PERSPECTIVE

Reimagining Downtowns Post-COVID

BY KATHERINE BARRETT AND RICHARD GREENE

With the arrival of COVID, downtowns in many major cities shut down, almost to the breaking point, as staffers began working from their homes. Even though many have returned, a number of experts believe that the new normal for office buildings will be hybrid schedule, with workers coming in two or three days a week. That means that the need for office space will decline and—perhaps most important for the health of downtowns—the daytime populations will remain lower than in the past.

The numbers are alarming.

"During the first three months of 2023, U.S. office vacancy topped 20 percent for the first time in decades, according to *The Atlantic*.[1] "In San Francisco, Dallas, and Houston, vacancy rates are as high as 25 percent. These figures understate the severity of the crisis because they only cover spaces that are no longer leased. Most office leases were signed before the pandemic and have yet to come up for renewal. Actual office use points to a further decrease in demand. Attendance in the ten largest business districts is still below 50 percent of its pre-COVID level, as white-collar employees spend an estimated 28 percent of their workdays at home."

The ripple effect of these vacant offices can be deadly to the restaurants, dry cleaners, parking garages, and other downtown amenities that depend on daytime workers to keep them in business. In late October 2023, 25 businesses in Portland signed a letter asking city leaders for help in dealing with a decaying downtown.[2] "The deteriorating conditions in downtown Portland are directly and detrimentally affecting local businesses," they wrote. "Decreased foot traffic, negative perceptions, and increased security costs are imposing financial strain on entrepreneurs and jeopardizing their business viability."

While the issue of vacant office space has become of paramount importance given the aftereffects of the pandemic, it's a conundrum that's been long in coming. In fact, according to the Brookings Institution, "Even before the COVID-19 pandemic, median square feet of occupied office space per worker across the top ten U.S. metro areas by population was down 22 percent since 1990."[3]

As John Rennie Short, emeritus professor in the School of Public Policy at the University of Maryland, said, "Since about 2008, the overhang of office space was there. There had been a bubble of downtown offices building up for years, thanks to easier depreciation of costs for developers and cheap money for almost 20 years. We've had liquid capital slushing around the world, and it seemed like a safe bet to invest in office space in America."

This isn't the first time city downtowns have had to reinvent themselves. In the past, downtowns were dependent on manufacturing, with factories forming their centerpiece. Then, as these facilities moved, office building-centered homes of service and commerce took their place.

So, how will downtowns cope with this next transition?

The most commonly discussed solution for downtowns is to transform office buildings into residential property. "I think we're all shifting from employment density to residential," said Bruce Katz, director of the Nowak Metro Finance Lab at Drexel University. "You go from a nine-to-five downtown to one that operates for longer hours of the day. It's very different from classic office space, but it does bring a lot of fiscal potential."

But this isn't necessarily the easiest move, and Katz stresses that "we need to put a lot of solutions on the table."

The transition to residential property, though clearly one viable solution, is going to take some time to relieve the fiscal strain on downtowns. "The life cycle isn't quick," said Brooks Rainwater, president and chief executive officer of the Urban Libraries Council and formerly director of city solutions for the National League of Cities. "The finances must line up just right, which is why you're starting to see cities offering tax credits, and that will be important to move the needle. But the timeline is also tricky—most buildings, even if they're only 30 percent leased, are still 30 percent leased. In order to make the transition, you have to get the leases out early. And those commercial buildings aren't easy to transform; they are often dark, which means you must build a courtyard or other accommodations so people would want to live there."

Another route for the restoration of downtowns is to multiply the reasons why people would want to visit other than going to work. This effort has two major benefits, enhancing the attractiveness to residents and potentially bringing people into downtowns from other neighborhoods and from the suburbs.

"I'll quote the late Loretta Lynn," said Brett Roler, senior vice president of Planning and Development at the Downtown Memphis Commission. "'You have to be first, best, or different.' You need to figure out what your distinct competitive differences are. We need to make downtowns a destination, not an inconvenient necessity."

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In the City of Memphis, Tennessee, for example, "We have a mix of new and old buildings that give us soul and character," says Roler. "So, where we've been shining might not be the 400-person giant law firm. That might not be our competitive advantage. Instead, we need more restaurants, more bars, and more entertainment. We need to get people off the couch to come downtown."

Of course, some facilities will continue to thrive in downtowns, notably universities and hospitals. In late June 2023, for example, the University of California Los Angeles (UCLA) announced it would acquire an 11-story building in downtown Los Angeles. According to a news release from UCLA, this purchase "sends a clear message to the people of Los Angeles that UCLA is deeply invested in their future and that of the entire region."

Then there are hospitals. "Healthcare isn't getting any less employee-intensive," said Deborah Diamond, director of the Anchor Economy Initiative, a program of the Federal Reserve Bank of Philadelphia. "More people are needed in healthcare and healthcare service delivery. Hospitals across the board need to hire more people for in-person positions, which means, you're going to see more people in those settings."

One good example is the Jefferson Specialty Care Pavilion, a $762 million, 462,000 square foot office building for doctors and patients that is likely to provide a "significant boost for a rapidly reviving neighborhood," according to Philadelphia YIMBY.[4]

Of course, unlike commercial and residential properties, universities and nonprofit hospitals do not pay property taxes—but they help to populate downtown areas with people who support other businesses in the area.

Of course, downtowns have always been used for residences, hospitals, universities, restaurants, bars, theaters, and more. But one of the more novel approaches to revitalizing downtowns is also one of the least predictable: so-called vertical agriculture (as in, farms on many floors of downtown buildings). It's unclear how successful these will be, but it's an exciting vision for some cities, including Arlington, Virginia.

Marc McCauley, director of real estate development at the Arlington Economic Development Agency, said: "Our vacancy rate is now up 22 percent from 15 percent pre-pandemic. One of our first efforts has been in urban agriculture, which is a very nascent industry. Under previous zoning laws, it was only allowed in industrial districts. Now, we're trying to bring them into vertical office buildings."

One of the many agricultural advantages in urban agriculture is that there is no need for pesticides in large buildings, according to McCauley. What's more, bringing crops closer to their users creates potential savings. "The typical head of lettuce travels 1,500 to 2,000 miles to get to the grocery store," he says. "But you can imagine a high-end urban grocery store that's sourcing from upstairs."

Whatever paths cities take to revitalize their downtowns, there will doubtless be both successes and failures. The one that's clear, McCauley said, is that "you don't see a lot of communities putting their heads in the sand. Everyone is trying to figure out what to do."

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1 Dror Poleg, "The Next Crisis Will Start with Empty Office Buildings," *The Atlantic*, June 2023.

2 Andy Giegerich, "25 downtown Portland businesses write letter: City leaders need to act 'without delay,'" *Portland Business Journal*, October 21, 2023.

3 Tracy Hadden Loh, Christopher Coes, Becca Buthe, "The Great Real Estate Reset," Brookings, December 16, 2020.

4 Vitali Ogorodinikov, "Construction Nears Completion at Jefferson Specialty Care Pavilion in Market East, Center City," Philadelphia YIMBY, May 5, 2023.