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CURRENT CHALLENGES IN DOWNTOWNS & OCCUPIER LOCATION STRATEGIES

In the post-pandemic era, a prevailing narrative suggests that American downtowns have become less favorable for corporate offices. The rise of urban centers in the late 20th and early 21st centuries demonstrated that downtowns were not only safe but also rich in amenities, making them an increasingly desirable alternative to the sprawling suburbs for living and working. This momentum created opportunities for companies seeking young talent in vibrant business hubs as a counterpoint to established suburban office campuses that became the norm during the 1970s and 1980s. Like so many things, the pandemic changed how we use office space and consequently affected downtown office hubs.

Driven by lower office utilization brought on by the now common hybrid working model, the daytime population of office workers in major cities remains below 60% of pre-pandemic norms.[4] The diminished office population, coupled with public safety concerns, reduced transit services, and fewer quick-service lunch options, has driven the conversation about overall downtown health in boardrooms and the media. Company leadership is paying attention.

This paper examines the decision factors and considerations corporate occupiers should think about when deciding to remain or relocate. Cushman & Wakefield advocates for a balanced, objective evaluation of any potential relocation decision, weighing current environment concerns against company success drivers.

GREEN SHOOTS OF RECOVERY

It's human nature to look for patterns and trends using the information we have. Business leaders have done the same, wondering if remaining in or relocating to a downtown submarket creates risk for their business.

Office occupiers of all sizes cite a familiar list of challenges associated with this trend, including:

- Reduced daytime population due to hybrid work arrangements is impacting a district dominated by office properties relying on a stable workforce population. Foot traffic in Cushman & Wakefield designated downtown districts has decreased 25% since 2019 and, while the peak onsite working days Tuesday through Thursday buoys the downtown support economy, many retail businesses catering to an office population are still adjusting. The buzz and energy of cities that characterized the late 20th Century resurgence has not recovered in many submarkets, now weighing as an anchor in many location decisions.
- While crime has declined nationally from 2020 highs, it remains elevated in some downtown districts—with a 10-15% increase between 2021 and 2023 in a set

4 Kastle Back to Work Barometer

of 15 cities tracked. Fear of being a victim of crime supresses crucial visitor traffic and is a reason why some employees resist returning to the office.

- Public transit ridership has only recovered to 79% of pre-pandemic levels.[5] With pre-2020 commute volumes unlikely to return, transit systems must find ways to operate reliably with the convenience expected by employees who now have flexibility in where and when they work.

Despite the notable challenges, downtowns are showing signs of resilience coming out of the episodic shock from pandemic-driven remote work and the office downsizing trend. Per C&W's 2024 Bright Side of Office report, a series of actions by occupiers, property owners, government, business and community organizations, and developers are addressing the worst of the office market malaise and putting downtowns back on a growth trajectory.

The trend of companies significantly downsizing their offices by 50% or more[6] in response to hybrid work and lower utilization is slowing down. Now that three-day onsite mandates and all-team days are becoming more common, the approach has become more precisely about creating the right ecosystem of workspaces to support employees throughout the workday. While downsizing will continue as companies renew leases, the market has already felt the most extreme effects of the flexible work trend.

Office demand exists—it's just focused on top tier office assets in desirable submarkets for an improved experience as part of the talent attraction strategy. This is shown in low vacancy and higher asking rents—51.5% higher—in top-tier assets than the rest of the office space in gateway markets. New supply will remain low as developers continue to pull back on new building starts. Since 2020, office deliveries have fallen to just 27% of their historical average, helping to reduce supply and push the market toward a new equilibrium.

Slowly thawing capital markets supported by a growing set of comparable sales data points and improving financing conditions may breathe life back into aging Class B offices in ideal locations with strong fundamentals. Adding a crop of newly renovated, but affordable office options will draw the attention of companies discouraged by the high costs and low vacancy in top-tier properties. These opportunistic developers are banking on companies shunning the race for top-tier assets and instead targeting value buildings for a notable rental pricing advantage and good building amenities. Repurposing outmoded office stock entirely to alternative uses may further improve vibrancy by meeting growing demand for residential and entertainment. Per C&W's Reimagining Cities: Disrupting the Urban Doom Loop, downtowns are overbuilt on traditional work properties and underbuilt on "Live" and "Play" property types. Across the nation's largest cities, the predominance of office properties has exposed a significant vulnerability in these districts due to too much reliance on a single use. Drawing more residents and visitors will reduce vacancy and improve vibrancy, particularly during evenings and weekends when downtowns see their lowest levels of foot traffic. Consistent demand will buffer street-level retail and create a virtuous cycle of more activity and a growing variety of experiences.

5 APTA Public Transportation Ridership Update 2024
6 Cushman & Wakefield Total Workplace Client Data

EXAMINING THE DOWNTOWN'S PERFORMANCE IN FUNDAMENTAL BUSINESS CATEGORIES

As company leaders, a steady hand during times of rapid change is critical to maintain strength and drive future growth. The suggested way to address the real challenges in downtown office districts is to scrutinize fundamentals and reframe any location decisions around the company's foundational measures of business success. A measured approach to evaluating current challenges against core business drivers will provide proper perspective and level of risk for any action (or inaction). Fundamentally, this process reveals the necessary steps companies should take when evaluating any facility relocation decision.

The four following topics are commonly cited as driving site selection factors in the business case for a downtown office.

Labor

The nation's downtown areas continue to be destinations for young, highly educated talent. In the critical post-college years, younger workers tend to congregate in urban neighborhoods for lifestyle choices and access to a wider range of potential employers, public transit, affordable housing, and desirable social settings. Cushman & Wakefield's clients frequently target this highly educated, post-college population which are found in urban areas in high concentrations. When reviewing the nation's top 10 metro areas, the concentration of this group is 27% greater than the United States as a whole,[7] meaning cities continue to hold an advantage in refilling high demand talent pipelines.

Looking at overall population, however, the trends are less clear. The U.S. Census reports that exurban communities on the fringes of metro areas are experiencing the fastest growth. This is driven by their relative affordability and the reduced commuting impact to the office, a result of hybrid work models.[8] This trend is at least partially reversing as urban core counties are again seeing population gains for the first time since 2018-2019.[9]

Corporate Ecosystem

Traditional downtowns organically developed as the city's centralized hub for business, government, and cultural institutions. The agglomeration of similar companies and their network of service providers creates a self-reinforcing, symbiotic force for talent attractive to entry-level through advanced roles in many of the knowledge economy sectors that power the economy. This clustering is the foundation of a business community with easy access to customers, markets and peers, creating environments known to cross-pollinate ideas and innovation.[10] This critical mass of business, people and creative collaboration continues to foster a healthy ecosystem of competitive relevancy.

As company leadership shifts its view from remote work to in-office settings for enhanced collaboration and innovation, downtown ecosystems are an extension of this concept. From Silicon Valley to Cambridge, MA, it is well recognized that large numbers of skilled workers in physical proximity leads to innovation.

7 C&W CBD vs. Suburbs: The Millennial Effect
8 US Census Bureau – More People Moved Farther Away from City Centers Since COVID-19
9 Brookings – New Census Data Hints at an Urban Population Revival, Assisted by Immigration
10 Core Values – Why American Companies Are Moving Downtown

Transportation Infrastructure

The nation's highway and transit systems were primarily designed around downtowns as job conduits, linking cities to suburban residential communities. The advantage many downtowns have over other office submarkets is the freedom of choice of transportation mode, from personal car to public transit. Choice matters when traffic congestion grows and evolves to encompass a larger portion of the day. Currently, 78% of urban areas experience more severe congestion than in 2022, resulting in 42 hours of annual lost time for U.S. commuters.[11]

With commuting consistently ranked as the top reason employees work from home,[12] the issue is dominant whenever evaluating a suitable office location. Utilizing long-standing methods to identify and measure depth and growth of target labor pools within metro areas, companies should consider weighing access to prospective employee populations without alienating existing staff.

Employee Experience

Office workers, having more flexibility in where work happens, place the burden on companies to "sell the commute" and create working experiences that cannot be replicated working from home. C&W's Experience per SF™, an employee experience survey, highly ranks building amenities, including a blend of convenience and entertainment—cafes, fitness centers, bars and personal care services. Downtowns traditionally have a major advantage over suburban office districts with their rich array of cultural and entertainment experiences. While some traditional areas struggled with losing some of these options, many CBD submarkets exploded in popularity with dining, nightlife and business attraction. The North Loop in Minneapolis and Midtown in Atlanta offer a diverse range of bars, restaurants and entertainment venues that attract crowds on nights and weekends. These businesses have also proven to be a strong attractor for companies looking for that same experience for their employees at the end of the workday. The Live/Work/Play dynamic isn't just for tech companies with a young and relaxed culture, these

highly-amenitized neighborhoods attract traditionally conservative sectors in law, accounting and finance. High-quality buildings demonstrate their appeal with tenants. Office occupancy of these assets in gateway markets is nearly 800 basis points higher than the overall office national average. High-quality buildings and highly-amenitized submarkets will continue to outperform their peers within the downtown ecosystem.

11 INRIX Global Traffic Scorecard 2023
12 C&W Experience per SF

GETTING INVOLVED TO CHANGE THE TRAJECTORY

The episodic shock of the pandemic has diminished, and normalcy has returned to most cities. However, perceived reality often lags behind actual conditions, creating headwinds for the nation's downtowns. Nevertheless, company leadership does not need to sit on the sidelines if specific concerns are hampering their ability to do business. Getting more involved in the basics of an attractive downtown has yielded welcome public-private approaches to safety, vibrancy and a variety of experiences for workers, residents and visitors. For example, supporting the establishment or enhancement of Special Service Areas (SSAs) and Business Improvement Districts (BIDs) has directed investment toward area maintenance and beautification, increased security services, and special events to draw crowds during non-peak hours. A partnership with local government and member-based business organizations has focused on activating vacant storefronts through pop-up retail and outreach to independent stores in outlying neighborhoods, enhancing street-level vibrancy.

As stimulus funds dwindle, more efforts are needed to address the larger and more complex issues of crime, homelessness and the reduction of essential services like public transportation. The proper way to address these issues is through joint business and government partnership, much like the approach taken decades ago when downtowns experienced their first renaissance. **Key areas of advocacy include:**

- Streamlining permits in designated areas: Help government act nimbly to alternative uses, prioritizing speed to create catalytic conditions where they are needed most.
- Offering targeted incentives for building conversions: Ease the burden of expensive renovation projects through upfront grants or tax incentives to help ensure project viability.
- Hosting public events and diverse experiences: Address safety concerns and inactivity by offering cultural events that shift perceptions.
- Upgrading infrastructure: As transportation modes evolve, old models must be reevaluated. Rescore road and public transit projects based on current demand to ensure commuting doesn't prevent people from returning to the office.

HOW TO DECIDE WHAT'S BEST FOR YOUR COMPANY

With the amount of uncertainty surrounding the purpose of office and viability of city centers, it is imperative that company leadership take a structured approach to any location decision. First, distinguish between temporary challenges and the long-term drivers of business success. Access to core talent, the ability to engage clients, and efficient operations are enduring factors that anchor decisions amidst external distractions and noise. Beyond the KPIs, leaders must innately understand what is unique about their business and their culture before making a location decision.

Next, develop a scorecard that highlights the primary drivers of leadership and business line viewpoints, bringing all considerations into a unified framework. A healthy debate of each driver's relative importance will lead to a defensible and objective direction for how to evaluate any location decision, whether it's moving to a new city or choosing an adjacent submarket. A location strategy should align with company objectives, taking into account the seismic shock of the pandemic and ongoing hybrid working equilibrium.

In some cases, downtown areas or specific submarkets within them are becoming less appealing for businesses. Companies must recognize this shift when populating their own scorecards containing all criteria relevant to making a location decision. We implore company leadership to look beyond the headlines and assess the enduring strengths of downtown areas, compared to the most visible and troublesome challenges. This clear-eyed evaluation will lead to investment, hiring and demonstrated confidence in the nation's historic business centers.

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

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