 1st Street, Mesa, AZ 85201
Lower Level Council Chambers

November 3, 2020 7:30 a.m.

MEMBERS PRESENT

Jim Kasselmann, Chair
Rich Adams, Vice Chair
Brian Campbell
Deb Duvall
Matt Likens
Christopher Nickerson
Natascha Ovando-Karadsheh
Dominic Perry
Brad Wilson

EX-OFFICIO

Mayor John Giles
Chris Brady, City Manager
Sally Harrison
Jeffrey Pitcher

STAFF PRESENT

William Jabjiniak
Jaye O'Donnell
Travis Cutright
Maribeth Smith
Natalia Cuneo

GUESTS PRESENT

Jessica Morin, CoStar

The Economic Development Advisory Board meeting was conducted via virtual platform with options for the public to participate or listen electronically as posted on the meeting agenda.

1. Chair's Call to Order

Chair Kasselmann called the Economic Development Advisory Board meeting to order at 7:30 a.m. Mayor Giles and City Manager Chris Brady were welcomed to the meeting.

Chair Kasselmann reported that the City of Mesa Office of Economic Development (OED) received 3 Gold and 3 Silver Excellence in Economic Development awards from the International Economic Development Council (IEDC) as well as their international re-accreditation. He congratulated Bill Jabjiniak and his team on garnering those awards for the City and to the City as a whole for that type of recognition. Bill Jabjiniak reported that OED also received a Golden Prospector Award from the Arizona Association for Economic Development for our Asian District efforts. He appreciated all of the support from the City Manager and our elected officials in those endeavors.

2. Items from Citizens Present – None.

3. Approval of Minutes from the October Board Meeting

Chair Kasselmann called for a motion to approve the minutes from the October 6, 2020 meeting with a minor staff correction to the date in the header.

MOTION: Rich Adams moved to approve the October 6, 2020 minutes with the correction as noted; seconded by Deb Duvall. Upon tabulation of votes, it showed:

AYES – Kasselmann, Adams, Campbell, Duvall, Likens, Nickerson, Ovando-Karadsheh, Perry, Wilson
NAYS – None

Chair Kasselmann declared the motion carried by unanimous vote.

4. City of Mesa Smart City Master Plan

Travis Cutright, City of Mesa Chief Information Officer, reported on the City of Mesa Smart City Master Plan that was developed a couple years ago through engagement with all City departments, the Mayor's office, Council, the City Manager's office as well as citizens and businesses. A Smart City can mean something unique to every organization. The Mesa Way is to deliver innovative services and solutions for our residents, visitors, and businesses large and small. We anticipated 10 to 20 citizens and business owners in the workshops, although over 150 people attended. It was great to hear what is important to them. From all of these conversations, a strategic plan was developed. For the City of Mesa, a Smart City is one in which the latest technologies and data-driven insights are leveraged to improve the quality of life, civic engagement, economic development, service delivery, and community vibrancy for its citizens, businesses, and visitors. It is actually more about people than the technology itself. A Smarter Mesa is where modernized communications infrastructure, the Internet of Things (IoT), connected smart systems and data work together to provide responsive solutions that enhance the live, work, and play experiences for those in the community.

Seven key strategies were created. Smart Community - create an engaged, inclusive & equitable community that provides a high-quality life to all Mesa citizens. Smart Downtown - create a vibrant, attractive downtown that is thriving with live, work, and play activities for both residents and businesses. Smart Environment - protect the environment and create sustainable options where possible. Smart Government - create a responsive, engaged city that makes decisions based on data and understands citizen needs. Smart Infrastructure - modernize essential infrastructure to provide essential city services and preserve a high quality of life. Smart Public Safety - create a safe and secure environment for all citizens. Smart Transportation and Mobility - create accessible, equitable, and safe multi-modal transit options along with creating the ability to move easily throughout Mesa.

A core piece in Mesa's strategy is our 213 miles of fiber and 442 miles of conduit that provide services as well as leverage partnerships. Mr. Cutright has not seen any other city with more fiber in the ground than Mesa. We continue to put fiber and conduit in the ground in an effort to reach most if not all residents and businesses in the city. Smart Mesa Today provides initiatives in each area. For example, an intelligent traffic system controls our transportation lighting based on time of day and load. This system also interacts with our Fire apparatus to phase the lights to allow them through and respond to calls quickly. The Facility Automation initiative will retrofit city buildings to achieve significant energy savings. A Food-to-Energy program partners with schools, restaurants, and grocers to turn food waste into fuel for the fleet that picks up waste. Over the next 18-24 months, we will expand our communications infrastructure and Wi-Fi reach, add interactive kiosks downtown, implement parking detection technology, and advanced metering infrastructure. A Smart City is not a destination, but a direction to the future through an ongoing program to innovate, increase efficiencies, and expand services to our citizens.

BOARD DISCUSSION

Rich Adams believed the old system for getting fire apparatus through intersections utilized strobe lights. He asked if the new system will use GPS detection. Mr. Cutright stated the old system had a device on top of the street lights which would detect the strobe on fire and police vehicles and phase the lights as they approached. The new system uses GPS technology to detect the route of emergency vehicles and phase the lights so they can roll through the intersection safely and shorten response times.

Deb Duvall asked if the strategic plan process involved persons or community members who were familiar with each of those seven areas in order to identify what some of the future activities might be,

or if there was a core group of city staff who would strategize among themselves? Mr. Cutright stated the workshops were opened to every citizen in Mesa. The turnout was a mix of business owners as well as folks from 12 to 80 years old. We were able to capture different perspectives from many different demographics. City staff were also involved as well as a consultant with expertise in these particular areas.

Brian Campbell expressed his appreciation to the Mayor for launching this initiative and the City Manager and staff for bringing it all together. It is monumental and key to leading the city to the next generation. He noted Governor Newsom of California stated we can't manage what we don't measure. It is clear we are collecting a tremendous amount of information. What are we doing at the 30,000-foot level to see the macro plans and to help manage the city better? How are we integrating into other aspects of the region from transportation, water, utilities, and economic development to where Mesa can become that leading city in the region and take advantage of all this great work and this great vision? Mr. Cutright stated we are very engaged in the Smart Region. He is part of the Connective Council which meets monthly to leverage data collected through all agencies for the good of the region. The City of Mesa was ahead in most of these initiatives and is viewed as a leader. He commended the Mayor, Council and City Manager for these efforts.

City Manager Chris Brady stated the City has a data portal that shares all the data collected in these kinds of initiatives and the performance of the City. The Environmental Sustainability Department tracks data related to environmental sustainability and Mr. Cutright tracks data related to Smart Cities. It becomes part of what we do every day. Transportation tracks their technology and the replacement of lights in the Smart Intersections. Regionally, the Maricopa Association of Governments collaborates on many initiatives. Transportation is the hot topic now as we look at Proposition 400. Transit is part of the solution, but also having Smart Streets to help move cars and buses around the region in a smart way is also part of it. There are a lot of opportunities the city has been a part of along with all of the other cities in the region as well as discussions on water, transportation, and economic development.

Mr. Campbell is always so impressed when we engage with the Googles and other large data customers that the Economic Development team does a great job bringing to the Valley and to Mesa. They have new techniques and abilities to mine this data so that we become efficient at all levels. As a business owner, he is learning how to take advantage of that data. He would like to see extra training or skill sets that we can bring to our department heads and others in the city to make it second nature to take advantage of that data and make us better at what we do. He was very encouraged and excited about the Smart City initiatives and commended everyone involved for the great leadership.

Mr. Cutright stated we do have data scientists on staff to work with our departments. For example, on the new public safety facility, analytics were done on response times and other items in order to determine the best location to build that new facility. The Department of Innovation and Technology has a data services team that works with departments. As we deploy more technology and collect more data, we put all that into the portal Mr. Brady mentioned in order to really understand the story and how we can be more efficient.

Jeff Pitcher noted these are initiatives that the city deploys, although Cox and other entities are involved in the downtown WiFi and fiber. What other partners are involved in these events and how are we coordinating with them?

Mr. Cutright stated we are continually engaging with partners. There have been conversations with Century Link, especially with the pandemic, on how to reach underserved parts of the community. The reality is there are areas in the City of Mesa that don't have many options for internet connectivity,

which is critical now. We are working to identify those areas and how as an organization we might be able to help bridge that gap. In certain instances, we would need to partner with folks like the Verizons, T-Mobiles, and Googles. In other instances, we may have to be creative as a City to see how we can expand services in certain areas where those partners are not there, and it would be cost-prohibitive for them. 12 West had trouble getting internet connectivity even though Century Link is directly behind them. The City was able to step in and help facilitate some connectivity. There are some areas that just don't have the infrastructure to support connectivity to the end user. We continue to have conversations with partners and explore public-private partnership opportunities to help bridge these gaps.

Chair Kasselmann felt it might be worthwhile to bring Mr. Cutright back with a heat map showing where those potential gaps are in the City and the overlay of businesses in those areas. If there needs to be additional attention to bringing fiber optic cable to certain areas to support continued growth to the City and the ability of families to connect within the City, it is important to see where our strengths are and where the holes are within the map of the City.

Mr. Cutright felt that would be a great conversation and looked forward to coming back before the Board.

5. Commercial Real Estate Market Activity

Jessica Morin is the Director of Market Analytics for CoStar, a commercial real estate data analytics company. She will provide an overview of the Phoenix Metro industrial scene as well as development around the Phoenix-Mesa Gateway Airport. The pandemic has accelerated existing trends in the market that have been tailwinds to the industrial sector, which is doing better than other commercial real estate property types that have been more vulnerable to the pandemic, such as hospitality, retail and office. Industrial has benefited from the shift away from brick and mortar retail and the increasing dependence on online ordering which has increased the need for warehouse and distribution space. Phoenix's competitive advantage as a low-cost market in the entire western region continues to drive new industrial users here and developers have taken note even before the pandemic. There was a significant amount of construction underway in metro Phoenix, almost record level, before the pandemic. Now, 3 million SF of construction has started in the 3rd quarter. A construction start during a pandemic is significant because other projects and developers have paused, while industrial continued to pump out new product because of the significant demand. A chart on Quarterly Office Leasing Volume showed significant leasing activity as well as the third highest quarter in Phoenix history for leasing volume. We expect a continued increase as researchers collect deals that were signed in the 3rd quarter over the next few weeks.

Amazon has aggressively expanded over the past several months and has also announced future growth plans. They moved into 10 warehouse locations, a 1.1M SF building, Park 79 in Tolleson, Tempe 1, and near the Chandler Airport. Those spaces range from 100K to 1.1M SF. Amazon is not just building massive warehouse and distribution spaces, but they are also building last-mile facilities in population-dense areas to allow for 1-day delivery. Amazon plans to open 11 new customer fulfillment sites in Avondale, Chandler, Goodyear, Mesa, Phoenix, and Tempe by the end of the year. Outside of Amazon, we have a very diverse range of tenants in the market, which is extremely important for Phoenix in diversifying our economy so that a market shock to one sector will not throw our whole economy off balance. We have mattress manufacturers, food and beverage manufacturers, advanced manufacturing, and E-commerce.

On an annual basis, our demand has outpaced new supply since 2010. There has been significant demand for space and developers have not been able to keep up, even though they have been

pumping out an increasing amount of new supply. Our overall vacancy rate heading into the pandemic was near a historical low. About 7.3% of the space in the market was available and vacant. That is very tight for the Phoenix market. In the 3rd quarter, demand for industrial space fell short of new supply and vacancies edged up slightly. More than 2.5M SF was absorbed in the 3rd quarter and vacancies were up to 7.8%. Just over 10.5M SF delivered market wide in Phoenix so far this year. By year-end, deliveries will surpass 15M SF. Next year, there is going to be more.

Market wide, we have 11M SF that is underway and about half of that space is already accounted for. About two-thirds of the construction is in two West Valley submarkets, Glendale and Goodyear. Glendale's inventory will grow by nearly 40% when the 5M SF of industrial space delivers over the next few quarters. In the East Valley, several buildings are underway near Phoenix-Mesa Gateway Airport. The Airport is in a submarket labeled Chandler, North Gilbert. Once all that new supply comes online, the existing inventory there will grow by about 2%.

CoStar's base case scenario for commercial real estate is based on the forecast that employment returns to its pre-pandemic rate by mid-2022. All of the jobs lost in the second quarter this year would be recouped by mid-2022. Jobs equals more demand for space. Vacancies are expected to edge up until mid-2022 because new supply will outpace demand, although vacancies are nowhere near the level we saw during the last recession at about 16%. We are still looking at vacancies well below 12% in the overall Phoenix market. Our very low vacancy rate metro-wide has resulted in year over year rent changes that are a robust 6% each quarter on an annual basis. We have enjoyed 33 straight quarters of rent growth. However, we do expect that rent growth to lose momentum because of the increase in new space that is on the market and an increase in vacancy rates. Ms. Morin was much more optimistic than the base case scenario and did not believe we would see any rent reductions. CoStar's base case shows two quarters of rent reductions.

High demand and affordable markets that have received new inventory are leading the market for rent growth. The Phoenix market posted year over year rent growth of about 6.2%. The market that is doing the best for rent growth is Tolleson with 7.6%. Many West Valley submarkets have the room to push rents because of the affordability. The lowest submarket for rent growth was at 4.7%, and even Scottsdale Airpark at 5% is still extremely healthy rent growth which far outpaces the national average. Investment did slow down across commercial property types. One major reason is that people can't tour buildings right now and that is keeping people from closing on a deal. Investors and lenders have pressed the pause button due to the uncertainties in the market. Transaction volume did pick up in the 3rd quarter after a slowdown in the 2nd quarter, although it is still down significantly from last year about 40%. Overall, sales volume reached about \$570M so far this year.

Phoenix-Mesa Gateway Airport

Within a two-mile radius around the Airport, industrial inventory is about 3.2M SF. Since some new spec projects have come online, the vacancy rate is around 37%. Our market rent is about \$9.38/SF. Under construction is about 780K SF and our net absorption was pretty strong over the past 12 months at 238K SF.

New supply has been driving demand for space in this submarket. Historically, there has not been much space to move into so we have not seen a lot of leased space. Starting in late 2019 to 2020, we see record levels of tenants committing to space here. We have had a diverse range of industries here. Dexcom signed for 500K SF, and Lowes just signed a deal for a warehouse and distribution fulfillment center in the area, in addition to the aerospace there as well. Vacancies are elevated because of the new supply that has just recently delivered. With a small submarket, any new supply will be a shock.

When something comes onto the market, a couple quarters later that space will be absorbed and the pattern continues.

Projects Underway – Landing Phase III will have 525K SF between 7 buildings and Marwest Enterprises is expected to deliver those halfway through next year. SkyBridge Buildings 2 and 6 with 114K SF and another 83K SF building are on track to deliver by the end of the year. Once those projects are complete, there will be a total of 23 buildings and 4M SF in and around the Airport near Ellsworth and Ray Roads in Mesa.

BOARD DISCUSSION

Natascha Ovando-Karadsheh felt just hearing that new supply is driving demand is absolute music to this Board's ears. For many years we have advocated for spec industrial space knowing that we had short supply. We were able to deliver that due to the hard work of our Economic Development department. Bill Jabjiniak and his team have worked hard to advocate for Mesa. The timing could not be better for having that in place and having the infrastructure in place to be able to recruit that kind of development. She commended the Board and our elected officials for sharing that vision. It has really made a huge difference. If we didn't have that right now, we would really be struggling.

Bill Jabjiniak noted the report only covered a two-mile radius. A recent announcement for 330K SF north of Roberts Tires just outside the 202 and Power Road was not included in that report. When Ms. Morin stated the submarket has 500K SF under construction, that is the size of the Landing Phase III. There is a lot of other activity. There will be a press piece today regarding close to 2.5M SF on Ray Road still to come. He noted that Falcon Field is tied to Apache Junction and southeast Mesa is not even labeled as part of Gilbert and Chandler. We need to work on identifying our own submarket that counts all of east Mesa. Those are some changes CoStar needs to consider. The amount of activity on the south side whether it is in the Tech Corridor or south of the Airport is pushing in excess of 5M SF. A couple years ago, this Board talked about why we can't land some of these projects. Dominic Perry would say it was because we didn't have the high ceilings and big floorplates. Today, we have that, and they are starting to fill. Those buildings mean jobs. It has been great to see the activity. There was an announcement last week with Wyndham for an additional piece on Phoenix-Mesa Gateway Airport. There is 150K SF off Ray Road at the Planning Board next to four others that are 30K SF each. Those add up to a significant amount.

Chair Kasselmann felt this presentation on what is happening in the greater Valley and around Phoenix-Mesa Gateway Airport was exciting for this Board. There is an opportunity for us to seize. He asked if we were seeing other brands out there in the nation making similarly significant moves like Amazon that we ought to try to target.

Ms. Morin stated Mesa has done extremely well as has Phoenix as a whole. We are one of the top markets for data centers. We have attracted some major players like Microsoft, Google, and Apple. For e-commerce, Amazon will remain king, but there are significant others that are expanding in that way as well. She did not know that there was one company to continue to target. The diversification of industry that economic development and government officials have been honing in on has been key to Phoenix prospering during this time. Even though we have seen job losses, we are still a leading market in the country for employment. We have been doing well with capturing everything we can.

Chair Kasselmann asked what is looking to be opportunistic for Mesa compared to other cities? Across the country are there other cities seeing the type of growth we have in the Phoenix area and what types of companies are they attracting? We want to capture that kind of intel to give us some direction moving forward.

Ms. Morin stated there is not one particular sector or company that comes to mind. Industrial companies want to locate based on affordability, where the labor is, and where they can reach a huge consumer base. Phoenix does well there, especially compared to California prices for land, building, and labor. We can still reach 35 million consumers within a day's truck drive. We do well for data centers because of our mild climate and no blackouts or brownouts. We have an extremely reliable power system. Advanced manufacturing has been extremely strong here, especially in the East Valley with highly educated and skilled labor. Mesa is well-positioned across the board for all of those sectors. There is not really an industrial market in the nation that is attracting a certain sector better than what Phoenix is doing now.

6. Director's Update

William Jabjiniak congratulated Dexcom for the fourth largest lease in the region in that reporting period. There was a recent press piece for Power 202 with 330K SF south of Warner at Power Road that will soon be under construction. There was a press piece on the new double-branded hotel on Phoenix-Mesa Gateway Airport.

Mayor Giles advised that a groundbreaking event will be held on November 17 for that hotel. They will have two products, a short-stay and an extended-stay both operated by Wyndham.

Mr. Jabjiniak reported on an upcoming article regarding Mesa's economic growth as well as an AZRE article on Economic Development Success for 2020. From Elliot Road south of Phoenix-Mesa Gateway Airport, excluding Ray Road, we are calculating about 5.5M SF. Those are significant projects that haven't even broken ground yet. Mr. Jabjiniak expects to see a continued boon into the ongoing market over the next year or so. We have positioned ourselves well and the investment in infrastructure on Ray Road 10 years ago has really paid off. Gary Nelson was interested in doing a press piece on development in that area. If you invest in infrastructure and cut the entitlement risk, the rest takes care of itself.

Next month, the Board will take a virtual tour of the activity in southeast Mesa.

BOARD DISCUSSION

Matt Likens felt it was really striking to know where we were just a couple years ago without really any product. Those that have been on the Board for a while realize that this is a major transformation. Having the infrastructure in place has set it up nicely and, miraculously, now the demand is there. The Economic Development team has really driven this growth as well as the support from the government.

Brad Wilson reported on a great turnout for the recent Worth Takeaway Bob's Burgers event. A lot of people he spoke to at that event commented that what has happened in downtown Mesa was really cool.

MESA CARES UPDATE

Jaye O'Donnell reported that the Small Business Re-emergence Program will be wrapping up by the end of the calendar year. The financial assistance piece accepted applications through the end of May and it took a couple months to process the checks. We distributed \$4.37M in financial assistance. The Technical Assistance Program has served just over 200 businesses with customized assistance, training, education, one-on-one consulting, website development, signage and PPE packages, and digital virtual tour packages. The participating businesses have been very pleased with the support. By

mid-December, the one-on-one consulting will wrap up. Our partners Mesa Chamber of Commerce, East Valley Hispanic Chamber of Commerce, LISC, Asian Chamber of Commerce, and other vendors will submit their final invoices so we can pay those before the end of the year when the funding is halted. We are still accepting applications for the Technical Assistance Program as the digital platform developed by partnering with CO+HOOTS will continue to provide recorded webinars and possibly future webinars. There is also the potential for surveys and additional counseling to be done online through that system. We are looking to continue the momentum created with the CARES dollars to provide additional support for small businesses. An Escape to Mesa marketing program has launched through Visit Mesa to target the visitor industry as well as local residents with a \$150 incentive. MyHownd.com provides discounts and special deals from over 90 businesses to buy now and use later. These marketing campaigns will help stimulate some of the small businesses who are still struggling due to the pandemic.

BOARD DISCUSSION

Natascha Ovando-Karadsheh commended Ms. O'Donnell for the tremendous amount of work she has done on these programs. She understood that this funding was wrapping up by the end of the year, although she felt this is almost the beginning of when we will need more resources going forward with some pending recession and definitely in the tourism and hospitality industries that are still struggling as we approach one year that we have been in this situation. She hoped there could be some additional revenue streams for us to continue some of this important work. She asked which services would be most valuable to move forward?

Ms. O'Donnell stated there are still a large number of businesses that don't have the e-commerce and websites they need. We will continue to prioritize some basic marketing tools. We just completed a survey for the Financial Assistance program which she will share at a future Board meeting. The Technical Assistance program has allowed businesses to customize what is most important to their needs. We offered beginner computer classes through MCC with a free laptop and software upon completion. We have adapted to create programs that will work for individual businesses. Once the Technical Assistance survey is completed, we will be able to determine the priorities. Whether or not we will be able to fund those at a significant level has yet to be determined. The City may decide to fund programs at a certain dollar amount to help a number of small businesses a year. The Office of Economic Development has always assisted small businesses with site selection and by providing free data on our website. She was looking towards a much more robust program.

Ms. Ovando-Karadsheh felt this process has allowed us to get a better understanding of what our small businesses need and where their strengths and weaknesses are. She asked if there was data on how many small businesses we have lost during this pandemic period.

Ms. O'Donnell did not have data on how many businesses we lost but could put together some anecdotal information. Some businesses have gone dark or were waiting this period out and may come back. Some have had a hard time transitioning to an online delivery system, particularly those that don't have websites. There is a demand for training businesses on how to utilize digital media to reach new audiences at low or no cost. Bill Jabjiniak stated it is hard to track our businesses when we don't have a formal business license, although we can put together some anecdotal information on those that were lost.

Mayor Giles was honored to serve as an ex-officio member of the Economic Development Advisory Board. At a prior meeting, he invited the Board to provide feedback on the idea of a citywide fiber buildout. The pandemic has amplified the digital divide and we need to do a better job of providing Wi-Fi and broadband throughout our city. It is horribly expensive. Mr. Pitcher asked earlier who we can

partner with to get this accomplished. We have some great consultants working on this. We heard earlier that when you invest in infrastructure, you will reap the rewards a few years later. The same will be true when we invest in citywide fiber and Mesa will be that shining city on the hill that people will line up to live in and do businesses in. He looked forward to participating more with the Board and was anxious to receive any feedback and advice regarding the citywide fiber buildout.

Chair Kasselmann appreciated Mayor Giles and City Manager Brady for attending the meeting and providing their input.

7. Other Business

The next EDAB meeting will be held on December 1, 2020, 7:30 a.m.

8. Adjournment

MOTION: Brian Campbell moved to adjourn the meeting; seconded by Natascha Ovando-Karadsheh.

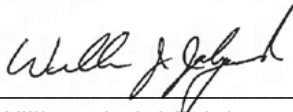
Upon tabulation of votes, it showed:

AYES – Kasselmann, Adams, Campbell, Duvall, Likens, Nickerson, Ovando-Karadsheh, Perry, Wilson

NAYS – None

Chair Kasselmann declared the motion carried by unanimous vote and the meeting was adjourned at 8:43 a.m.

Submitted By:



William J. Jabjiniak
Economic Development Department Director

(Prepared by Dana Desing)