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INTRODUCTION

Local and regional economic development is increasingly reliant on targeting specific business sectors in order to take full of competitive strengths. Successful implementation of this strategy has taken form in communities such as Silicon Valley, the Research Triangle Park, and Route 128 in Massachusetts. Clusters of similar types of businesses drive economic growth and development in each of these places. Agglomerations of similar businesses drive cost-saving economies of scale as they share common labor pools, infrastructure, and sector knowledge. Further, businesses can reduce cost by locating in proximity to upstream (suppliers) and downstream (buyers) linkages. These benefits, along with advantages from business networks, tend to drive growth in employment, wages, and new businesses. The scarcity of economic development resources reinforces the importance of targeting, as investments will pursue those sectors with the greatest potential to grow jobs, retain existing companies, and create wealth.¹

In economic development, numerous methodologies are used to identify target clusters. However, many of these solely focus on industry or recruitment, and neglect to assess assets in the workforce, educational strengths, and location advantages, which are components of a healthy economy. *Market Street* identified the targets for Vestavia Hills by researching the aforementioned components in a holistic manner and leveraging the in-depth research that was completed as a component of the Blueprint Birmingham process for the Birmingham Business Alliance (BBA) in 2010. That research began with an assessment of the attributes of the region's workforce - the occupations and knowledge that supports the region's businesses - prior to examining the regional business mix. This "bottom up" approach allows for more analysis of sectors that fit well with existing skill sets, and stands in contrast to the traditional "top down" approach long used in cluster analysis.

In its approach to economic development, it will be important for the City of Vestavia Hills to carefully consider the strengths, weaknesses, opportunities and threats facing the entire Greater Birmingham region. In short, the City must think regionally but act locally. Companies often have little regard for city limits in the process of identifying appropriate sites. Firms will often identify a few preferred markets – states, metropolitan areas, or counties – and then search for suitable locations within those areas once a specific market has risen to the top of their list. Accordingly, local governments and their economic development partners – including but not limited to chambers of commerce, development authorities, and improvement districts – must be aware of how their community is positioned within the larger economic region.

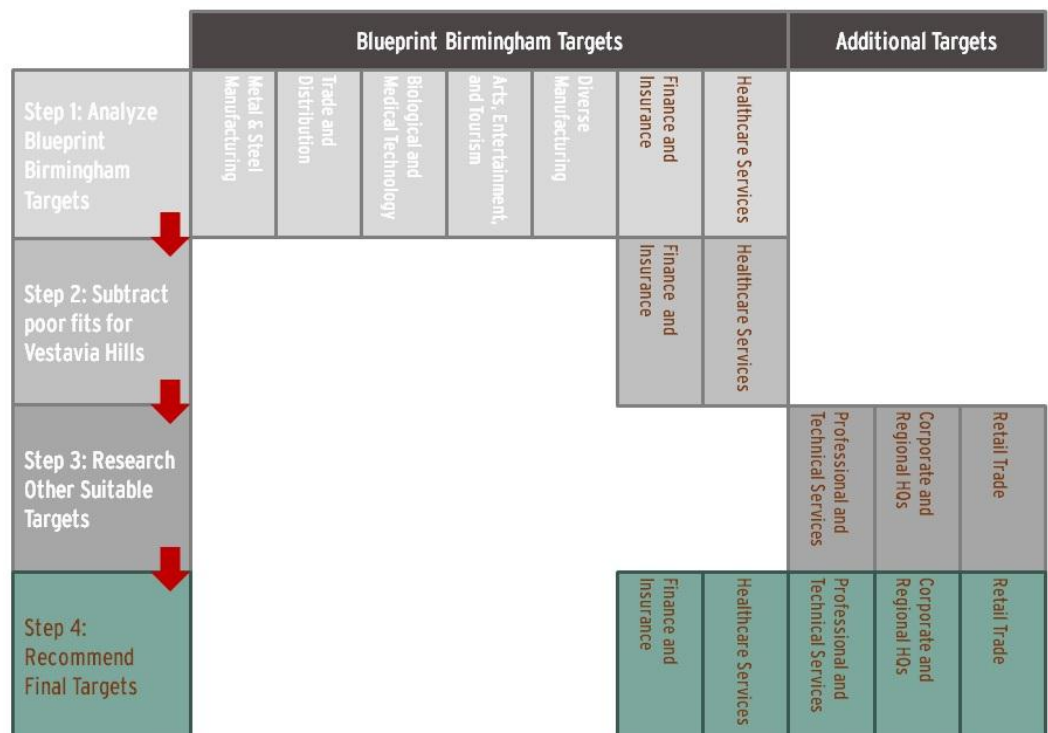
¹ Throughout this review, the terms "target," "target sector," "target business sector," and "cluster" will be used interchangeably.

As a result, this *Target Business Review* for the City of Vestavia Hills will begin with a brief recap of the target cluster recommendations that emerged from the Blueprint Birmingham process. The *Target Business Review* will then identify and discuss:

1. Regional targets that are **not** strong fits for Vestavia Hills
2. Regional targets that **are** strong fits for Vestavia Hills
3. New opportunities that are not targeted regionally but are necessary and viable targets for Vestavia Hills.

The following graphic describes the research process for identifying Vestavia Hills' recommended target clusters and highlights the final recommendations. The general findings are:

- Two of the Blueprint Birmingham targets – **Finance and Insurance** and **Healthcare Services** – were determined to be strong fits in Vestavia Hills.
- Three additional targets – **Professional and Technical Services**, **Corporate and Regional Headquarters**, and **Retail Trade** – were not identified as regional targets in Blueprint Birmingham but were identified as additional strong fits in Vestavia Hills.



METHODOLOGY

Data Sources

Federal data sources provide robust business and wage data for geographies beginning at the county level. Given the deficit of publicly available data for Vestavia Hills, *Market Street* derived the target clusters from data obtained through InfoUSA, a proprietary business-level data service. The Regional Planning Commission of Greater Birmingham provided the data, which covered all businesses located in Vestavia Hills in 2005, 2008, and 2010. National trends in target sectors were obtained from the Bureau of Labor statistics.

Location Quotients

A location quotient (LQ) is a ratio representing the strength of a particular local business sector in relation to the national average. Location quotients are used to measure the relative concentration of local employment in a given business sector or occupation. The calculation for an LQ is as follows:

$$LQ = \frac{(\text{Local Employment in Sector} / \text{Total Local Employment})}{(\text{National Employment in Sector} / \text{Total National Employment})}$$

When applied to business sector employment, LQs measure the ratio of a business sector's share of total local employment to that business sector's share of total national employment. Thus, a business sector with an LQ equal to 1.0 possesses exactly the same share of total local employment as that business sector's share of national employment.

If a location quotient is *greater* than 1.0, the area has a larger share of employment in that sector than the nation. The higher the LQ, the more concentrated the level of local employment compared to its U.S. equivalent. If a location quotient is *less* than 1.0, this indicates a smaller local share of employment than the nation. For example, if the location quotient of manufacturing is 2.67 in Vestavia Hills, it would indicate that local employment is almost three times as concentrated in Vestavia Hills than the national average. Conversely, if the LQ is 0.5, that would indicate manufacturing employment is half as concentrated in Vestavia Hills as the national average.

Location quotients are often used to assess the competitive position of a local business sector. Those business sectors with relatively large LQs are often assumed to possess competitive advantages. However, location quotients below 1.0 may also indicate opportunity areas as employment is likely "leaking" to other communities outside of Vestavia Hills.

BLUEPRINT BIRMINGHAM

The *Target Cluster Analysis* conducted for the Greater Birmingham² region as a component of the Blueprint Birmingham process identified clusters of economic activity – or groups of business sectors – on which the region should focus economic development efforts in order to grow Greater Birmingham’s economy. A tremendous amount of quantitative and qualitative research went into the identification of Greater Birmingham’s clusters of economic activity. *Market Street’s* recommendations during the Blueprint Birmingham process were based on a thorough analysis of the region’s workforce advantages (utilizing occupational employment data), business sector strengths (utilizing sector employment data), institutional and geographic advantages (utilizing a variety of sources), and the national outlook for specific types of economic activity. This process identified seven target clusters for the Greater Birmingham region and grouped these recommendations into three distinct categories: historical advantages, core clusters, and emerging opportunities.

The *Target Cluster Analysis* identified the following components for the Birmingham Business Alliance and its economic development partners throughout the region to pursue:

- One **historical advantage**
 - Metal and Steel Manufacturing
- Three **core clusters**
 - Finance and Insurance
 - Healthcare Services
 - Trade and Distribution
- Three **emerging opportunities**
 - Biological and Medical Technology
 - Arts, Entertainment, and Tourism
 - Diverse Manufacturing

These areas represent business groups that have the greatest potential to create new jobs, retain existing jobs, and create wealth in the region. As such, it was recommended that economic development resources and efforts be focused on these targets to stabilize, grow, maintain, and diversify the Birmingham regional economy.

Historical Advantages

Many regions across the United States have deep histories in manufacturing, extraction, and agriculture that helped shape their identities for decades. From automotive manufacturing in Detroit, steel production in Pittsburgh, coal extraction in West Virginia, and carpet manufacturing in Dalton, Georgia, these regions have all struggled with the decline of their historical advantages due to various economic factors. With minimal or comparatively low prospects for future growth in these sectors, these regions have pursued a variety of strategies to bring greater

² Defined as the Birmingham-Hoover, AL Metropolitan Statistical Area

diversification to their regional economies. However, these regions have also recognized the importance of these sectors in their region's history, as well as the thousands of other jobs these sectors support indirectly in their regional economies. Accordingly, they have not abandoned their historical advantages. Rather than targeting these sectors for new investments through aggressive recruitment, resources are focused on retaining and expanding employment within existing businesses. Other strategies have focused on helping the establishments within these sectors become more innovative and efficient in order to be more competitive in an increasingly global marketplace.

Metal and Steel Manufacturing

Long known as “the Pittsburgh of the South,” the Birmingham region has a deep history in metal and steel manufacturing. While this sector of the region's economy has declined over time, its presence and economic impact cannot be ignored. The relationship between metal and steel production and other sectors in the region, primarily trade and distribution, further emphasizes the need to remain committed to retaining establishments and expanding employment within the cluster. The Birmingham region will need a different approach and a different set of strategies to help this cluster remain competitive. Accordingly, in identifying the region's clusters, *Market Street* differentiated this “historical advantage” from the region's “core clusters” and “emerging opportunities” which possess more promising long-term growth potential in the Greater Birmingham metropolitan area.

National trends: With the exception of architectural and structural metals manufacturing, every subsector within the cluster experienced employment losses between 1998 and 2008, and all are projected to lose employment nationwide between 2008 and 2018. Projected employment loss is attributed to increased competition from abroad as well as improvements in productivity.

Occupational strengths: Rolling machine operators; pourers and casters of metal; furnace operators; metal machine tool operators; welders; molding, coremaking, and casting machine operators; extruding and drawing machine operators; industrial truck and tractor operators; industrial machinery mechanics

Occupational weaknesses: Industrial engineers; mechanical engineers; engineering technicians

Business sector strengths: Foundries; iron and steel mills; steel product manufacturing; spring and wire product manufacturing; machine shops and threaded product manufacturing

Business sector weaknesses: Aluminum production; industrial machinery manufacturing

Competitive advantages:

- ✓ **Industry-leading employers:** U.S. Steel; American Cast Iron Pipe Company; McWane, Inc.; U.S. Pipe and Foundry Company; Pohang Iron and Steel Company (POSCO); Liberty Group; Drummond Company; Vulcan Industries
- ✓ **Port of Mobile:** The Port of Mobile was one of the few major deep-water ports in the country to experience growth in the amount of cargo handled during the recent recession and is currently the 9th largest port in the country in terms of tonnage handled. The new Pinto Island Steel Terminal at the Port will help uphold the competitive position of Alabama and its steel manufacturers in the years to come.
- ✓ **Rail networks:** Greater Birmingham is home to three class one rail lines (CSX, Norfolk Southern, BNSF), each of which continue to make significant investments in capacity throughout the region. These investments include Norfolk Southern's new intermodal facility in McCalla (under construction) and the new CSX intermodal facility in Bessemer.
- ✓ **Research facilities:** Vulcan Materials Center for Environmental Stewardship at Samford University; Casting Engineering Laboratory at UAB; Southern Research Institute

Competitive disadvantages:

- ✓ **EPA nonattainment status:** Jefferson and Shelby counties are classified as nonattainment area by the EPA for exceeding nationwide ozone standards. In nonattainment areas, any new source of emissions must be offset by a reduction in emissions, which inherently limits the potential for new manufacturing operations.
- ✓ **Limited educational opportunities:** The region's higher education institutions produce a very weak pipeline of engineering talent, requiring employers to recruit skilled engineers from outside the region. Opportunities for two-year degrees and certificates supporting the cluster are more abundant, but not nearly as prevalent as similar opportunities in other large communities across the Southeast.

Investment areas:

- ✓ Leveraging regional leadership in health and environmental fields to proactively address nonattainment status. Connecting manufacturers with researchers and administrators at the region's intuitions of higher education to identify the types of assistance that can be provided in moving to more environmentally-friendly manufacturing processes.
- ✓ Assistance with supply-chain mapping and network development between metal and steel manufacturers and other sectors within the region to help to

create new business relationships and identify new markets, including the facilitation of new business relationships between metal and steel product manufacturers and the existing automotive parts supplier network in and around the Greater Birmingham region.

- ✓ Expansion of degree programs and talent pipelines supporting industrial engineering in order to prepare for continued automation within manufacturing processes.
- ✓ Above all, disciplined and consistent business retention efforts are necessary.

Core Clusters

Core clusters represent the currently dominant engines of the Birmingham region's economy. These are the networks of clustered operations and skill sets that have resulted in existing competitive advantages for the region, while possessing long-term growth potential.

- ✓ Finance and Insurance
- ✓ Healthcare Services
- ✓ Trade and Distribution

These three core clusters represent those areas that are most likely to continue to be economic engines for the Birmingham region for many years to come.

Finance and Insurance

The Birmingham region continues to be an economic center for Alabama and the Southeast. While Charlotte has emerged as the financial capital of the Southeast, the finance and insurance sectors in Greater Birmingham have thrived and possess strong potential for future growth despite tremendous uncertainty and challenges in these sectors nationwide.

The impact of this recession has undoubtedly been felt in the Birmingham region. However, employment declined by only 0.1 percent in the region's finance and insurance sector between March 2007 and March 2009, well below the national rate of finance and insurance employment loss (-5.6 percent). The acquisition of Wachovia by Wells Fargo as well as the closure of New South Federal Savings Bank and the transfer of assets to Texas-based Beal Bank will continue to affect the composition and stability of the region's cluster for years to come.

National trends: The 'Great Recession' has affected nearly every sector of the economy, but financial services have undoubtedly experienced the most turmoil, uncertainty, and reconfiguration in recent years. Bank closures have devastated many communities nationwide, and consolidation of major firms has fundamentally changed the landscape and restructured the finance and insurance sectors. In the decade to come, securities brokerage and funds, trusts, and other financial vehicles are expected to grow the fastest among the cluster's subsectors. Output in the

insurance sector is expected to increase as a growing and aging population will demand and more heavily utilize insurance of all kinds, particularly health insurance. However, productivity enhancements are expected to grow faster than output, resulting in projected employment decline for the sector between 2008 and 2018 (-4.5 percent) nationwide. Cost pressures, technology enhancements, and greater utilization of the internet to process claims and provide quotes will be contributing factors to growing productivity and a lower demand for labor within the insurance sector.

Occupational strengths: Financial examiners; brokerage clerks; personal financial advisors; insurance sales agents; insurance claims and policy processing clerks; claims adjusters, examiners, and investigators; loan officers and counselors

Occupational weaknesses: Financial analysts; budget analysts; credit analysts; insurance underwriters; tax preparers; computer and information systems managers

Business sector strengths: Insurance carriers; commercial banking

Business sector weaknesses: Securities and commodities contracts brokerage; mortgage and nonmortgage loan brokers; portfolio management and investment advice

Competitive advantages:

- ✓ **Corporate and Regional Headquarters:** Regions Financial; Blue Cross-Blue Shield of Alabama; BBVA Compass; Protective Life Corporation; Infinity Insurance Company
- ✓ **Labor costs:** The average annual wage across the entire finance and insurance cluster in the Birmingham region (\$78,596) was more than \$18,000 lower than the national average (\$96,857). This is a tremendous advantage from a labor cost standpoint, but a great disadvantage in attracting and retaining talent.
- ✓ **Business administration programs:** There is tremendous pipeline of talent emerging from the region's higher education institutions with bachelor's and master's degrees in business administration.

Competitive disadvantages:

- ✓ **Prevailing wages:** As previously mentioned, the relatively low average annual wage in finance and insurance sectors in Greater Birmingham could be an obstacle for some firms in their talent recruitment and retention efforts.
- ✓ **Graduate-level finance programs:** There are no graduate-level finance programs in the region, providing no advanced educational opportunities in areas such as global finance, financial management, or mathematical finance. This absence possibly contributes to the disadvantages in analyst-level

occupations. Other supportive degrees such as statistics and economics are not found at the graduate-level.

- ✓ **Limited connectivity at Birmingham-Shuttlesworth:** While nonstop flights to New York, Chicago, and Charlotte are available, the airport does not currently offer nonstop service to other regional finance and insurance markets such as Columbus (OH), Des Moines (IA), Bloomington (IL), and Hartford/Bridgeport (CT).

Investment areas:

- ✓ Support for planned improvements and expansion at Birmingham-Shuttlesworth International Airport, and the exploration of new investments to help secure direct connections to other financial hubs.
- ✓ Additional sidewalk, street, and public safety improvements within Downtown Birmingham and extending beyond the city center and include UAB to the south, I-65 to the west, and US 280 to the east of the central business district in order to make the center city a more attractive and safe place to do business.
- ✓ Expansion and enhancement of higher education programs related to finance and insurance, particularly graduate-level degree programs in finance, economics, and statistics.
- ✓ Marketing the region's existing corporate and regional headquarters to establish a brand identity within the finance and insurance sector.

Healthcare Services

The healthcare services cluster is representative of the quality and variety of existing services within the Birmingham region and its potential to emerge as a destination for healthcare services. The region's healthcare amenities have and will continue to attract residents from outside the region in search of specialized treatments born from the talent and technologies that are abundant in the region. However, this attraction or "pull factor" is not limited to people; the existing capacity and concentration of high quality healthcare services also serves as an attractor for businesses that seek to leverage the region's facilities and specializations and provide support services to the region's hospitals and other healthcare providers.

While strategies for targeting other clusters focus almost exclusively on targeting the supply side (businesses), targeting within healthcare services also includes marketing to the demand side (consumers of healthcare services). In this sense, healthcare becomes a traded sector, in which healthcare services are "exported" as patients and income come to the region to receive specific services or treatments.

National trends: With the first wave of the Baby Boom generation nearing retirement, the U.S. Census Bureau estimates that, between 2010 and 2030, the national

proportion of residents ages 65 and over will increase from 13 to 20 percent. As the nation's overall population ages, an increasing number of individuals will require medical services and will purchase trillions of dollars' worth of health-related products. Healthcare was the only major private sector to exhibit employment growth throughout the recent 'Great Recession.' Nearly four million jobs are projected to be added in the healthcare and social assistance sector across the United States between 2008 and 2018. Of the twenty occupations projected to grow the fastest between 2008 and 2018, thirteen are in health and medical-related fields. According to the *New York Times*, the United States spent \$2.4 trillion on health care in 2008 and, with average annual growth of 6.2 percent a year, this is expected to balloon to \$4.4 trillion by 2018, if left unchecked. The annual increase in spending reflects a rate nearly three times that of inflation (2.7 percent). Healthcare reform legislation and health informatics modernization legislation will have a dramatic impact on healthcare delivery and services nationwide. While federal reform efforts may change the nature of service delivery, demand for health care services and investments in life science research will continue to rise.

Occupational strengths: Registered nurses; licensed practical and vocational nurses; medical and clinical laboratory technologists and technicians; medical records and health information technologists; surgical technologists; respiratory therapists; occupational therapists; nuclear medicine technologists; diagnostic sonographers; anesthesiologists

Occupational weaknesses: Psychiatrists; psychiatric aides and technicians; physical therapists; speech language pathologists; optometrists; medical and health services managers

Business sector strengths: Outpatient care centers; emergency services; medical and diagnostic laboratories

Business sector weaknesses: Home health care services; nursing care facilities; residential mental health facilities

Competitive advantages:

- ✓ **Strong health systems:** UAB Health System; St. Vincent's Health System; Baptist Health System; Children's Health System; HealthSouth; many others
- ✓ **UAB Hospital:** Eight programs at the hospital were recognized as among the best in the nation in the most recent issue of *US News and World Report's* "America's Best Hospitals." These specialties include rheumatology (8th), kidney disease (15th), cancer (18th), geriatrics (20th), gynecology (20th), respiratory disorders (21st), ear, nose and throat (22nd), and orthopedics (32nd).
- ✓ **School of Medicine at UAB/Higher Education:** In 2008, 703 bachelor's degrees, 510 master's degrees, and 424 doctoral degrees were conferred in health-related disciplines. In addition, 596 associate's degrees were conferred, including 501 nursing degrees. This is an absolutely incredible pipeline of

talent, much of which simply cannot be retained for employment within the region's healthcare providers. The School of Medicine at UAB is home to numerous high-ranking programs, including but not limited to nursing, primary care, health administration, physical therapy, physician assistant studies, and others.

- ✓ **Research capacity:** The UAB School of Health Professions is the one of the top two recipients in research funding from the National Institutes of Health and has been in either first or second place since 1979. UAB was designated one of the first 11 "comprehensive" cancer centers in 1972. Since then, the center has become a national leader in research, treatment and education. The University has consistently ranked in the top 30 of all U.S. institutions in terms of academic research and development expenditures on life sciences.
- ✓ **Lakeshore Foundation:** The region is lucky to be home to the Lakeshore Foundation, a non-profit organization dedicated to providing therapeutic and recreational opportunities for individuals with physically disabling conditions. The facilities operated by the Foundation are world-class, and its involvement in developing recreational events for disabled military veterans as well as providing training facilities for Paralympic athletes are examples of the types of stories from Birmingham that need to be told nationwide.

Competitive disadvantages:

- ✓ **Limited external awareness:** Outside of the medical community, there is relatively little awareness among the general public in the Southeast and across the nation of the strength of programs and practices within the Birmingham region, particularly at UAB.
- ✓ **Elder care:** There were only 50 privately-operated community care facilities for the elderly in the first quarter of 2009, and employment growth in these facilities has been sluggish despite rapid growth nationwide in recent years. As the initial wave of Baby Boomers approached retirement and began seeking residential care facilities, the number of facilities has rapidly expanded nationwide. The Birmingham region has a comparatively older population than the United States and will face a greater relative demand for such facilities in the near future. Absent the construction of additional capacity, there may be a considerable shortage of available units for the elderly in the years to come, with adverse effects on affordability.

Investment areas:

- ✓ Marketing the region's facilities and specialties through the state of Alabama and the Southeast in particular, but also nationwide, will be vital to developing a wider customer base for specialized treatments and healthcare services offered by the region's providers.

- ✓ Developing treatment specializations, such as orthopedic surgery, pediatric specializations, cancer care, and others that solidify competitive advantages and strengthen Birmingham's position as a regional healthcare destination.
- ✓ Support for investments in additional research and education related to healthcare information management will help ensure that the region is a leading player in the development of new technologies and procedures while integrating these advancements into medical practice within the region.

Trade and Distribution

Alabama has not historically been recognized as a trade and distribution hub for the but its historical concentrations of firms and employees involved in metal and steel manufacturing as well as mining contributed to the development of infrastructure to support the movement of raw materials and intermediate and final goods. Trucking companies and wholesale distributors began co-locating near these metal and steel manufacturers and mining operations. In addition to investments at the Port of Mobile, the region's interstate and rail networks have contributed heavily to the continued development and viability of Greater Birmingham as a hub for trade and distribution in the Southeast.

National trends: Globalization of production has resulted in more geographically dispersed supply chains. Trade and distribution is increasingly global, and transportation costs have steadily declined for decades by many measures. Improvements in the national transportation infrastructure between the 1950s and 1970s greatly improved productivity and help cut down on costs. But transportation and logistics costs have begun to rise since 2003 as a share of GDP.

While air freight has grown in popularity in recent decades, rail freight still possesses a number of advantages for specific manufacturing sectors. Chemically-sensitive and high-weight goods are still shipped via rail for long-distances in many cases. Contrary to popular belief, rail is actually a highly fuel efficient form of transportation and this often reduces freight transportation costs. The regions that will be most competitive for many manufacturing activities are those which develop efficient multi-modal facilities that can quickly transfer containers from rail to truck with ease and speed. Intermodal shipments are the most rapidly growing railroad product. They are growing at 3.8 percent a year and are expected to triple in size to become the second-largest volume of rail business.

Between 2008 and 2018, employment in the wholesale trade sector is projected to grow by 4.3 percent between 2008 and 2018, faster than the ten-year rate of growth observed between 1998 and 2008 but slower than the projected rate of growth for employment across all sectors (10.1 percent). Employment in the warehousing and storage sector is anticipated to grow by 12.3 percent while employment in the truck transportation sector is anticipated to grow by 10.3 percent during the ten year period. This projected rate of growth exceeds that of other modes of transportation, including air, rail, and water.

Occupational strengths: Supervisors and managers of transportation and vehicle operators; supervisors and managers of laborers and material movers; truck drivers, heavy and tractor-trailer; industrial truck and tractor operators; tank car, truck, and ship loaders; crane and tower operators; sales representatives, wholesale and manufacturing

Occupational weaknesses: Logisticians; shipping, receiving, and traffic clerks; wholesale buyers; packers and packagers

Business sector strengths: Metal and mineral merchant wholesalers; hardware and plumbing merchant wholesalers; grocery product wholesalers; specialized freight trucking; general freight trucking

Business sector weaknesses: Scheduled and nonscheduled air transportation; warehousing and storage

Competitive advantages:

- ✓ **Major investments in intermodal facilities:** Over the past decade rail companies have made multibillion dollar investments in improving the quality of the rail lines to support shipment of goods across the country. Birmingham in particular has been a beneficiary in recent years to the relative strength of its rail network in the South.
 - Norfolk Southern Corporation purchased 316 acres in McCalla to build a \$112 million railroad hub to handle intermodal trains. Norfolk Southern's Birmingham Regional Intermodal Facility is projected to create or preserve 8,600 jobs and have an economic impact of more than \$4 billion over the next decade. The hub could be operational by 2012.
 - CSX has opened and is operating its 25 acre Central Alabama Intermodal Container Transfer Facility in Bessemer.
 - There has been growing interest in industrial sites near Burlington Northern Santa Fe Corp.'s Birmingham railways, raising speculation that company could be boosting its operations here.
- ✓ **Port of Mobile:** As previously mentioned, the Port of Mobile was one of the few major deep-water ports in the country to experience growth in the amount of cargo handled during the recent recession and is currently the 9th largest port in the country in terms of tonnage handled. The Birmingham region is also within a five-hour drive-time of the Port of New Orleans and the ports located in Biloxi and Gulfport, Mississippi. CSX and Norfolk Southern provide rail connections to Mobile and New Orleans.
- ✓ **Inter-industry linkages:** There is a strong linkage between the wholesale trade sector and the types of final goods produced in the region and the state that

use the raw materials and intermediate inputs manufactured in the metal and steel sectors. Hardware merchant wholesalers and motor vehicle parts wholesalers are relatively concentrated in the region.

- ✓ **Location and interstate connectivity:** The Birmingham region is advantageously located amidst the Southeast's largest and most prominent metropolitan areas: Atlanta, Memphis, Nashville, New Orleans, and Dallas, among others. The presence of I-20, I-65, I-59, and I-22 (under construction) provides excellent north-south and east-west connectivity for the region.

Competitive disadvantages:

- ✓ **Air cargo capacity:** Birmingham-Shuttlesworth International Airport is Alabama's largest airport but it handles a relatively small amount of cargo as compared to other airports in similarly-sized metropolitan areas across the country. Further, the airport's cargo operations have been in decline in recent years. Between 2006 and 2011, its 24 percent decline in tonnage of air cargo handled far exceeded the average decline experienced among its comparison airports. As of March 2011, 88 other airports in the country handled more cargo than Birmingham-Shuttlesworth. This is partially due to the type of intermediate and final goods produced in the region which are more reliant on rail transportation than air transportation. However, enhancements to the airport's capacity to handle additional cargo will be necessary to be viewed as an attractive destination for other types of more advanced manufacturing that rely more heavily on air transportation as a shipping option.
- ✓ **Degree and certification options:** Educational capacity in support of this cluster is relatively limited in the region. Beville State Community College is the only public institutions that offers a truck driving program in the region and UAB's industrial distribution program is the only four-year program that providing specialized education in an area that directly supports the trade and distribution cluster.

Investment areas:

- ✓ Continued investment in airport expansion will be critical to ensuring that the region can support growth in multi-modal transportation.
- ✓ Ensuring that regional companies and organizational leadership work collectively to develop plans for multi-modal supply chain solutions will help guarantee that existing capacity can be taken to the "next level" through the development of a true regional warehouse and distribution system.
- ✓ Development of strong capacity in the transport of goods can serve to attract production/manufacturing firms looking to cluster around an airport or rail yard that provide competitive time-to-market and cost advantages. Aggressively marketing the region's trade and distribution assets to more diverse and advanced manufacturing prospects will be vital to cluster growth.

- ✓ Establishing a much wider array of certificate and degree programs in logistics and supply chain management in the region will be critical in positioning the region as a sophisticated trade and distribution hub.

Emerging Opportunities

Market Street also identified three “emerging opportunities” which represent areas of the region’s economy that may not currently exhibit strong competitive advantages but where potential exists for these sectors to develop into core regional clusters with adequate and appropriate investments. These opportunity areas that are not quite “mature” should be closely monitored with the understanding that they can enhance the vitality of the Greater Birmingham area in the long-term and bring greater diversity to strengthen the resilience of the region’s economy. Since these “emerging opportunities” are not currently competitive strengths, the analysis conducted as a component of the Blueprint Birmingham process was limited to key trends and did not fully encompass occupational strengths and weaknesses, business sector strengths and weaknesses, and a comprehensive analysis of competitive advantages and disadvantages.

The three identified emerging opportunities are:

- ✓ Biological and Medical Technology
- ✓ Arts, Entertainment, and Tourism
- ✓ Diverse Manufacturing

Biological and Medical Technology

The emergence of a biological and medical technology cluster in Greater Birmingham is a natural progression for a regional economy with such large and high quality healthcare services. Key opportunities include the manufacture of state-of-the-art medical devices, the burgeoning opportunities in genomics, pharmaceuticals and “personalized medicine,” plant science, and other fields.

In June 2008, *Genome Technology* magazine called Alabama one of nine “emerging biotech regions” in the world, pointing to the University of Alabama at Birmingham and Southern Research Institute as leading examples of biotech excellence. More than 90 biotechnology-related companies are either doing business or have headquarters in Alabama and UAB is doing more than \$450 million in externally funded research annually – mostly in the biosciences. Southern Research Institute has its sixth cancer drug going through the regulatory process prior to approval (more than any pharmaceutical company).

While Birmingham is gaining traction, the competition between regions for jobs in this emerging cluster is tremendous. Nearly every major metropolitan region is actively targeting biological and/or medical technology in its economic development efforts.

National trends: Employment growth in medical equipment and supplies manufacturing is projected to grow by 16.1 percent between 2008 and 2018 nationwide, eclipsing the 2.8 percent growth rate experienced between 1998 and 2008. Pharmaceutical and medicine manufacturing is expected to grow by 6.1 percent, while scientific research and development services is projected to grow by 25.3 percent. While these are strong rates of growth, these three sectors are only projected to create 225,000 net new jobs between 2008 and 2018, equivalent to just 1.4 percent of total projected national employment growth across all sectors. With such tremendous competition for relatively few jobs, some regions have opted to forego the aggressive pursuit of biological and medical technology firms. However, these sectors pay exceptionally well and new discoveries can rapidly transform a firm's competitive position in the marketplace.

Greater Birmingham trends: As of March 2009, the Birmingham region had comparatively small concentrations of employment in biological and medical technology sectors, including physical, engineering, and biological research and development; medical equipment and supplies manufacturing; and pharmaceutical and medicine manufacturing. In total, only 1,344 individuals were employed in these three sectors throughout the Birmingham-Hoover metropolitan area. Although medical equipment and supplies manufacturing is not heavily concentrated in the region, it exhibited strong employment growth (31 percent) between 2005 and 2010.

Greater Birmingham assets: The region is home to a number of research centers that support the development of biological and medical technology expertise and operations in the region. The region's research facilities include the Center for Nanoscale Materials and Biointegration (UAB), the Center for Neuroimmunology (UAB), the William Crawford Gorgas Center for Geographic Medicine (UAB), the Howell and Elizabeth Heflin Center for Genomic Sciences (UAB), the Center for the Development of Functional Imaging (UAB), the Vaccine Center (UAB), Southern Research Institute, and many others. According to a 2006 study by the Milken Institute, the University of Alabama at Birmingham ranked 37th in the world in biotechnology-related publication activity and impact.

Investment areas:

- ✓ Restructuring the UAB Research Foundation to better support technology transfer, commercialization, and startup creation
- ✓ Bridging gaps in available services as a result of Small Business Development Center (SBDC) closures
- ✓ Developing sources of alternative financing for proof of concepts
- ✓ Lobbying for more state support of academic research and development
- ✓ Lobbying for greater state support for startup and venture financing

- ✓ Development of collaborative, local sources of angel and venture financing
- ✓ Collaborating with UAB, Operation New Birmingham, the Innovation Depot, and property owners in downtown to bring forth greater progress in developing an Entrepreneurial District
- ✓ Connecting small businesses and entrepreneurs with researchers at the region's colleges and universities, Southern Research Institute, and major employers to identify any potential collaborative arrangements and development partnerships

Arts, Entertainment, and Tourism

Development of the arts and entertainment sectors within the region can provide a number of benefits for the region's economy. Cultural venues such as museums, historical sites, concert halls, and the performing arts, as well as sporting events, can bring in direct tourism revenue accompanied by indirect impacts from spending in other local businesses, primarily retail establishments, hotels, and restaurants. In addition, the development of diverse retail and restaurant options, and specifically more concentrated retail, restaurant, and nightlife districts, can help make the region more attractive to existing and potential future residents.

While many regions are targeting creative sectors, including sectors that leverage creative talent such as web and graphic design services, photography, architecture, advertising, craft production, film production, and other niches, the arts and entertainment opportunity in the Birmingham region is characterized by cultural arts establishments, sporting events, restaurants, boutique retail, and nightlife venues. These represent both local-serving and tourism-generating opportunities.

Greater Birmingham trends: In 2007, an analysis of Jefferson County's non-profit arts sector was completed as part of the most comprehensive economic impact study of the nonprofit arts and culture sector ever conducted in the United States. Entitled *Arts & Economic Prosperity III*, the study was conducted by Americans for the Arts in 156 communities and regions (116 cities and counties, 35 multi-county regions, and five states) including Jefferson County. The research revealed that Jefferson County's nonprofit arts community generates \$125 million in economic activity annually, including \$61 million in spending by arts organizations and \$63 million in event-related spending by arts audiences, excluding the cost of admission. The study highlighted that a vibrant local arts and cultural community has a significant impact on local economies through local and tourism expenditures.

According to the Alabama Bureau of Tourism and Travel, Jefferson County was one of the counties that recorded the largest amount of travel activity and travel-related employment. Estimated traveler expenditures in the Birmingham region reached a record \$1.5 billion in 2008, an increase over the previous year despite lower rates of travel and tourism nationwide in the midst of the recession. The total number of full-time jobs supported by tourism in 2008 was 35,691 with total residents wages, salaries, and proprietary income at nearly \$794 million.

Greater Birmingham assets: Much of this tourism is tied to the region's comprehensive base of cultural arts establishments, from the Civil Rights Museum to the Alabama Theater, and the Alabama Ballet to the McWane Science Center. These facilities attract tourists from around the state and in some cases, especially for educational purposes, from around the Southeast. Promoting these venues and "connecting the dots" to tell a story about the history and culture of the Birmingham region will be vital to elevating the prominence and income-generating potential of this opportunity. The Convention and Visitors Bureau already engages in aggressive marketing and promotion of the region's assets.

Investment areas:

- ✓ Expedient development of a downtown Entertainment District
- ✓ Targeted improvements in downtown public safety and aesthetics
- ✓ Development of a regional brand identity for tourism
- ✓ Establishment of a Regional Tourism Council

Diverse Manufacturing

The region's geographic advantages, transportation networks, strengths in trade and distribution, and skilled manufacturing workforce will continue to make Greater Birmingham an attractive destination for manufacturers. However, the resolution of the region's air quality issues and nonattainment status will be required in order to develop more diverse manufacturing opportunities. Such opportunities could strengthen the region's trade and distribution cluster, and will help to create self-reinforcing employment, income, and fiscal impacts. The prosperity of the region's trade and distribution cluster will depend heavily upon the region's ability to continue to produce goods.

In identifying "diverse manufacturing" as an emerging opportunity for the Birmingham region, *Market Street* has emphasized the importance of diversifying the manufacturing employment base and modernizing the manufacturing processes in the Birmingham region. While the region should not haphazardly target any and every manufacturer, some of the aforementioned investments will be necessary to make targeted efforts viable. The overarching goal is for Greater Birmingham to develop a diverse and inherently resilient manufacturing sector that can continue to thrive in the 21st century.

Opportunity areas: *Market Street* has identified a few specific types of manufacturing that may be viable for targeted development in Greater Birmingham.

- ✓ Alabama's growing automotive sector is a prime example of a manufacturing sector that has strong ties with the region's core trade and distribution and metal and steel manufacturing clusters. Mercedes, Honda and Hyundai

operations, as well as the new Kia plant one mile from the state line, have the state working to maximize the opportunities for existing and potential automotive suppliers and workers who live within driving distance of the plants. There are over 300 automotive related companies in Alabama, including an extensive supplier network. Although the Mercedes and Honda manufacturing plants are located just outside the metropolitan area, the network of suppliers extends throughout the region. These suppliers and primary manufacturers are among the largest consumers of output from the metal and steel manufacturing cluster. Efforts to improve the networks between these sectors and create new supply chains from raw materials to intermediate steel products to automotive parts and finished automobiles can help to elevate regional output, while minimizing imports and transportation costs.

- ✓ The integration of greener manufacturing processes into the region's existing manufacturing operations will be a difficult but necessary transition given the region's air quality concerns and impending federal regulations. The business community will need to support this transition, as painful as it may be for some of the region's employers. While others move forward, Birmingham cannot fall behind. Local initiatives, including the Birmingham Charter and the Green Building Focus Conference and Expo, may also produce opportunities in developing and producing sustainable building products and technologies. With many states and communities choosing to incentivize high-performance building and design standards – and companies looking to lower costs by locating in energy-saving and sustainable offices and buildings – sustainable building design and materials will be in high demand. The USGBC estimates that the U.S. market for green building products and services was \$6 billion in 2005 and \$12 billion in 2007. By the end of 2010, the USGBC estimates that the market will increase five-fold to \$60 billion.

TARGET RECOMMENDATIONS FOR VESTAVIA HILLS

Market Street Services has approached the targeting process in Vestavia Hills in a manner that attempts to capitalize on the strengths of the region and the local advantages of the City. To arrive at specific recommendations for Vestavia Hills, the *Market Street* team summarized the Blueprint Birmingham target clusters and analyzed them for appropriateness in Vestavia Hills. This analysis entailed considerations for infrastructure capacity, community scale, development prospects, demographics, and recent employment trends. Those Blueprint Birmingham targets considered ill-fit for targeted economic development in Vestavia Hills are described in the following section. Those regional targets considered to be high-value and appropriate for Vestavia Hills are described in the subsequent section. Additional target considerations – those not identified as regional targets in the Blueprint Birmingham process – are then presented in the final section. These were developed based on the aforementioned factors with specific consideration given to the input received by Vestavia Hills residents and businesses.

The following regional clusters identified as economic development targets in the Blueprint Birmingham process are **not** recommended as targets for the City of Vestavia Hills:

- ✓ Metal and Steel Manufacturing
- ✓ Diverse Manufacturing
- ✓ Trade and Distribution
- ✓ Biological and Medical Technology
- ✓ Arts, Entertainment, and Tourism

The following regional clusters identified as economic development targets in the Blueprint Birmingham process **are** recommended as targets for the City of Vestavia Hills:

- ✓ Healthcare Services
- ✓ Finance and Insurance

The following sectors were not identified as regional clusters for economic development targeting in the Blueprint Birmingham process but have been identified as viable growth opportunities that should be targeted for development in the City of Vestavia Hills:

- ✓ Professional and Technical Services
- ✓ Corporate and Regional Headquarters
- ✓ Retail Trade

Eliminating Regional Targets: Poor Fits for Vestavia Hills

Metal and Steel Manufacturing

Metal and steel manufacturing is not a strategic option for Vestavia Hills. The inclusion of this cluster as a recommended target in the Blueprint Birmingham process was based solely on its historic significance and large existing presence, with a strategic emphasis on retention and expansion of existing industry, rather than attraction of new business. The prospect of the sector to contribute heavily to strong regional growth in the decades to come is negligible.

Further, the lack of existing industrial space and input from Vestavia Hills residents indicates that targeting metal and steel manufacturing would be at odds with a viable community vision. In the 2004 Master Plan, the projected future land use map reflected no desire to add industrial zoning or convert existing parcels to industrial use. In addition, metal and steel manufacturing rely heavily on a strong railroad infrastructure which is nonexistent in Vestavia Hills.

Diverse Manufacturing

Efforts to develop diverse manufacturing are sidelined by similar obstacles as those prohibitive to pursuing metal and steel manufacturing. A lack of available industrial sites and a lack of community support for this industrial development make targeting this sector unrealistic.

The Blueprint Birmingham process highlighted manufacturing, such as automotive and green technology, as regional opportunities. With proximity to large non-metro automotive plants, the Greater Birmingham region could find value in targeting automotive suppliers. However it is unlikely that a manufacturer would be able to find adequate capacity in Vestavia Hills. Green manufacturing opportunities are also germane to regional growth. While the new Library in the Forest is a strong example of the City's commitment to support green building practices, this does not imply that manufacturers of green building materials would find Vestavia Hills to be an advantageous, strategic location for their operations. That being said, this does not preclude additional support for more green building and LEED-certified development from being a component of the final community vision.

Trade and Distribution

Infrastructure deficits poorly situate Vestavia Hills to attract and retain trade and distribution operations. The trade and distribution sector is heavily reliant on proximity to airports, railroads, major interstates, and intermodal facilities. Communities with greater proximity to Birmingham-Shuttlesworth International Airport, rail spurs along I-20 (such as Bessemer), and emerging intermodal facilities in areas such as McCalla will be much better situated to target trade and distribution for economic growth. Other obstacles to the development of the sector include incongruence with expressed community visions and lack of warehouse space.

Biological and Medical Technology

Targeting biological and medical technology firms is essentially commonplace in economic development today. The competition is strong and few communities have the research capacity, institutional assets, and financial capital to support this highly-specialized, innovative activity.

The nexus of research and innovation in biological and medical technology in the region is the University of Alabama at Birmingham (UAB) and Southern Research Institute, both located in Birmingham. Maximizing commercialization opportunities for new ventures and medical products is best achieved through UAB and its strategic relationships. Further, regional strategies for the development of this cluster are focused on the area surrounding UAB, with an emphasis on developing a vibrant Entrepreneurial District anchored by UAB and the Innovation Depot, as well as structural changes to the commercialization and technology transfer operations at the UAB Research Foundation.

Arts, Entertainment, and Tourism

There are few, if any, primary tourism destinations in Vestavia Hills that would draw visitors from outside the metropolitan region. While features such as the Sibyl Temple may have some tourism appeal, they certainly do not possess a strong enough “pull factor” to lure tourists on their own and generate significant economic impact. It would be difficult to support a tourism strategy with little indication that the community could attract an infusion of external visitors. The vast majority of the region’s primary tourism destinations are concentrated in and around Downtown Birmingham. New tourism opportunities may arise in the future – such as the expansion of youth sports tournaments – but this possibility does not support the justification of tourism as a current target.

Many community input participants in the Blueprint Birmingham process expressed a desire to see more vibrant restaurant, retail, and nightlife districts throughout the region in support of both tourism development and local quality of life. The co-location of such establishments helps produce and perpetuate desirable entertainment destinations. Input from Vestavia Hills dovetails with regional aspirations, as many respondents said they wanted more entertainment and recreational amenities. Creating a more vibrant and attractive Vestavia Hills may not be an engine of out-of-state tourism, but it can certainly serve a wider regional audience.

Embracing Regional Targets: Strong Fits for Vestavia Hills

Healthcare Services

As the lone major sector to exhibit job growth during the Great Recession, these relatively high-paying jobs have been the only positive story in many communities hit hard by layoffs and closings. While demographic trends – primarily the aging of the Baby Boom generation – do suggest that, at larger geographic scales, the vast majority of communities will experience increased demand for health care services in the coming years, those jobs may not be equally distributed.

The Bureau of Labor Statistics projects that health care will generate 3.2 million new jobs between 2008 and 2018, more than any other major sector. Most of this growth will be driven simply by the aforementioned increased demand for services from an aging population. The combined effect of rising life expectancies and families' reduced ability to care their elderly will boost employment in home healthcare and nursing and residential care – jobs often found in long-term residential care facilities.

Interestingly, the bulk of sector growth will be experienced outside of hospitals. With use of **outpatient clinics** and other alternative care sites increasing and efforts to control hospital costs underway, outpatient care facilities will experience the greatest growth. This reality puts Vestavia Hills in a competitive position within the Birmingham region to compete for future healthcare jobs. While the region is flush with top-tier hospital and in-patient services, there are gaps in outpatient care that could be filled by communities like Vestavia Hills.

Greater Birmingham has become a destination for healthcare services in the state of Alabama, drawing thousands of patients from outside the region each year through its vast array of specialized treatments. Exporting these services to outsiders brings in new income and creates wealth, much like the export of other goods and services. Businesses, too, are drawn to the region's concentration of talent and capacity in search of opportunities to fill service needs. While developing a healthcare services target at the regional level is partially focused on marketing the region and supporting “destination” healthcare offerings that draw patients and resources from outside Greater Birmingham, targeting health care at the local level (as in Vestavia Hills) has a somewhat different focus. Rather than exclusively working to pull income from outside the region, a healthcare services development strategy in a community such as Vestavia Hills could also focus on pulling income from other communities within the region.

It is not necessary for Vestavia Hills to develop healthcare assets with extra-regional draw in order to build a thriving healthcare sector. Rather, its strategic focus should be on building a supportive environment for subsectors that are projected to grow in concert with the demands of an aging demographic. As a common aspect, these niches will not require the visibility of a major downtown office space or physical connectedness to a major hospital. They will thrive in smaller office parks – perhaps a small medical park – and in individual office locations with lower rents than a high-

profile, Class A office space around UAB Hospital and other medical assets in Downtown Birmingham,

The following chart shows some of the business subsectors that constitute this target.

Common Healthcare Services Sectors

NAICS	Definitions
6211	Offices of physicians
6212	Offices of dentists
6213	Offices of other health practitioners
6214	Outpatient care centers
6215	Medical and diagnostic laboratories
6216	Home health care services
6219	Other ambulatory health care services
6221	General medical and surgical hospitals
6222	Psychiatric and substance abuse hospitals
6231	Nursing care facilities
6233	Community care facilities for the elderly
6241	Individual and family services
6243	Vocational rehabilitation services

Source: Bureau of Labor Statistics

In Vestavia Hills, there are particularly strong concentrations of physicians (LQ = 1.18), dentists (LQ = 2.15), and home health (LQ = 1.21) and ambulatory healthcare services (LQ = 5.94). Offices of dentists, home health care services and other ambulatory health care services experienced very strong employment gains between 2005 and 2010. While these have been areas of growth in recent years, other opportunities also exist in subsectors such as **health data management** and **clinical research**. These existing concentrations illustrate that Vestavia Hills is a strategic and beneficial location – in terms of cost and access – for such services within the region.

Developing these niche areas would also position Vestavia Hills to fill some of the gaps in service identified in the Greater Birmingham region. One finding was that the region had proportionally fewer jobs in **physical therapy** and **recreational therapy** than the average American community. The location of two organizations – Lakeshore Foundation and HealthSouth – with national reputations for rehabilitative, therapeutic, and recreational health care services in the region implies that the knowledge and capacity to grow more of these jobs is already in place. These organizations offer a broad spectrum of services, including outpatient clinics and home health services that would fit comfortably within the Vestavia Hills business environment.

Another opportunity revealed during the Blueprint Birmingham process was the relative lack of **elder care facilities** in the region, which is especially problematic given the comparatively older population in the region. Growth is not keeping up with national trends, either – between the first quarters of 2004 and 2009, employment

in community care facilities for the elderly only increased by 2.8 percent in the region while increasing by 22.7 percent nationally. The demand for additional capacity is likely building in the region. Vestavia Hills also has a paucity of such facilities; as of 2010, there was only one operating in the City, with 24 employees.

Recent business activity supports the notion that Vestavia Hills is a good fit for smaller medical office activity. In June 2011, Achieve Clinical Research, a firm providing patient care for drug clinical trials, announced that it would soon be opening a new facility on Highway 31 in Vestavia Hills. NaphCare, which provides health care services to correctional institutions, announced earlier this year its plans to relocate its headquarters – along with 100 employees – from downtown Birmingham to Vestavia Hills. In addition to providing a good example of how Vestavia Hills office market can appeal to those firms not needing marquee downtown visibility, this move exemplifies the type of corporate and regional headquarters for which Vestavia Hills could be competitive.

The primary challenge to developing this target in Vestavia Hills is likely the relatively limited supply of suitable office space (a recurring theme across targets). However, part of the justification for proactively developing this target is that the smaller-scale, regional providers at the core of this target require smaller office spaces in closer proximity to large residential populations outside the region's urban core.

Finance and Insurance

While turmoil in housing and credit markets has structurally changed the landscape of the finance and insurance sector, prospects for long-term growth and vitality are still strong. New federal banking and insurance regulations have responded to the proliferation of risky investment instruments and given the sector time to rebuild capital reserves and reassess new opportunities. Further, diversification of services has become the norm for banks, and traditional insurance products are now being offered through many avenues. Banking and insurance firms will continue to look to be closer to new customers and markets, which strategically positions the cluster to be a driver of local prosperity.

Large banking and insurance corporations continue to find the Birmingham region a competitive place to do business. While large companies such as Regions Financial, Blue Cross-Blue Shield of Alabama, BBVA Compass, Protective Life Corporation, and Infinity Insurance Company may be drawn to Downtown Birmingham, targeted development efforts in Vestavia Hills can be tailored to smaller, more regional operations. With banks and insurance firms desiring proximity to customers, **branch offices and area offices** will be of significant value to Vestavia Hills.

Continued population growth and retirement of Baby Boomers will help drive sector gains. Retirees will increasingly demand **asset management and retirement planning services**, in addition to health insurance, annuities, and pension products. Demand for personal banking will be served in part by expansion of local and area branches, especially as aging populations are more likely to visit branch locations for their banking needs. Further opportunities for private companies may open up in the

mortgage market as the federal government begins to retreat from the market and lower caps on federally-backed mortgages.

The Bureau of Labor Statistics forecasts positive employment growth in both the banking and insurance sectors. Between 2008 and 2018, employment in banking is expected to increase by eight percent and employment in insurance is expected to increase by three percent. Despite having growth rates below the projection for national employment expansion (11 percent), occupational forecasts are quite varied. Robust increases in sales positions will fuel employment expansion in the insurance sector. Sales positions are expected to increase 11.7 percent, and insurance agents will grow by 14.1 percent. Management occupations will drive increases in banking employment. Employment of financial analysts is expected to increase 20 percent and loan counselors and officers by 13.6 percent. The following chart includes NAICS codes that help to define the sector for Vestavia Hills.

Common Finance and Insurance Sectors

NAICS	Definitions
5221	Depository credit intermediation
5222	Nondepository credit intermediation
5231	Security and commodity contracts brokerage
5239	Other financial investment activities
5242	Insurance agencies and brokerages
5251	Insurance and employee benefit funds

Source: Bureau of Labor Statistics

Employment in Vestavia Hills is very concentrated in finance and insurance. Subsectors that are highly concentrated in Vestavia Hills include **nondepository credit intermediation** (consumer and real estate lending; LQ = 2.93), **securities and commodity contracts brokerage** (LQ = 1.83), **other financial investment activities** (financial planning and advising; LQ = 2.94), and **insurance agencies and brokerages** (LQ = 4.39). Employment in insurance agencies and brokerages as well as financial planning and advising expanded between 2008 and 2010 in Vestavia Hills, a time when both subsectors contracted nationally.

Business-level data indicates that many national firms have a presence in Vestavia Hills. Vestavia Hills' branch locations of firms such as LPL Financial, Morgan Stanley Smith Barney, MetLife, UBS Financial, and Hartford Life indicate that proximity to the region via Vestavia Hills is a strategic and viable market location.

Challenges to developing an even more robust finance and insurance sector in Vestavia Hills may lie in a general sense of uncertainty in the sector, adequate access to support staff, and local office stock. As with certain local-serving healthcare services, many local-serving finance and insurance operations, from personal financial advisors to insurance agencies, will require high-quality and high-visibility in their office spaces. While they do not require the type of visibility or quality of space that would be offered by a major office tower in Downtown Birmingham, they do require visibility along major corridors such as US-31 and US-280. Establishments

desiring much Class A office space may be unable to find adequate space within Vestavia Hills. Though the Urban Center office park does offer Class A space, other types of office space are more abundant.

Public input from those within the finance and insurance sector regarding the business amenities of Vestavia Hills was positive. Respondents said that office space is relatively affordable and access to quality employees was unproblematic. As well, the majority of respondents said their firms would continue to locate in Vestavia Hills in the long-term. Concerns from these businesses were minimal, but excessive salary expectations were mentioned by a few respondents.

Other Considerations: Distinct Local Targets

Professional and Technical Services

Businesses and companies that offer professional and technical services find market opportunities working for a variety of sectors and industries. Large-scale information, technology, health care, manufacturing companies support both in-house hiring of professionals as well as contracted services with smaller firms. The flexibility of professional and technical services, coupled with the proximity of many large firms in the Birmingham area, indicate Vestavia Hills can have much success in targeting these operations.

The national outlook for this sector is extremely positive. The Bureau of Labor Statistics forecasts that management, scientific, and technical consulting will be the fastest growing sector between 2008 and 2018. Employment is forecasted to increase 83 percent during that time. Occupational forecasts also reflect robust growth in management analysts (85.5 percent), accountants and auditors (92.6 percent), engineers (91 percent), and market research analysts (84 percent). Much of the growth in professional and technical services has been - and will continue to be - driven by businesses valuing cost-effective external expertise.

Wages in professional and technical service firms are among the highest of all sectors. According to the Bureau of Labor Statistics, wages in professional technical services were approximately 1.5 times higher than the private sector average. Further, many consultants and professionals are also compensated through additional compensation, such as stock, performance-based bonuses, and profit sharing. High wage employment is important to creating wealth and sustaining other local businesses. The following chart shows a sample of relevant NAICS sectors that help define the target cluster for Vestavia Hills.

Common Professional and Technical Services Sectors

NAICS	Definition
5411	Legal services
5412	Accounting and bookkeeping services
5413	Architectural and engineering services
5415	Computer systems design and related services
5416	Management and technical consulting services
5418	Advertising, PR, and related services
5611	Office administrative services

Source: Bureau of Labor Statistics

Professional and technical service firms employ well over 1,500 professionals in Vestavia Hills. Large concentrations of workers in **legal services** (LQ=3.43), **accounting and bookkeeping** (LQ=3.17), **architectural and engineering** (LQ=1.47), and **management and technical consulting** (LQ=1.56) dominate sector employment. In absolute terms, legal service employment is the largest with 388 employees, and accounting and bookkeeping is the second-largest, employing 286 people.

The Great Recession impacted all sectors of the economy, but professional and technical services in Vestavia Hills showed much resiliency. For example, between 2005 and 2008, employment in legal services was declining nationwide. During the same time, legal services expanded in Vestavia Hills. Accounting services showed the most robust resiliency of all the niche sectors. Between 2005 and 2008, growth in the subsector more than doubled, and far outpaced growth nationwide. Indeed, growth was slowed by the economic downturn, but the subsector continued to expand between 2008 and 2010, even as national employment contracted. Finally, employment in office administrative services and employment services fared much better than national trends, despite a relatively small existing presence in the local economy.

Public input reinforces the viability of the professional and technical service cluster in Vestavia Hills. Focus group input from young professionals reflected a desire to grow the concentration of professionals in Vestavia Hills, and avoid having the default professional core locate in Birmingham. This dovetailed with broad community input regarding greater opportunities to both live and work in Vestavia Hills. In addition, survey respondents who said they worked for a professional or technical firm indicated that office space is affordable and business and utility costs are not prohibitive.

Another key aspect to developing local professional and technical service employment is the existence of a local talent pipeline. Occupations in this field are education intensive, with approximately 73 percent of employees holding a bachelor's degree or higher. As referenced in the *Competitive Snapshot*, Vestavia Hills residents are very highly educated. Over 60 percent of residents hold a bachelor's degree or higher and 27.1 percent of residents hold a graduate or professional degree.

The strategic focus of this target should include the cultivation and recruitment of **small, predominantly local- and regional-serving firms** that may desire proximity to larger clients and more affordable office space. Critical to the success of the target will be articulating opportunities to connect professional and technical firms - with specializations such as **accounting, legal services, management consulting, technical and engineering advisement, advertising and public relations, or other business support activities** - with larger corporations in Downtown Birmingham or the region.

Compared to other types of firms, professional and technical service firms require little capital and lesser space requirements. While Vestavia Hills lacks an abundance of Class A office space, the diversity of office options is favorable. The office park located at the Urban Center does offer Class A space, but other office options are more readily available. However, professional and technical survey respondents rated the quality of Class A office space as predominantly “poor.” Another challenge to further development of this target may be the development of a small business culture. Many survey respondents who identified as working in the sector had little knowledge of small business assistance and support services. A commitment to developing small business must accompany targeting professional and technical firms.

Favorable business conditions are evident for small firms, as over 80 percent of firms in the sector have fewer than 10 employees. However, larger firms are also finding conditions favorable. Large employers include firms such as Nursefinders (nurse staffing), Carr Alison (law firm), Jackson Nurse Professionals (formerly Travel Nurse Solutions), Proxsys (health care admitting services) and Slapppy Communications. Supporting opportunities for firms at all scales will diversify this target sector, which will prove valuable to further development in Vestavia Hills, as it will spur a service-oriented business culture and hedge against single-firm dominance.

Corporate and Regional Headquarters

Recruiting corporate and regional headquarters is a well-established practice in economic development. Headquarter operations are very desirable as they tend to employ many people, stimulate capital investment, pay high wages, spur entrepreneurial spin-offs, and bring prestige to cities. Recent trends in corporate relocations, according to *Area Development Magazine*, tend to favor Sunbelt cities for large headquarters and smaller, non-traditional metros for divisional headquarters.

The strategic focus of this cluster should be on recruitment and retention of **regional and divisional headquarters**. With less need for visibility or prestigious office location, such operations will fit well within Vestavia Hill’s targeting efforts. The presence of the corporate headquarters of Vulcan Materials, and the recent announcement of NaphCare to relocate its corporate operations to Vestavia Hills indicate that the City can viably compete for smaller headquarter operations, particularly those that do not require the visibility and name-recognition associated with prime office space in a downtown business district.

Federal business data classifications are based on the primary revenue generating activities of an establishment. Accordingly, headquarters operations are often subsumed under the NAICS codes that correspond to their primary business activity. For example, Vulcan Materials has headquarters in Vestavia Hills; however, that establishment (and all corresponding employment data) is classified as a mining operation. The primary NAICS code that refers specifically to headquarters operations is NAICS 55 – Management of Companies and Enterprises.

While all headquarter operations were not captured under the NAICS code for headquarters, ballpark calculations (based on known headquarters and primary business activity) reveal that headquarters employ at least 500 people in Vestavia Hills. However, research into motivations and factors that influence decisions to locate or relocate headquarters, reflect many of the same business attributes available within Vestavia Hills.

Headquarter location and relocation decisions are driven heavily by considerations that weigh workforce quality and quality of life considerations. Workforce considerations often center on the availability of highly educated personnel and pools of managerial talent. Vestavia Hills residents are very highly educated and over a quarter of residents hold a graduate or professional degree. Excellence in pre-K–12 education is also important as executives desire a community commitment to education, as well as good schools for their children and their employees' children. Quality of life criteria include not only a safe community, but also plenty of recreational and cultural amenities. Low crime rates, proximity to shopping and entertainment options, and access to parks and natural amenities competitively position Vestavia Hills.

Challenges to redefining Vestavia Hills as a center for corporate and regional headquarters may include a relative lack of new, Class A office space and an underdeveloped incentive program. As has been mentioned, Class A office space restrictions in Vestavia Hills may impede the successful recruitment of high-visibility firms. However, Vestavia Hills can be competitive for those firms that desire more affordable office space, and with ample development in the future, more effectively compete for larger corporate operations seeking Class A space. The City's move towards hiring a City Manager will help streamline recruitment activities and potentially help develop a more focused and proactive approach to business development, potentially including the provision of flexible local incentives.

Retail Trade

Market Street recommends retail trade as an official target business sector for the Vestavia Hills community because it is an area which heavily impacts the region's economic and fiscal climate, and will continue to do so in the decades to come. Retail businesses typically follow job and population growth and pay comparatively low wages; it is sometimes not necessary to specifically include them in a proactive, comprehensive economic development program because of this and their tendency to emerge organically in viable markets. The primary value of a diverse retail environment is to provide balance in the local economy and to improve the overall

quality of life of an area. In Vestavia Hills, a more robust retail trade sector dovetails with other strategic objectives that residents have begun to identify; particularly, creating walkable environments, boosting the tax base, and supporting local commerce.

Employment in Vestavia Hills' retail sector declined at a pace that far exceeded the national rate of decline between 2005 and 2010. However, it began to rebound in 2008 – when the sector was still declining nationwide – and has a strong location quotient of 1.25. Business-level data reveals particularly strong concentrations of automobile dealers, specialty food stores, florists, used merchandise stores, and direct selling establishments.

Several factors influence the quality of potential retail development in Vestavia Hills. The primary commercial corridor, upon which most retail activity currently occurs, is Highway 31, which connects Vestavia Hills to Downtown Birmingham through Homewood. It is currently an auto-centric corridor with aging strip retail centers. Without significant redevelopment or new development, retail space is consigned to single-story strips fronted by parking lots on the street. While the physical character of Highway 31 could possibly lend itself to big-box retail establishments, they are not currently part of the city's development vision (as delineated in the Comprehensive Plan) and are likely not viable. However, walkable boutiques, the opposite end of the retail spectrum, are not necessarily any more likely to locate in Vestavia Hills en masse. Cahaba Heights does offer some opportunity for this type of development, but there are other areas of the metropolitan area – most notably those with larger and more historic retail districts – that lend themselves to this type of development. Cahaba Heights is the most walkable district in the City and has developed some limited pedestrian character. The Cahaba Heights Community Plan provides the framework within which this character can be amplified and improved. The community recognizes the potential for more boutique restaurant and retail development here, and the district may warrant its own retail analysis.

An analysis of retail expenditure surplus and leakage reveals that several basic retail needs are underserved in Vestavia Hills. The following definitions are critical to understanding the concepts of retail leakage and surplus.

- ✓ **Potential expenditures** are the level of expenditure in a given retail subsector that would be expected if these stores were only supported by expenditures from households in the City.
- ✓ **Actual expenditures** represent the actual level of expenditure in a given retail subsector within the specified trade area.
- ✓ **The ratio of actual to potential expenditures produces a leakage/surplus factor** that measures the degree to which actual expenditures exceed (or fall short of) potential expenditures. When actual expenditures exceed potential expenditures there is a surplus. When potential expenditures exceed actual expenditures there is a leakage. *Therefore, any factor over 1.0 is a surplus factor and any factor under 1.0 is a leakage factor.*

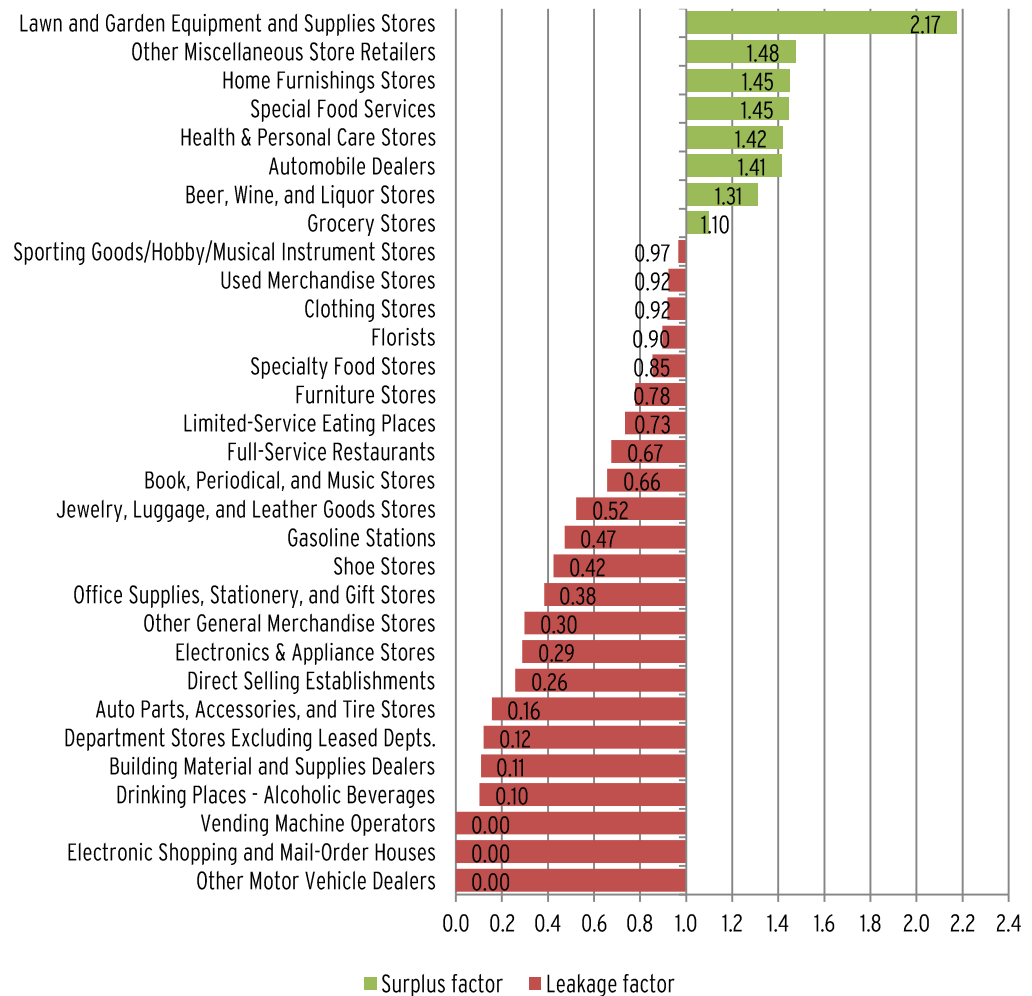
- ✓ A **retail surplus** implies that the City is capturing the local market plus attracting non-local shoppers. A retail surplus does not necessarily mean that the community cannot support additional business.
- ✓ A **retail leakage** implies that residents are spending more in a certain retail subsector than local businesses are supplying. Retail sales leakage suggests that there is unmet demand in the City and that the community may be able to support additional store space for that type of business. However, retail leakage does not necessarily translate into opportunity. For example, there could be a strong competitor in a neighboring community that dominates the market for that type of product or store.

Only eight of the 31 retail subsectors measured in the following chart show surplus factors in Vestavia Hills. Lawn and garden stores have the highest surplus factor (2.17), and other noteworthy surplus retail subsectors include home furnishing stores (1.45), special food services (1.45), health and beauty stores (1.42), and automobile dealers (1.41). This implies that the city is attracting expenditures from residents of surrounding communities in these specific retail subsectors. All other subsectors have leakage factors ranging from 0.00 to 0.97. This implies that residents are leaving the City to meet their demand for many types of goods. Many core necessities are underserved in Vestavia Hills, including gasoline stations, clothing stores, restaurants, appliance stores, and book stores. Millions of dollars in revenue are thus being spent in other jurisdictions. Gas stations alone account for a \$36 million expenditure gap in the City.

The acute impact of such leakage in Vestavia Hills can be understood by calculating potential revenue lost. Across all retail subsectors, total expenditure leakage amounts to \$129 million. By applying the City's sales tax rate of three percent to this amount, City revenue lost to leakage is shown to be \$3.9 million. Major subsectors accounting for this revenue loss are gasoline stations (-\$1.09 million), department stores (-\$764,499), and other general merchandise stores (-\$1.12 million). While expenditure leakage is of concern, it alone does not imply that a retail subsector is appropriate for development in the City; the impact of office development is also quite significant.

This dynamic points to a strategic priority for retail development in Vestavia Hills: retain residents' expenditures on basic goods and draw new expenditures from the immediately surrounding communities. Destination retail offerings are not required to significantly improve boost quality of life for the City's residents and boost the tax rolls. Local-serving retail growth would also provide residents of Mountain Brook, Homewood, or Hoover convenient alternatives for basic merchandise.

Retail leakage and surplus factors, 2010



Source: ESRI Business Analyst Online

Note: Leakage/surplus factors are calculated by dividing actual expenditures into potential expenditures.

Fostering retail growth primarily involves ensuring the local zoning and permitting approval process supports these types of opportunities, and, ideally, prioritizes pedestrian-oriented, mixed-used projects. Over time, as development patterns adapt and change to more walkable environments, Vestavia Hills could become more competitive for boutique and destination retailers and compete with surrounding developments in Five Points, SoHo, and downtown Homewood. Such projects help create an environment that attracts both specialty retailers and their customers. As specific, high-quality opportunities present themselves over time, it may be advisable to offer incentives in the form of expedited zoning approval and permitting processing, fee waivers, property tax abatements, and similar incentives to attract these projects.

Vestavia Hills' strategic focus for this target in the near term should be enhancing the quality of life for existing residents by increasing the availability of primarily local-serving retailers. The City should also work through the ongoing Highway 31 corridor study to target specific redevelopment areas and consider design concept alternatives.

CONCLUSION

As a smaller, primarily residential community, Vestavia Hills' targeting efforts must necessarily diverge somewhat from those of the broader Birmingham region. Regional clusters that *Market Street* determines would yield little return in Vestavia Hills are Metal and Steel Manufacturing, Diverse Manufacturing, Trade and Distribution, Biological and Medical Technology, and Arts, Entertainment, and Tourism. Yet, the region's assets provide a basic framework from which Vestavia Hills' strengths can be profitably developed. Elements of the region's Healthcare Services and Finance and Insurance targets hold strong potential for catalyzing economic growth in Vestavia Hills, as do the tailored considerations for Professional and Technical Services, Corporate and Regional Headquarters, and Retail Trade.

Interwoven throughout these recommendations are acknowledgements of several overarching economic realities in Vestavia Hills: the City is and always has been primarily residential in character; major development opportunities are largely constrained to a single commercial corridor, Highway 31; there is limited Class A office space in the City; and immediately proximate communities and districts compete in close quarters for many of the same opportunities. These realities ensure that the approach to targeting in Vestavia Hills (as well as the targets themselves) must be distinguished from the broader region's approach.

It is important to note that in many cases, the specific approach to developing these target sectors in Vestavia Hills will differ greatly from the approach that is taken in many economic regions and individual communities nationwide. Typically, target sector development is focused on generating new export-oriented opportunities. That is to say, it is focused on attracting expenditures from business and residents **outside of** a community, thereby bringing in new wealth. In Vestavia Hills, targeting future development within each sector is not only focused on these export-oriented opportunities, but is also partially focused on developing, retaining, expanding, and attracting the types of business that support the needs of local residents. In this sense, targeted sector development in Vestavia Hills has a specific objective of prevented expenditure leakage and keeping this income **inside** the community. This is true for multiple target sectors, from healthcare services to insurance, and from legal services to retail.

The pursuit of these target clusters in Vestavia Hills would diversify and improve the options available to its residents while leading the City toward stronger fiscal performance. Further, their development poses little threat to the high quality of life and historic residential character that many residents love about the City. By embracing the development of a vibrant commercial sector, Vestavia Hills' leaders are positioning the City for continued prosperity into the decades to come.