

THE FIVE-YEAR

ECONOMIC DEVELOPMENT STRATEGY

FOR THE DISTRICT OF COLUMBIA

EXECUTIVE SUMMARY



Government of the District of Columbia
Vincent C. Gray, Mayor





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November 14, 2012

Office of Mayor Vincent C. Gray
The District of Columbia





The Need for a Strategic Direction

When Mayor Vincent C. Gray took office in January 2011, the nation was struggling through the worst economic crisis since the Great Depression. With a double-digit unemployment rate, the District of Columbia's economy was significantly impacted. However, in the last two years the District has bounced back. Over the last 15 months the District gained an average of 1,000 jobs per month, with unemployment falling from 11.3 percent in June 2011 to 8.7 percent in September 2012.¹ In the next five years the District will generate thousands of additional jobs through projects totaling more than \$17 billion in development value. With a 2.7 percent increase in population from 2010 to 2011, Washington, DC, boasts faster population growth rate than any state in the nation.² Tourists are also coming to the District in swelling numbers, with a record-breaking 17.9 million arriving in 2011.³ The District was recently listed as one of the top five cities in the nation for technology startups⁴ and one of the three biggest global real estate investment markets.⁵

By all measures, DC's recovery in the last two years has been strong. But the city's economy is changing, with traditional anchors like the federal sector under pressure while emerging sectors, like technology, rapidly expand. To continue creating jobs and building the tax base, the District needs a coherent strategy that recognizes how far it has come, but also how much room there is to grow.

The Five-Year Economic Development Strategy is the District's first strategic roadmap for sustained, sector-driven economic development. This plan contains the visions, goals, and initiatives that will transform the District by **creating 100,000 new jobs** and **generating \$1 billion in new tax revenue** to support city services over the next five years.

1. *Economy at a Glance*, District of Columbia, Bureau of Labor Statistics. www.bls.gov/eag/eag.dc.htm

2. *Population Estimates Release*, news release, US Census Bureau. <http://www.census.gov/newsroom/releases/archives/population/cb11-215.html>

3. Washington, DC Tourism Statistics, Destination DC. <http://washington.org/planning/press-room/corporate-and-convention-info/research-and-statistics>

4. Graham, Jefferson, "Top Cities for Technology Startups," *USA Today*, Aug. 24, 2012.

5. *Foreign R.E. Investors: Buying but Seeking Improved Fundamentals and FIRPTA Reform*, Associations of Foreign Investors, Jan. 12, 2012.



Bold Visions for DC: Diversifying the Economy and Preparing the Workforce

The *Five-Year Economic Development Strategy* has sought to build on the District’s unique intellectual capital. Four local graduate schools of business collaborated to conduct the analysis that drove the strategy. Led by a coalition of the District’s business, academic and government leaders, select teams of MBA candidates conducted in-depth interviews with business and civic leaders across seven economic sectors. The data, insights and ideas collected during the course of those interviews were synthesized into strategic initiatives, many of which have been analyzed for economic impact using a new Economic Impact Model, a business analysis tool that allows the District to evaluate and prioritize competing projects.

Findings from research and stakeholder interviews confirmed the need to grow and diversify the District’s economy while preparing the workforce for new employment opportunities. These two guiding principles build on the goals set forth in “One City Action Plan,” Mayor Gray’s visionary program to create a prosperous, equitable and sustainable District. Growing and diversifying the economy, along with preparing the workforce, became the strategic drivers that led to the creation of **six bold visions for DC**.

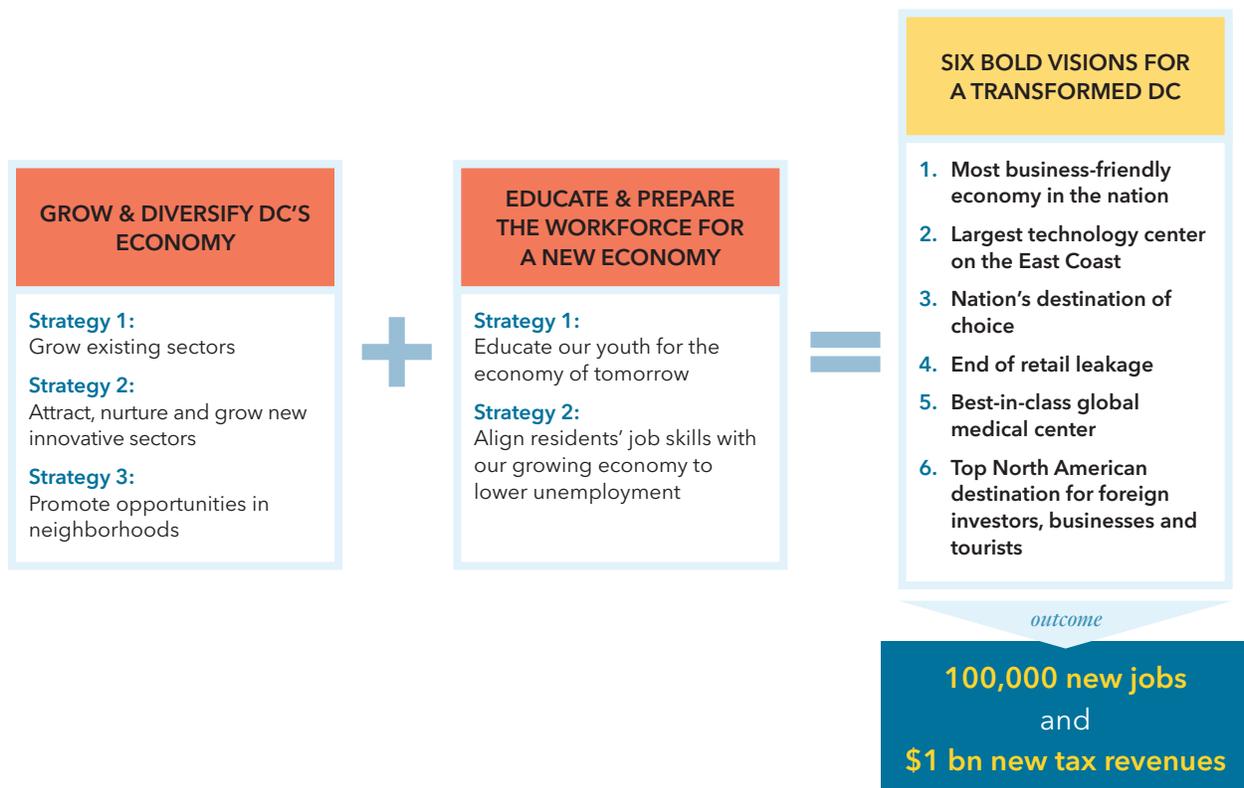




Outcome: 100,000 New Jobs, \$1 Billion in New Tax Revenue

Realizing these six bold visions will generate **100,000 new jobs** and **\$1 billion in new tax revenue** over the next five years. For context, this number of new employment opportunities—100,000—is more than triple the current number of unemployed District residents.⁶

An additional \$1 billion in tax income represents a 17 percent increase in the District's current revenue and would allow for additional investments in health care, public safety, education, infrastructure and other vital services.



6. 31,200 preliminary estimates, *Monthly Labor Review: September 2012*, Bureau of Labor Statistics.



A Sector-Led Approach

The District's *Five-Year Economic Development Strategy* has focused on seven major sectors: federal government and contractors, professional services, technology, hospitality, retail, education and health care, and real estate and construction. These sectors include traditional anchors currently under tremendous pressure to reduce costs, such as the federal government and legal services.

Neighboring jurisdictions are actively recruiting cost-concerned businesses to move across borders, depriving the District of tax revenue and employment opportunities. Without growth from these sectors, the District's economy must diversify in order to generate new jobs and tax base. Fortunately, DC's high quality of life, dynamic neighborhoods and growing population are poised to drive expansion in sectors such as retail, technology and hospitality. Many of these emerging sectors also have potential to expand in neighborhoods that have not been traditional business hubs.

The Five-Year Economic Development Strategy identifies tactical initiatives to strengthen both traditional and emerging sectors of the District's economy.



100,000 New Jobs and \$1 Billion in New Tax Revenue: Attainable Outcomes

Creating 100,000 new jobs will require the District to grow employment at an average annual rate of 2.5 percent over the next five years. For context, the city's median annual growth rate since 1950 has been about 0.85 percent.⁷ While certainly ambitious, this goal is attainable with targeted investment and improved government services that expand each of the sectors targeted in the *Five Year Economic Development Strategy*.



Real Estate and Construction:

Employment in this sector is already the highest in 22 years, and it is poised to grow more as major projects such as Saint Elizabeths, McMillan and Southwest Waterfront break ground.⁸ An estimated 55,000 jobs will come from this sector.



Technology:

The technology sector has experienced a 50 percent job growth rate in the last 10 years.⁹ With greater private and public investment, effective marketing, and support for nascent entrepreneurs, the District can double employment in the next five years, creating 20,000 new jobs.



Higher Education and Health Care:

Development of a medical hub at the McMillan Reservoir site alone will add 5,000 new jobs to the higher education and health care sector in the next five years.



Retail:

Eliminating the estimated \$1 billion in annual retail leakage can create 2,500 new jobs in the city.¹⁰



Professional Services, Hospitality and Federal Government and Contractors:

The District's upcoming development projects provide a strong base for office and hotel growth.



Expanding the city's business attraction and marketing efforts can attract the tenants necessary to fill new buildings, creating an estimated 17,500 new jobs.



7. *Metropolitan Area Employment and Unemployment*, Bureau of Labor Statistics.

8. *The Economic Impact of Construction in the United States and District of Columbia*, Sept. 2012, The Associated General Contractors of America.

9. *National High-Tech Industry*, Jones Lang LaSalle, Fall 2011.

10. Social Compact, "Washington DC Neighborhood Market DrillDown," May 2008.



Taking Steps Toward the Future

The Gray administration has made economic development and job creation for DC residents one of its top priorities. Projects totaling more than \$8 billion in development value are currently under construction; these range from the transformative development of Saint Elizabeths in Ward 8 to the premier CityCenterDC project in the heart of downtown. Over the next five years, the District has planned additional projects worth \$8.7 billion in development value that will spark further economic growth and job creation. At the same time, the city has invested in new business tools that allow local employers to expand. The Gray administration's notable milestones include:

- Launching of \$2 billion worth of long-stalled development projects, creating 4,600 construction and 7,600 temporary jobs
- Placing more than 5,000 DC residents in jobs at 800 companies through initiatives like "One City One Hire"
- Establishing the DC-China Center in Shanghai to promote international trade and investment
- Enacting legislation that allowed for the construction of a new DC headquarters for LivingSocial (one of the District's leading technology firms)
- Creating a five-person business development team within the Mayor's Office that is responsible for attracting Fortify.vc to the District and for launching the HUBDC initiative to help local businesses get federal contracts
- Attracting more than 1 million square feet of retail, including national retailers
- Completing Saint Elizabeths and Walter Reed master plans (Saint Elizabeths will be breaking ground in early 2013 and solicitation for Walter Reed's master developer will be submitted by the end of 2012)
- Construction of approximately 1,428 units of affordable housing since January 2011, with an additional 1,655 units under construction

FOSTERING A REGULATORY ENVIRONMENT FOR BUSINESSES TO PROSPER

The regulatory environment in Washington, DC, plays a critical role in supporting the business community and the District's overall economy. Strategic initiatives for growing our economy and strengthening our workforce cannot be implemented without a fair, simple and accessible regulatory system. While *The Five-Year Economic Development Strategy* does not address specific regulatory reforms, Mayor Gray will be forming a Business Regulatory Task Force in the coming months to review and streamline the District's business regulations.



Insights and Findings

The strategic initiatives outlined in *The Five-Year Economic Development Strategy* were based on analyses of the seven core sectors and interviews conducted with 185 civic, business and institutional leaders in the District. While the specific challenges and opportunities vary from sector to sector, the interview findings highlighted overarching themes that have shaped each strategic initiative.

KEY STAKEHOLDERS INTERVIEWED

Industry	Federal Government	DC Government	Business & Trade Association Leaders	Nonprofit & Civic Leaders	Academic Experts	Total
 FEDERAL GOVERNMENT <i>and</i> FEDERAL GOVERNMENT CONTRACTORS	6	3	6	2	2	19
 PROFESSIONAL SERVICES	-	2	23	4	1	30
 HIGHER EDUCATION <i>and</i> HEALTH CARE	-	6	-	6	7	19
 HOSPITALITY	1	1	22	10	3	37
 TECHNOLOGY	-	-	12	-	4	16
 RETAIL	-	2	12	5	1	20
 REAL ESTATE <i>and</i> CONSTRUCTION	-	4	17	4	2	27
CROSS-CUTTING ISSUES	-	7	1	7	2	17
TOTAL	7	25	93	38	22	185



Findings highlight need for:

ECONOMIC GROWTH & DIVERSIFICATION

FEDERAL GOVERNMENT PRESENCE	EMERGING MARKETS & NEIGHBORHOODS	COST & SPACE CONSTRAINTS	PROCESS IMPROVEMENTS
<p>1 Federal procurement spending has driven the region's growth over the past 20 years.</p>	<p>1 Existing contracting preference programs provide a mechanism to increase federal procurement dollars flowing to DC small businesses and help build the local economy.</p>	<p>1 In response to the recession and other global trends, professional services firms are changing their business models to find greater cost savings.</p>	<p>1 Hospitals, universities and the District would benefit from better communication regarding development projects.</p>
<p>2 Federal government leasing has a high impact on DC's office space market.</p>	<p>2 Expansion of the Central Employment Area brings federal tenants to emerging areas.</p>	<p>2 High rents, disjointed retail blocks and mismatched co-tenancies are key weaknesses for the District's retail sector.</p>	<p>2 Developers and retailers would like to see more regulatory coordination between District agencies.</p>
<p>3 Entry-level federal employees struggle with the cost of DC housing. They often end up living outside the District.</p>	<p>3 There is growing trend to develop more residential units in DC.</p>	<p>3 Difficulty in finding affordable office space within the tech sector is a significant challenge.</p>	<p>3 Developers and construction companies recognize the need for First Source and Certified Business Enterprise requirements, but feel regulations are hard to satisfy.</p>
<p>4 Professional services firms are driven by the growth of their client base. For DC this means federal government and global companies.</p>	<p>4 Retail sector in emerging areas still has room for growth.</p>	<p>4 The District is constrained by both a small land area and height limits.</p>	<p>4 The process of setting up a business in DC is perceived to be time consuming and burdensome.</p>
<p>5 Real estate and construction companies recognize the federal government's ability to spark development in traditionally underutilized areas.</p>	<p>5 Anchor institutions like universities and hospitals can have a profound effect on local employment through their procurement practices.</p>		<p>5 Small hospitality businesses do not have the time and resources to keep abreast of incentives and regulatory changes.</p>



Findings highlight need for:

ECONOMIC GROWTH & DIVERSIFICATION

TECHNOLOGY SECTOR GROWTH	BRANDING & PROMOTION	REGIONAL COMPETITION	INTEREST IN URBAN CENTERS
<p>1 There are divergent views regarding venture financing for DC tech firms. Some stated there are adequate funds while others claimed the District’s investor community needs to be more active. Entrepreneurs also stated that DC investors ask for larger equity stake in companies than West Coast investors.</p>	<p>1 There is a need for more large-scale events with high economic potential during low-visitation periods.</p>	<p>1 The District has higher capital gains tax rates than Virginia and Maryland. This impedes growth in the technology industry and encourages successful tech company founders and investors to move to neighboring states and channel their funds to firms outside the District.</p>	<p>1 Dense, walkable neighborhoods and mixed-use development centered on mass transit are increasingly important for retail growth.</p>
<p>2 Opportunities to better commercialize research exist.</p>	<p>2 Destination DC has fewer resources than tourist bureaus in competing cities.</p>	<p>2 The region’s political leaders compete to attract businesses to their jurisdictions.</p>	<p>2 Consumers in the District are showing more interest in local mom-and-pop stores.</p>
<p>3 The Saint Elizabeths campus has potential to become a tech center.</p>	<p>3 Hospitality establishments appreciate increased visibility from visits by DC officials and celebrities.</p>	<p>3 Intense regional competition threatens DC’s position as a prized location for business.</p>	<p>3 City centers are gaining popularity among retailers and consumers. The District is a big beneficiary of this trend as retailers shift from suburban neighborhoods.</p>
<p>4 DC is not known nationally as a tech hub, and has no marketing or public relations campaign to position the city as such.</p>	<p>4 DC’s brand as the federal city overshadows its creative economy and world-class hospitality establishments.</p>		<p>4 Retailers are concerned about parking access for shoppers.</p>
	<p>5 International tourists outspend domestic ones. There is an opportunity to attract tourists from emerging-market countries.</p>		
	<p>6 District hospitals have individual strengths but joint marketing efforts are minimal.</p>		



Findings highlight need to:

EDUCATE & PREPARE THE WORKFORCE

TALENT POOL	SKILLS DEVELOPMENT	ACADEMIC COMMUNITY
<p>1 Contractors want proximity to federal clients and access to the area’s highly educated talent pool.</p>	<p>1 The federal government faces a serious skills gap in the coming years.</p>	<p>1 Incubator launches and co-working space for startups could be provided through universities.</p>
<p>2 Colleges and universities provide jobs and other significant economic benefits to the District.</p>	<p>2 Many District residents seeking hospitality jobs lack customer-service skills, and hospitality training programs do not meet the demand.</p>	<p>2 Greater engagement between the tech community, local universities, the DC Community College and District students is needed.</p>
<p>3 Few bridges exist between tech entrepreneurs and DC’s high-net-worth individuals who have seldom made tech investments in the past.</p>		<p>3 Blanket student enrollment caps limit both undergraduate and graduate student populations in DC.</p>



Strategic Initiatives

Six bold visions and **supporting goals** were crafted based on the findings from key stakeholder interviews and background research and analyses. A set of **tactical strategic initiatives** supports each goal. While some initiatives are execution-ready, others require pending resources. The resources and assets of both the public and private sectors are essential in order to implement these initiatives successfully.

1

VISION:

Establish the most business-friendly economy in the nation

GOALS:

- 1 Invest in services that simplify the process for launching and operating a business in the District
- 2 Maintain a well-prepared workforce that meets the needs and demands of employers across the major sectors

- Market DC as a place to do business at major national conferences like CoreNet and SXSW.
- Relax building height restrictions in underutilized, non-core areas of the District.
- Help small businesses obtain federal contracts through HUBZone and 8(a) certification.
- Establish ambassador service programs, modeled on the program within the DC Department of Consumer and Regulatory Affairs (DCRA), to help developers expeditiously obtain building permits.
- Establish a regular mechanism to foster communication between the federal government and private sector real estate leaders regarding office space to be vacated.
- Encourage proximity clauses in federal contracts.
- Launch a shuttle to serve DC-based contractors who need frequent access to the Pentagon, Saint Elizabeths or Bolling Air Force Base.
- Expand the District's Central Employment Area (CEA) to emerging areas where federal offices could spark development.
- Bring federal real estate staff to emerging business areas of the city to showcase amenities and development opportunities.
- Place all relevant job openings for universities and hospitals on the DC Department of Employment Services (DOES) website.
- Encourage attendees at District conventions to invest long term in the city.
- Actively market the District nationally as a compelling place to do business.
- Celebrate businesses that employ District residents, especially through "One City One Hire."
- Inform brokers, accountants and lawyers about DC tax law, incentives and business services.
- Proactively identify and recruit businesses with expiring leases that can benefit from locating in DC.
- Establish an early review process for environmental regulations.
- Create a robust team within DSLBD to monitor compliance by Certified Business Enterprises (CBEs) and CBE-related projects.
- Examine high-performing TIF bond-funded economic development projects and, whenever possible, repay the bonds early in order to free up District debt capacity for other high priority investments.



2

VISION: **Create the largest technology center on the East Coast**

GOALS:

- 1 Double the number of tech jobs in DC within five years**
- 2 Double the amount of capital invested in DC tech companies within five years**
- 3 Attract the best academic institutions to contribute to an innovation ecosystem**

- Create a collaborative space for technology firms, universities and hospitals to build an innovation hub at Saint Elizabeths.
- Encourage angel investment by lowering the capital gains tax rate for investments in local tech companies.
- Leverage accelerators and informal networks to grow angel investor communities.
- Develop a program to provide affordable office space to early-stage tech entrepreneurs.
- Connect tech entrepreneurs with established corporate leaders who can guide the tech sector toward high-value innovations and potentially purchase services.
- Launch a marketing campaign to showcase the District as a national tech hub to attract talent.
- Inform technology entrepreneurs, nonprofits and universities about philanthropic and federal grant opportunities.
- Support local entrepreneurs with meeting space and mentorship opportunities.
- Support investment in tech transfer and hard-skills education at local universities.
- Create a DC-sponsored venture capital program.
- Connect District youth, DC Public Schools and the DC Community College with local tech companies.

3

VISION: **Become the nation's destination of choice**

GOALS:

- 1 Invest in and build a nationally recognized infrastructure system**
- 2 Attract and retain talent by leveraging the convenience and excitement of living in DC**
- 3 Rival marketing efforts of the nation's top destinations in promoting tourism**
- 4 Become renowned for delivering the highest standards in hospitality and service**

- Simplify the application process for hosting special events in DC.
- Create a fund to help creative economy organizations establish a presence along emerging corridors.
- Organize a campaign showcasing well-known officials and celebrities patronizing their favorite DC places.
- Increase resources allocated to marketing and promoting the District.
- Create District-wide Wi-Fi system.
- Gain commitments from major employers to collaborate with the Workforce Intermediary.
- Develop a hospitality program at the DC Community College.
- Establish a culinary incubator that provides business and job training opportunities for DC residents.
- Launch a forum for the Metropolitan Police Department (MPD) and developers to discuss and mitigate potential crime issues from development projects.
- Repurpose vacant or underutilized properties for use by local artists and other members of the creative economy.
- Create an infrastructure investment fund.
- Build an academic village for university students in an accessible area of the city.



4

VISION:
End retail leakage

GOALS:

- 1 Meet the retail needs of the District's neighborhoods**
- 2 Attract the optimal types of retailers for job creation and tax base expansion**
- 3 Market real estate opportunities in the District to retailers in order to develop retail-dense areas in the city**

- Conduct a retail demand analysis to determine the amount of retail leakage for the city and for neighborhoods.
- Bring retailers and brokers to DC's emerging retail areas that may be unfamiliar.
- Promote DC as a premiere destination for retailers at national conferences like ICSC.
- Adopt zoning that eliminates non-retail uses of the retail streetscape, especially on corner locations of a retail corridor.

5

VISION:
Build a best-in-class global medical center

GOALS:

- 1 Establish a medical hub that brings together area hospitals and research institutions**
- 2 Target redevelopent sites for medical and university research and facility development**
- 3 Leverage anchor medical institutions as impetus for growing nearby local economy**

- Develop the McMillan Reservoir site as a medical office hub.
- Initiate regular communication among the Deputy Mayor of Planning and Economic Development (DMPED), universities, hospitals and local developers to keep them abreast of each other's new projects.
- Begin a process to assist small businesses in obtaining procurement contracts at hospitals and universities.

6

VISION:
Become the top North American destination for foreign investors, businesses and tourists

GOALS:

- 1 Enable 200 DC businesses to become active in foreign markets within five years**
- 2 Attract at least \$500 million in foreign investment within five years**
- 3 Double the number of Chinese tourists within five years**

- Develop and market the District as an attractive location for foreign direct investment (FDI).
- Focus on attracting foreign technology firms for FDI.
- Leverage the DC-China Center to support small businesses entering the Chinese market
- Market DC to tourists in targeted international markets, especially China.



Moving Forward

These 50 strategic initiatives vary in scope, cost and complexity. Some will be implemented in months, while others will take years—and significant investment from our local universities and businesses. But all of these initiatives are aligned toward two common goals: creating local jobs and growing the tax base. Over five years, their implementation will generate **100,000 new jobs** and **\$1 billion in new tax revenue** for the District of Columbia.

To reach its economic potential, the District must look beyond its regional neighbors and compare itself to the world’s most dynamic urban areas. Global cities such as London, New York and Hong Kong have diversified economies that provide a wide array of job opportunities for their residents and a cushion during recessions.

With *The Five-Year Economic Development Strategy*, the District can and will compete on a global playing field by growing dynamic businesses and attracting the talented workforce it needs to expand. DC’s population is rising faster than any other state in the nation, its real estate market is the envy of the country, and its hotels are attracting more visitors than ever before. Now is the time to build a brighter economic future for the nation’s capital.



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