

NORTH SHORE INVESTMENT SNAPSHOT

AN ECONOMIC DEVELOPMENT PERSPECTIVE

A STUDY BY THE
NORTH SHORE ALLIANCE FOR
ECONOMIC DEVELOPMENT

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Executive Summary

The North Shore Workforce Investment Board (NSWIB) regularly undertakes an analysis to study the labor market trends in the nineteen communities in its southern Essex County service area in order to determine the region's workforce training needs. Based upon information gathered from North Shore business leaders, educators, and community leaders, the NSWIB issues a report entitled the *Labor Market Blueprint* that also includes an analysis of demographic research relating to the region. The *Blueprint* provides a picture of the North Shore labor market and its strengths, weaknesses and challenges.

In 2010, the NSWIB added an additional perspective to its periodic review of the region's Labor Market and its attendant workforce training needs and issued a complementary piece to its *Blueprint* in collaboration with its strategic partner the North Shore Alliance for Economic Development (North Shore Alliance). This report, known as the *North Shore Investment Snapshot*, approached its analysis through the prism of economic development evaluating investment trends being experienced in the North Shore's predominant business sectors. This economic development approach undertook an assessment of those sectors experiencing investment as well those that were either stagnant or experiencing disinvestment. It was believed that an additional indicator might be identified that would assist with forecasting the North Shore's job training and educational needs if the region's capital, construction and real-estate communities were realizing growth and investment patterns in the same business sectors as identified in the *Labor Market Blueprint*.

The North Shore Alliance is a private, non-profit entity formed by business, institutional and government leaders to enhance economic opportunities in the 30 communities that comprise Boston's North Shore. In 2008, the Alliance commissioned the Center for Economic Development & Sustainability (CEDS) at Salem State University to study and identify the six (6) predominant business clusters in its service area, and subsequently, in late 2013, CEDS issued the *North Shore Cluster Update* that again identified the predominant business clusters of the region. In its 2013 *North Shore Cluster Update*, CEDS identified the Life Sciences/Bioscience, Health Care, Manufacturing, Tourism/Recreation, Creative Economy and the "Local" Food industry as the most significant business sectors in the region. For purposes of this analysis, the *Investment Snapshot* also evaluated investment patterns

and growth activities in two additional business sectors of importance to the NSWIB's service area and *Labor Market Blueprint*—Construction and Financial Services—two robust business sectors that also have a significant presence across the Alliance's service area and Boston's North Shore.

Focusing on these identified business clusters, the Alliance conducted an interview process engaging area bankers, real estate agents, managers and brokers, government officials, construction company executives and representatives from non-profits.

As a result of those interviews, four clusters emerged as the North Shore's dominant clusters from the perspective of the region's investment community

- Health Care
- Construction
- Life Sciences/Bioscience
- Manufacturing

Interview Process

Prior to the interviews, participants were provided a copy of the 2010 *North Shore Investment Snapshot*, and they were informed that we were again asking them to look at growth activity and investments that they were seeing in the predominant business clusters in the North Shore WIB service area—Construction, Creative Economy, Financial Services, Health Care, Life Sciences/Bioscience, Local Foods, Manufacturing and Tourism. As previously stated, area bankers, real estate agents, managers and brokers, government officials, construction company executives and representatives from non-profits were the interview targets.

The interview participants were promised that their identities would remain confidential and that any direct quotes would not be attributed so as to assure that we received the most candor in responses received

Snapshot Scorecard

	BANKERS	REAL ESTATE COMMUNITY	CONSTRUCTION	GOVERNMENT/ NON-PROFIT	TOTAL
Health Care	Moderate	High	High	High	18
Construction	Moderate	High	High	High	18
Life Sciences/Bioscience	Moderate	High	High	Moderate	16
Manufacturing	High	Moderate	Moderate	High	16
Financial Services	High	Moderate	Moderate	Moderate	14
Creative Economy	Moderate	Moderate	Moderate	Moderate	12
Tourism	Minimal	Minimal	Moderate	High	12
Local Food	Minimal	Minimal	Minimal	High	8

The eight business clusters and their relative strengths, as indicated by the category of person interviewed, are listed in the Snapshot Scorecard. The scoring system was predicated upon High, Moderate and Minimal categories in which each received five points for High, three points for Moderate and one point for Minimal. The interviewees were not asked to grade the relative clusters, but each interview was given a score based on the responses elicited during the discussion. It should be noted that this is not a scientific survey, but rather tries to quantify the trends observed in the responses during the interviews.

when interviewees were asked to identify particular strengths and weaknesses in their observations of any particular industry for inclusion in this report.

Generally, interview subjects were asked what business clusters were showing the most activity in commercial banking, leasing or lending. What business clusters were showing the least activity in the same areas? Was there a particular industry cluster that showed significantly higher activity than the others? Was there a business sector that had disappeared from such growth activities? Interviewees were also asked to share any observations that they had about the regional (North Shore), state and national economy. Finally, they were asked to share any comments or thoughts that might be of interest to people that were concerned about job growth, education, workforce development, job training and economic development on the North Shore. The *Snapshot* includes excerpts from the interviews, general findings and a few recommendations based on some of the comments and suggestions offered with respect to each business cluster.

The value of this report is that it provides a window into understanding the significance with which the North Shore investment and development communities value the eight identified business clusters as the region and the Commonwealth continues to show economic growth. Although not a scientific survey, the *Investment Snapshot* offers some insight into what investments may be anticipated as we move into 2015.

Acknowledgements

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Top of the Order

Health Care

Within the banking, construction and real estate communities, health care is still viewed as a critical driver in the region's economic engine. While one real estate developer and an office park manager indicated that there were some "skittish feelings" within the sector as a result of the implementation of the Affordable Care Act, the industry remains active and strong.

In one office park, they see at least one new practice in a health care related field opening every six months. Others have seen some practices sold back to hospitals after "business/reimbursement issues" arose and the apprehension of being out on "their own without the security of the institutional support became a reality."

One real estate broker opined that the North Shore's attractiveness as a region with an abundance of cultural, historical, recreational and natural resources appeals to the health care workforce. Another real estate broker offered that a "lot of medical professionals prefer being the bigger fish in the North Shore's 'smaller pond'."

Another banker said that his business portfolio showed robust growth within the health care sector citing expansion of specialized group practices and specialized care facilities with a particular spike with growth in dialysis treatment centers across the North Shore.

Another banker echoed what became a universal opinion that health care was alive and well as his bank's portfolio saw a steady increase in their health care lending with smaller medical and dental practices spinning off as individual doctors left larger organizations like Partners or as a result of mergers like Lahey Health and Northeast Health Systems. This particular bank also saw a noticeable rise in chiropractic practices and acupuncture practices sprouting up across the region.

An SBA lender offered that the alternative medicine practices like chiropractic offices and physical therapy and optometry offices—are "bankable" and get financing because their numbers are predictable. The Northeast Office of the Massachusetts Small Business Development Center has also seen an increase in the number of clients it services in the "wellness or alternative therapy" business fields.

Almost without exception, everybody in the banking industry stressed the importance of the "ripple effects" that the health care industry had in their business and the communities they serve. As one banker succinctly described it, "Health care related jobs are well paying with career paths that usually result in people having more disposable income and using additional services, eating at local restaurants, shopping at local stores and renting local apartments, growing into condominiums and eventually looking to purchase homes. They all could be my customers."

Interestingly, some office park managers saw "investments" being made in the health care sector as medical practices and even hospitals "right size" as opposed to downsizing in an effort to fit more into less space as a means of cost containment as practices adapt to the new delivery of health care. Those in the construction field, on the other hand, while acknowledging that health care was still an important market sector for the construction industry saw a "bit of flattening" in the investments in health care. One construction executive attributed the cuts in capital investments in the sector as being caused by concerns about reimbursements under the new health care law. Another executive in the construction industry offered that a sense of uncertainty slowed the normal pace of spending in his company's health care portfolio while expressing optimism that there is now built-up work in the sector that will be coming soon.

Looking to the future, it is anticipated that an aging population and changing health care needs will continue to fuel the economic engine in this business sector. In fact, one banker indicated that his bank's portfolio is witnessing a new shift in investment occasioned by the change in the manner of delivery of health care to the aging population with an uptick in investment in assisted living facilities and semi-independent senior communities. Similarly, one construction company executive, whose company does work in the assisted living and nursing home market sectors, anticipates a continued rise in demand for these facilities that will incorporate technology that allows patient monitoring and reporting to health care providers/facilities. While discussing the

steadily growing 65+ year old age demographic, the construction executive noted that over 10,000 people turn 65 every day. One banker opined that he too foresees growth in the assisted living/independent senior living market sector as real estate values continue to grow and seniors down-size to those community type living arrangements taking advantage of the restoration of the value in their homes.

This report would be remiss if it did not mention the much discussed plans of North Shore Medical Center to consolidate its in-patient care services at its Salem site. Pending the determination of matters that are subject to legal proceedings, Partners Health Care has plans to invest \$188 million to construct a new Emergency Room, 2 new floors consisting of 72 private in-patient rooms, a parking garage and new Main Entrance at the North Shore Medical Center in Salem that will certainly impact the construction sector across region in coming years.

Recommendations

- Assure that the dialogue between the academic and health care institutions continue as changes occasioned by the manner in which health care is delivered alters the educational and training needs of the changing workforce.
- Develop an understanding and awareness of the non-traditional and alternative therapy practices that exist in the region and any attendant workforce training needs.
- Monitor any shifts in the workforce training needs that may occur with the implementation of the Affordable Care Act and Massachusetts Chapter 224 of the Acts of 2012—An Act Improving the Quality of Health Care and Reducing Costs through Increased Transparency, Efficiency and Innovation.
- Monitor the manner that the health care business is affected with the implementation of the Affordable Care Act and Massachusetts Chapter 224 of the Acts of 2012—An Act Improving the Quality of Health Care and Reducing Costs through Increased Transparency, Efficiency and Innovation.
- Continue to promote the career path academic training program leading from non-credit health care related training to community college credit programs and four year degree programs and more.

Construction

The Construction sector has rebounded and is alive and well on the North Shore again. Real Estate brokers and contractors alike have seen an expansion in the construction sector that was in sharp decline as a result of the economic downturn starting in 2008. It was a sector that took some time to recover, but is now enjoying some real growth in activity.

The banking community, real estate agents and brokers, representatives from the construction industry as well as public financing agencies cite multi-unit apartment projects as being a stable and robust market sector in the construction industry. A representative from a quasi-public financing agency mentioned projects that were under construction in Lynn, Salem, Peabody and Beverly and other communities across the North Shore that signal the robust return of the construction industry.

Bankers and construction industry representatives stated that returns on investment on multi-unit apartments remain strong. Occupancy rates are high, and there seems to be no shortage of work. One construction company recently completed construction on 370 units of housing and will soon begin a second phase at the same complex with another 250 units.

Several factors were cited for the growth of the multi-unit housing sector in the construction industry. One construction executive referenced the impact that the “millennials” had in driving the sector. He opined that among other things that many in the demographic don’t have the income (because of regulatory changes in the banking industry) to qualify to purchase homes and secondly that they desire “mobility/flexibility” and don’t want to be rooted in one place. Another construction executive suggested that the millennials “don’t trust an investment in a home and real estate like generations of the past.”

Another banker singled out his real estate development portfolio to highlight some interesting observations. He offered that his bank portfolio had an increase in the re-purposing of space and conversion of larger buildings into smaller units for both commercial and residential use. As the economy rebounded, he observed residential and commercial tenants were “looking to do more with less.” Businesses and residents alike seemed to be willing to trade space for other amenities—easy access to transportation,

exercise/recreation centers, access to restaurants, dry cleaners and the like. The phrase “live, work and play” came to dominate the discussions around the housing sector.

While multi-unit housing remains strong, the banker also noted that his bank has recently seen growth activity from its architectural and engineering customer base. He sees this as further signs of rebounding and a couple of condominium project proposals have him “wondering if this activity foreshadows a trend.”

The construction industry and bankers also cited increased investments in the education sector as being one of the main drivers for the rebound over the last 3-4 years. Construction in the education market sector has occurred in both the private and public sectors and at the K-12 level as well as higher education institutions. The work in this sector has been described as consistent, and projects were identified in the following communities—North Reading, Billerica, Newburyport, Salem, Danvers, Woburn and Beverly and at private schools, including Shore Country Day, New England Academy, Brooks School, Phillips Andover, Brookwood and Saint John’s Prep to name only a few.

Public higher education institutions like Salem State University and its on-going construction work at Viking Hall and the Sophia Gordon Center for Performing Arts as well as its plans for construction of a parking garage and new science labs and North Shore Community College and its planned addition and renovations to its Lynn campus also have fueled the construction sector. Private colleges also undertook major projects like Endicott College, which is currently building the Bourque Hockey Arena after recently finishing the construction of the Gerrish School of Business and Judge Science Center, and Merrimack College’s construction of the Deegan Dormitory.

Real estate brokers and office park managers also mentioned investments being made in the build-outs of space for collaborative schools that serve students with special needs and provide education services like college preparation and tutorial services. Charter Schools were also mentioned by real estate managers as feeders to this market sector.

Others have witnessed growth in retail construction as one banker has seen spending for “bricks and mortar” by a few of his customers while another banker cited some investment activity in his portfolio in retail strip mall construction.

A construction professional with a company that offers full service from design through construction indicated that his company has been in an unprecedented and constant flow of work with construction along “almost every automobile in Massachusetts.” The company was involved with construction of new and/or expanded facilities for Infiniti, Mercedes, GMC and other dealerships from Cape Cod to the South Shore to metro Boston and the North Shore.

The Massachusetts SBDC has seen an increase in its case flow from its smaller contractor client base, particularly crafts like framers, electricians and painters, who are seeing a boom in home improvement projects. Similar growth is being experienced by home improvement businesses that saw a complete drop off during the depth of the recession. One contractor simply said, “People are comfortable spending some money again. New kitchen construction/renovations and room additions are being made and driving business.” While the construction sector has rebounded, one banker speaking generally about his commercial clients, including some smaller builders, said, “Small businesses are healthier and stronger than they were in 2010-11, but I don’t see them hiring as many employees. They tightened their belts and learned they could do work with fewer employees and don’t want to get stuck again.”

Without exception, the construction company representatives said the recession (starting in 2007-2008) took a hard toll on the construction sector and scores of subcontractors disappeared simply going out of business or with some trades chasing work to other parts of the country. Construction executives validate what the banker observed and are now faced with the challenges of finding qualified people to staff up to keep up with the incoming work. As work continues to flow, construction companies are starting to see construction costs rising with each bid.

The construction industry sees a particular shortage in finding people who are qualified engineers and estimators and others that specialize in pricing as well as those with project management and construction management skills. One construction executive simply had one request saying, “Tell people the construction industry is back, and you can make good money. Help us get the word out.”

Looking to the future, Salem is poised to move forward with a new downtown mixed-use development project that will include construction of a hotel as

well as apartments and retail space. As previously mentioned in the health care section, Partners Health Care has announced plans to consolidate in-patient services at North Shore Medical Center in Salem. The commencement of this \$188 million project would have significant impacts on the construction sector in the region.

Recommendations

- Connect Construction industry with the Workforce Development entities and staff at the new Essex Technical High School to ensure that education programming includes preparation for project management and trades as the construction industry rebounds.
- Increase dialogue between local school systems, representatives of the Construction Industry, and higher education institutions to make sure that the education system is addressing the skills for entry into the project management employment pipeline.
- Work to introduce personnel at Essex Technical High School to construction industry leaders to encourage development of internship/apprentice type programs within the industry.
- Engage in education campaign to inform students and parents of the opportunity for good jobs with good wages and benefits in the industry.

Life Sciences/Bioscience

The life sciences/bioscience cluster continues to be a burgeoning business sector on the North Shore, and as a result of the presence of North Shore Innoventures and the existence of a support network of like-minded professionals in the field, the region is attracting more interest as a home for this industry cluster. The successful recent grant award from the Massachusetts Life Science Center to the Life Science Consortium of the North Shore, a consortium of the region's institutions of higher education, life science industry partners and the North Shore Technology Council will further advance the region as a place to do business for this sector. The grant will enable both students and industry employees to gain access to, and have practical training on, highly technical and expensive analytical instruments that would otherwise be unavailable to them. By providing this opportunity for hands-on experience, the Life Science Consortium will be addressing a need identified by the industry in the NSWIB's Life Science Industry Report issued in June 2013.

One North Shore property manager indicated that his firm had targeted this sector specifically to facilitate the development of the cluster in the region recognizing the risks involved with nascent start-up businesses of this nature. The property is now home to 48 Life Science firms leasing 500,000 square feet of space (both lab and office). The property makes available smaller sized spaces (600-750 square feet) that seem to suit the needs of these start-up businesses.

North Shore financial institutions are cautiously optimistic that investment opportunities will arise with the development of this cluster in the region, but are quick to point out that funding of such entities, especially in their early, developmental stages remains within the purview of angel and venture capital investors. Angel and venture capital investors, generally speaking, see abundant opportunities in this business sector in the Commonwealth, and hopefully more of this money will find its way to the North Shore.

In addition to their participation in the Life Science Consortium of the North Shore, the higher education institutions in the region have also made, or are in the process of planning, for significant investments and improvements to their academic facilities as evidenced by the new Judge Science Center at Endicott College; planned improvements to the science labs at Salem State University and laboratory and classroom space at the Olsen Center at Gordon College.

While the North Shore is home to some of the well-known mainstays in the life sciences/bioscience cluster—New England Biolabs, Cell Signaling—and the medical device sector as well—Analogic, Medtronic and Abiomed, real estate brokers and property managers alike opine that the North Shore has “issues landing the big ones.”

According to those in the real estate community, the North Shore's proximity to Boston and Cambridge when combined with more reasonable/lower leasing rates makes the region attractive to the start-up ventures and smaller companies. However, when companies from the metro Boston or the Cambridge/Somerville area are considering expansion plans and looking to the North Shore, the “ripples from Boston don't extend much beyond Woburn.” Another real estate broker said, “Although the North Shore is less than 20 miles from Boston and Cambridge, it's considered an outpost that is away from the critical mass of metro Boston. The younger employees in these companies want to be closer to Boston, and employers are sensitive to that.”

The companies in this sector that call the North Shore home are “dependent upon the founder or CEO having a personal North Shore connection.” Interviewees were also quick to point out the rising stars and spinoffs in the life sciences/bioscience/medical device sectors that chose to expand here on the North Shore like Sage Science, Enzymatics and Microline Surgical as further evidence of the growth potential for this sector in the region. Similar findings and conclusions were reported in the previously mentioned 2013 Life Science Industry Report.

Recent press coverage of the launch of a non-profit, the Gloucester Marine Genomics Institute (GMGI), by one of the Boston-area’s biotech wizards, Gregory Verdone (owner of a Gloucester home) and his partners, will go a long way in reimagining the North Shore as a home for the bioscience cluster. GMGI was formed by its principals, in part, to bring their expertise to study the populations of Atlantic cod.

While this work would be critical to Gloucester’s commercial fishing fleet, according to press reports, plans for the future envision much more, including the development of a research center on the waterfront and an academy in the city that would train high school graduates for jobs in the area’s bioscience cluster. Building on its relationship to the ocean, Gloucester would become a hub of the biotech cluster.

Recommendations

- Market the North Shore and its lower rental costs, ease of access to the metropolitan Boston/Cambridge and quality of life advantages to the Boston/Cambridge life science/bioscience companies and community.
- Connect the Boston/Cambridge life sciences/bioscience venture capital and angel investment community to the North Shore’s life sciences/bioscience cluster.
- Strengthen the connections between educators and the industry at the K-12, college and post graduate levels.
- Work with North Shore Technology Council to promote increased awareness of and to demystify the STEM fields of study for parents and children in grades K-12 in all North Shore communities.
- Promote both internship and externship programs with North Shore life science/bioscience companies.
- Increase the dialogue between local elected officials and boards, workforce development and economic development professionals, the local banking community and the life science/bioscience

businesses in order to develop a better understanding of the needs of the industry and avoid unintended consequences of local regulations and/or zoning ordinances.

- Promote the unique partnership embodied by the Life Consortium of the North Shore and the North Shore’s higher educational institutions and the Life Science industry to advance educational and workforce training programming for the region’s present and future workforce needs in the life science/bioscience cluster.
- Encourage the development of multi-unit housing and engage the business communities in the public hearing process as advocates for the need for such housing for their employees as they are dependent upon having skilled workers available.
- Advocate for improvements to public transportation, including, but not limited to, more frequent rail service with links to a coordinated shuttle service provided by employers.

Manufacturing

In January 2014, Michael A. Tyler, CFA, Chief Investment Officer of Eastern Bank Wealth Management, made a presentation entitled What’s the Forecast? 2014 U. S. Economic & Investment Overview at a meeting of the North Shore Alliance for Economic Development. In his presentation, Tyler pointed to a pent-up demand for cars and trucks as a significant factor in what might occur in 2014 citing the average age of cars on the road at 11.4 years old—the oldest in American history. Tyler also saw a pent-up demand for durable goods in the American economy as businesses and households alike had been making do with old products. This pent-up need for new cars and trucks and replacement and upgrades, including refrigerators, stoves, microwaves dishwashers, for long-lived assets would spur investment predicted Tyler. The experiences of commercial bankers, construction companies and others have validated Tyler’s prediction.

One banker cited an increase in his bank’s lending to its manufacturing customers—machine shops with 5-15 employees showing steady increased activity. A number of these manufacturers produce parts for American automakers like Ford and General Motors. Work was steady and demand high. The same banker also observed a spike in the manufacturing portfolio with companies supplying parts incorporated into renewable energy projects—both solar and wind. The same banker also referenced investments being made in larger solar projects on the North Shore.

One North Shore construction company cited its work in expansion and reconfiguration projects for a manufacturer of microchips evidencing anticipated increased production at those facilities by the company. The same construction representative also saw increased interest and investments in modernization and energy efficiency projects with a couple of its manufacturing customers as “things that had been talked about for some time.”

Another banker reminded that the presence of General Electric in Lynn still played a major role in the continued “good health of the small machine shops and manufacturers of specialty parts” for GE aircrafts and other products of the company. The larger manufacturer not only spawned a lot of the smaller North Shore manufacturing firms, but it remains a major source of work for those companies.

A discussion of manufacturing on the North Shore would not be complete without mentioning the significant growth in advanced manufacturing of food production in the region. As a result of public investments by both local communities and the state that was combined and leveraged with private investment, Salem and Lynn are homes to Jacqueline’s Bakery and Kettle Cuisine, an artisan soup manufacturer. These companies are not your old baker and soup maker, but instead use advance manufacturing technologies to make their products that are shipped across the country and all over the world. One North Shore banker stated that food processing/production business sector was a “sweet spot” in his institution’s lending portfolio, and in fact saw a concentration of some of these businesses developing in Lynn. A more detailed discussion of the food industry follows later in this *Snapshot*.

While optimistic sentiments about the continued success of the manufacturing sector across the North Shore were universally shared among the interviewees, an equally dominant theme addressed an uneasiness and deep concern about the aging workforce in the manufacturing sector. Bankers and staff from the Massachusetts SBDC spoke of the concerns repeatedly shared by their customers/clients that there was a lack of skilled workforce to replace an aging workforce in this field across the region in companies large and small.

Recommendations

- Encourage development of internship programs with manufacturers to prepare the next generation of workforce as the current workforce reaches retirement and creates shortages of skilled workers.
- Work with industry to market the new manufacturing career path to parents and students in grades K-12.
- Encourage relationships between the industry and Essex Technical High School and develop internships and externships for a better understanding of the industry.
- Support programs to introduce the region’s manufacturing companies to opportunities for international trade.
- Promotion of new Essex Technical High School as a resource for the industry.
- Assist with the development of a marketing strategy to promote the region as a manufacturing center highlighting the small to medium size shops that dominate the region, but don’t have the marketing resources or staffs.
- Work with industry to promote the “new” advanced manufacturing to parents and students as a career path with new skill requirements.
- Continue engagement with the work of the Northeast Advanced Manufacturing Consortium, a collaborative effort between the NSWIB, Merrimack Valley WIB, Metro North WIB and the Greater Lowell WIB.
- Engage in the public discussion concerning requiring computer science/coding as a requirement in curriculum for grades K-12.

Reliable and Steady Contributor

Financial Services

The North Shore is home to a robust array of financial institutions that stand ready to serve the region's banking needs. Fortunately, the North Shore's local and regional banks continue to prosper and they remain a source of good jobs with career paths with good salaries.

North Shore banks, for the most part, are community banks with their roots firmly planted in the communities they call home and serve. While there have been some mergers and acquisitions that have been accompanied by concerns that the newer, larger entities would lose their community connections, in most cases, it has not proven true. More than one banker anticipates that the financial services sector will continue to see mergers and further consolidations in the future.

During the interviews, there were concerns expressed that new banking regulatory structure, particularly at the federal level, makes it more difficult for smaller local community banks to continue to do business as usual. Additional reporting requirements and rigid standards make it unprofitable for them to do business as their customers have come to expect.

The costs of compliance make it unprofitable to pursue certain lines of business, and you have employees doing compliance instead of pursuing business. As one banker said, "I'm not sure that it matters in Washington that community banks did not cause the problems. We're all treated alike and our hands are tied where we once had flexibility to make judgment calls we no longer do. It prevents us from doing things with our customers."

Another banker opined that "the costs of staying current and relevant" pose a challenge within the banking community especially for smaller banks. On-line banking services and the like are expensive and change frequently. Again, the smaller banks don't and won't have the same resources and access to the changing technology that larger banks will have.

Despite the challenges, those within the industry still see it as a good career opportunity with good salaries and opportunities for growth. Additionally, one banker indicated that his bank had an aging workforce and that it was something that concerned banks, but for which they usually planned.

For a number of reasons, including the increased use of on-line banking, it is anticipated that the "density of branches" will decrease, and banks will see less of a need to have as many locations. Branch locations will be smaller, and services delivered at branch locations will change becoming less transactional and more service oriented. Branches will have fewer employees and be smaller in size.

Recommendations

- Ensure that the partnership between the region's financial institutions and workforce development officials continues and promote the marketing of the program as an entry point for good, secure career path employment opportunities.
- Continue the dialogue between educational institutions, workforce training community and the industry to anticipate the changing work skill needs of prospective employees as on-line banking changes the nature of the services offered in bank branches from transactional in nature to a more service oriented nature.

Unsung Heroes

Tourism/Recreation

The North Shore tourism industry is vibrant and has significant impact on the region's economy. Anyone that drives the local roads and meanders behind the colossal tour buses or plays the license plate game while sitting at Gloucester's Stage Fort Park or the House of Seven Gables in Salem knows that the region is a popular destination as visitors from around the world come to experience the historical, cultural and natural resources and assets that dominate this region of the Commonwealth and that we often take for granted.

There is no debate that the tourism industry is important to the North Shore region and the economic impact of the tourism sector is significant. Area tourism officials estimate that over 1.2 million tourists visited our region annually over the last three years. Businesses that cater to our visitors from accommodations to souvenir shops are prospering. But these visitors touch so much more and fuel many other sectors of the region's economy that are on the fringe of tourism but undoubtedly reap the economic benefits of having over 1.2 million people pass by their front doors. Businesses like marinas, restaurants, amusement parks, recreational facilities like golf courses, gas stations, museums, theatres, grocery stores and many other similar establishments all share in the ripple effect of tourism spending.

The recent Center for Economic Development and Sustainability at Salem State University (CEDS) *North Shore Cluster Update* report described the tourism/recreation business sector as maintaining steady growth with consistent numbers of businesses, employees and revenues overall. Accommodation and food services showed a larger growth in the number of businesses as well as a greater share of the 2,000 new jobs created in the sector overall.

A 2014 Essex National Heritage Area Site Study indicated that tourism and recreation generated an economic impact of over \$153 million, supported over 1,800 direct and indirect jobs and generated over \$14 million in tax revenue.

The North of Boston Convention & Visitors Bureau reported over \$780 million dollars in domestic expenditures and \$85 million of international

expenditures in 2012 further demonstrating the significant economic impact of tourism in Essex County.

Members of the investment community and real estate brokers and property managers see very little in terms of investments in their portfolios from the tourism sector. One banker said, "We know it's there; we have family and friends visit and share wonderful stories of the museums, whale watches and historical sites and museums they visit; we see the tour buses and tourists, but we don't see too much investment activity." Ironically, the same banker noted an increase in inquiries from restaurants seeking financing through his bank lately.

One sector that did mention investment activity in the tourism and the hospitality sector was the construction industry. The Beauport project in Gloucester, RCG's mixed use development, including a hotel in downtown Salem and expansion plans at the Salem Waterfront Hotel all were mentioned as well as reports that a national hotel was considering the possibility of something in Lynn. Another construction executive referenced activity in the hospitality sector in many communities surrounding Boston attributing it to the increased convention business with the expansion of the Convention Center and increasing demands for rooms to support the expanding business.

Local economic development and elected officials clearly valued the significant impacts of the tourism industry in generating economic activity in the region.

Recommendations

- Initiate discussions with Wynn Resort Casino to define career path opportunities within the culinary and hospitality management disciplines.
- Identify internship opportunities with the tourism sector.
- Continue the dialogue between the workforce development entities, educational institutions and the industry to identify the training needs for the tourism/hospitality workforce.

Creative Economy

The *North Shore Cluster Update* highlighted successful cluster development citing ever growing support networks in place locally and at the state level making the Creative Economy ripe for potential further growth across the North Shore.

The Creative Economy sector includes design, including computer system and software design, business and management consulting, engineering/R&D, artists, the performing arts and advertising/marketing. According to studies commissioned by the Creative Economy Association of the North Shore (CEANS), creative economy commerce generates over \$3 billion in annual sales.

The CEDS Update demonstrates the significant impact that this sector has on the region's economy as:

- 2,656 businesses are engaged in the Creative Economy, 87% of which have 5 or fewer employees.
- The Creative Economy in Essex County employs over 13,600 people and has reported annual revenues in excess of \$1.2 billion.

A report commissioned by the Creative Economy of the North Shore in 2008 concluded that this business cluster represents 10-12% of the North Shore private sector employment.

Generally, one thinks of musical performances (Shalin Liu Performance Center) and theatre (North Shore Music Theatre) and the arts (Peabody Essex Museum and Rocky Neck) as the most visible examples of a healthy North Shore Creative Economy. However, the North Shore is home to hundreds of businesses that provide creative services or create and promote intellectual property. They include web designers, chefs, marketing companies, architects, engineers, consultants and product designers.

Despite these impressive statistics and significant economic impacts, the Creative Economy barely shows up on the investment community's radar. Interestingly, several bankers and contractors mentioned architects in connection with the construction industry sector, but did not associate an architect or engineer as being within the creative economy. One banker admitted that he never considered an architect or engineer as part of the creative economy. He said, "I guess I saw it in context. I was talking about financing a building project, and in my mind, they were part of the construction business."

When one considers that creative economy businesses are entities comprised predominantly of five or fewer employees, it is also not surprising that creative economy businesses are less likely to come in contact with the commercial banking sections of the North Shore banking and investment communities. One commercial banker offered that his lending portfolio handled larger businesses and the creative economy ventures were probably utilizing other banking products and services like home equity loans or credit lines to finance their business.

Recommendations

- Continue to support opportunities for creative economy businesses to network and create more business-to-business events to "introduce smaller businesses up to" larger prospective customers on the North Shore and across the Commonwealth.
- Support the development of collaborative work space on the North Shore and promote Transformative Development Initiative of Mass Development in the Gateway cities.
- Advocate for development of affordable housing.
- Develop an inventory of artist spaces and creative work spaces available on the North Shore.
- Remain engaged with the efforts of Creative Economy Association of the North Shore, MassCreative and the Creative Economy Network of the Northeast lead by Montserrat College of Art.

The Rookie

Local Food

The Local Food business cluster has only recently been identified and quantified as a growing business sector on the North Shore. This *Snapshot* considers—the local food industry—the 2014 “rookie of the year” and the North Shore’s new emerging cluster sharing many of the same attributes of the Creative Economy cluster in 2008-2010—hard to define (and depends on who you ask); large numbers of sole proprietors and small businesses that have many needs, and the cluster is growing.

So what brought local foods to the attention of those interested in economic development and job creation? Two years ago, the Enterprise Center at Salem State University hosted a workshop on the business of local farming. Attendance at the workshop was standing room only, and as discussions ensued it became apparent that there were a lot more than farmers in the room and that “local foods” was a hot topic no matter how you defined it, and therein lies the beginning of the Local Food Initiative at the Enterprise Center that has been supported by the North Shore Alliance for Economic Development and others for the past couple of years.

The Local Food Initiative boasts a database of over 400 individuals that have an interest in local foods. The group now has quarterly meetings and bi-monthly networking meetings at local food establishments. This fall the Enterprise Center and the North Shore Alliance are in the process of conducting a three-part workshop series featuring programs on food regulations and health code requirements; food packaging and labeling and an introduction to food distributors.

As a result of the Local Food Initiative, several local economic development officials have expressed interest in pursuing the possibility of developing a shared commercial kitchen space in their communities. Additionally, other organizations, including a community development corporation and a couple of private investors, have also attended the Initiative meetings to learn more about the potential development project. A privately financed shared kitchen recently opened in Amesbury and is reportedly doing well, and another local group is pursuing discussions about the formation of a Food Cooperative in Beverly.

The recent *North Shore Cluster Update* considered the food industry as a significant cluster not identified five years ago. The data evaluated showed a large number of businesses, revenues and employees as well as a large proportion of the businesses as being small businesses. The Local Food cluster as defined by CEDS included restaurants and sandwich shops as well as grocery stores and fast food restaurants and the like. For purposes of this *Snapshot*, we have limited the definition of local food sector to food processing/production and to food growing, eliminating sandwich shops, diners, grocery stores since the *Snapshot* and *Labor Market Blueprint* were attempting to evaluate workforce training needs and investment patterns as indicators of the future workforce development needs.

When we initially inquired of bankers about growth activity in the food industry, local restaurants, bakeries, caterers and small food shops jumped first to everyone’s mind. Such businesses don’t usually avail themselves of the commercial lending services of the banks that were surveyed. The financing of such establishments carries high risk and too many uncertainties. So it was not surprising that the discussions with the North Shore commercial lenders were of a limited nature.

Where then does the Local Food Cluster show up and evidence its economic impact? A mention of restaurants is unavoidable in the discussion. Local economic development directors and planners espouse the economic value that good, local restaurants bring to their downtowns—Lynn, Salem, Beverly all have seen the revitalization of sections of their urban communities with the life and vitality that accompanies the foot traffic of restaurant patrons. Peabody and Danvers are in the process of seeking more liquor licenses to support new restaurants that will hopefully foster economic development efforts and drive their local revenue numbers.

Most significantly, there has been substantial public investment in communities across the North Shore that when leveraged with the private investment in those projects increased the footprint of the food cluster in the region. These investments have created over 200 new jobs in the region, and overall during the last three years, the service area of the NSWIB has seen a 25% growth in food manufacturing companies located on the North Shore.

In Salem, Jacqueline's Wholesale Bakery now sees annual sales of over \$30 million, shipping its cookies to hotels, cruise lines and food distributors from all over the world. The bakery recently expanded its facility with private investment of \$2.8 million dollars supported by an Investment Tax Credit (ITC) from the Commonwealth, and a Tax Increment Financing (TIF) agreement from the City of Salem. This investment will create 36 new jobs at the Salem facility.

Similarly, in Lynn, Kettle Cuisine, a leading manufacturer of artisan quality fresh, refrigerated frozen soups for food service and retail channels, will nearly double in size at its new facility creating 100 new jobs and retaining 138 full-time jobs. A \$14.5 million private investment will allow for the leasing and retrofit of 200,000 square feet and new construction of 67,500 square feet of new advanced manufacturing space. The City of Lynn is supporting the project with a 15 year TIF of over \$4.5 million and the Commonwealth approved an ITC in the amount of over \$1.1 million of further public investment.

The City of Lynn made further public investment in the food sector partnering with D'Amici's Bakery that invested \$1.05 million to acquire an abandoned building for retrofit that is now home to D'Amici's Café, and Rosetti's Italian restaurant. The location of these establishments is mentioned because of the synergy between the creative economy sector and the food industry as the restaurant is one block from Lynn's City Hall Auditorium that hosts sellout crowds at a wide range of musical performances.

The City of Gloucester and the Commonwealth also made public investments in the local food cluster of the North Shore to leverage a private investment of \$12.6 million to support the acquisition of a vacant seafood processing facility, building improvements and purchase of food processing and manufacturing equipment. The expansion project by the Mazzetta Group, a wholesale distributor of premium frozen seafood to restaurants, retailers and hospitality organizations across North America, will create 125 net-new jobs in Massachusetts. Gloucester development officials indicate that they have received other inquiries from seafood related entities about the possibility of opening locations in Gloucester.

One banker mentioned that his lending portfolio had a familiarity with the food production sector and found it a good business in which to be engaged. Customers in the sector have had success and have expansion plans.

The Local Food Initiative has identified three primary areas of need to support the further growth of the cluster in the region Food Working Group established at the Enterprise Center at Salem State University:

- Need for more shared Commercial Kitchen Space;
- Need for an effective and efficient Distribution System to get local product from growers and producers to local restaurants and consumers; and
- Need for a Coordinated Marketing and Promotion plan of the Cluster

A couple of final interesting notes on the local food industry, earlier in this *Snapshot* there was mention of the Gloucester Marine Genomics Institute, part of the vision of the founders is the possible development of fish farms off the Gloucester coast. Mayor Carolyn Kirk recently traveled to Japan and met with investors that are interested in pursuing further discussions about this possibility.

And finally, on the lighter side, yet no less of a serious observation, when one interviewee was asked about the local food cluster, he joked that "all he knew about food was that he liked to eat it." However, he noted the popularity of local farm markets that have popped up across the North Shore—referencing those in Salem, Marblehead, Newburyport, Lynn and Beverly. These farmer's markets are the breeding grounds for the local food cluster.

Although only a blip on the investment community's radar, there appears to be opportunities on the horizon for further growth and development of this business cluster on the North Shore—think food trucks and food tourism as examples of those opportunities.

Recommendations

- Continue to promote the development of shared commercial kitchen on the North Shore.
- Continue to support the Local Food Initiative at the Enterprise Center at Salem State University to offer programming and workshops on basic business skills for those starting a business in the food industry.
- Engage local building and health departments in discussions with the Local Food Initiative to avoid confusion and delays in permitting.
- Support the development of a manageable food distribution system whereby food producers can get product to markets, restaurants and consumers desirous of supporting local foods.
- Market the North Shore as a food destination incorporating lifestyle, tourism and recreation.

We would like to thank Eastern Bank for their very generous contribution, making this Labor Market Blueprint and Investment Snapshot a reality – a critical document for the region and beyond.



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