Why American Companies are Moving Downtown

LAI Baltimore Chapter – January, 2016 meeting

Geoffrey Anderson, the President of Smart Growth America ("SGA"), visited the Baltimore LAI Chapter on January 20, 2016 to discuss his non-profit organization and his perceptions on the growing trend of companies migrating back to urban environments in the U.S.

Smart Growth America was founded in 2002 as a non-profit which works both nationally and locally to provide advice and promote the improvement of the built environment, with the goal of enhancing the livability and attractiveness of America's communities. Geoffrey began by reminding his audience that the dominant attitude towards cities in the 70's, 80's and even the 1990's was "cities are dead and who will turn off the lights", when they finally implode. To highlight that trend, Geoffrey offered the following stats:

- 63% of jobs in metro areas were within 3 miles of the traditional city center in 1960
- 16% in 1996 (the drop from 1960 levels being truly remarkable)
- 23% in 2013

So, beginning sometime around the turn of the new century, migration back into urban environments began, and "the turnaround back to downtown happened faster than [he] would have guessed".

Geoffrey noticed that the better a property's Walkability Score, the higher the value of that property tended to be. Wanting to quantify that trend, and to find out who is moving back downtown and why, SGA was initially frustrated by the dearth of comprehensive data on the subject. But by partnering with Cushman & Wakefield, as well as the George Washington University Center for Real Estate and Urban Analysis, SGA was able to put some quantitative meat on the bones of this trend of companies moving back downtown. They found that "lots of different types of companies were moving back downtown – not just tech firms, because it's all about recruiting talent, which means Millennials". SGA found that approximately 500 companies have been tracked as moving back to urban locations, and they interviewed about 46 of those firms to drill down into "why". They found that in addition to recruiting Millennials, companies also tended to move:

- To help build "Brand Identity"
- Because urban environments are more conducive to supporting collaboration and creativity
- Because companies want to be part of revitalization efforts
- Due to the wide range of transportation available such as bikes, Uber, buses and metro
- To be, surprisingly, in proximity to competitors and other business partners. Whether in the tech business or the carpet business, companies tend to "cluster" near others involved in the same industry.

Geoffrey also made the astute observation that with technology allowing many employees the ability to work remotely, PLACE becomes a more important determinate in where people choose to live. As he put it, "When you can live anywhere, PLACE becomes incredibly important". People are choosing to live in environments which provide them with diverse activities, cultural opportunities, dining experiences, and exposure to the arts. In other words, cities. U.S. companies are noticing. Millennials in particular appear to choose a PLACE to live first before looking for a job. Of all college-educated 25 to 34 year olds, 64% looked for a job *after* they chose the city where they wanted to live.

As a result of these trends, Geoffrey opined that "Economic development is not what it used to be". In the past, municipalities would target "trophy" companies, offering packages of tax credits or other financial incentives to entice them to relocate to a given city or state. Now, zoning and infrastructure that allow the creation of walkable, inviting environments is what's important. Research from a Gallup Poll of 34,000 people indicates that there are three qualities that attract people to a place:

- Social offerings: entertainment and places to meet,
- How welcoming a place is,
- Physical beauty and green spaces

In addition to encouraging new downtown housing opportunities, successful cities are focused on transforming streets into more pedestrian friendly venues, with wider sidewalks, retail offerings, and farmer's markets. Bike lanes are being added.

Geoffrey offered Lancaster, California as an example of a City embracing this type of change and reaping its benefits. Lancaster redesigned its major downtown thoroughfare by:

- Narrowing 9 blocks from four to two lanes
- Installed a "rambla" (new wide median for farmer's markets and pedestrians)
- Eliminated traffic signals
- Expanded existing sidewalks

The City reports the "outcomes" as including fewer car crashes, 800 new or rehabbed apartments, 802 new jobs and a 96% increase in sales tax revenue.

Geoffrey offered many other examples of this trend, but what really cemented his thesis with this writer, was reading an article in the Wall Street Journal a few weeks after Geoffrey's presentation entitled "Office Glut Strains Suburbs", which detailed numerous examples of companies abandoning suburban office parks for urban locations (Tuesday, Feb 9th WSJ). Quoting several key paragraphs from the article, sums up Geoffrey's thesis rather nicely:

"The roster of well known companies moving back to cities is growing. The latest was General Electric Co., which recently said it would leave Fairfield, Conn., for Boston. Packaged-foods company ConAgra Foods Inc. announced a move last year from a spacious Nebraska campus to downtown Chicago. Timber giant Weyerhaeuser Co. opted to leave a bucolic headquarters south of Seattle for the downtown.
"A lot of the suburban office markets are in trouble", said James Hughes, dean of the Bloustein School of Planning and Public Policy at Rutgers University, who has studied suburban office buildings. "The corporate preference today is not to be in an isolated location…. It's a complete reversal in terms of corporate America decision making, he said".

I'm quite sure Geoffrey would agree.