

Domino Effect: How a Shifting Culture of Work May Impact US Cities

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Among a summer of difficult economic news – rising interest rates, historical inflation levels, whispers of recession – the debate over the future state of cities has continued. While population rates in major metros have much improved from their pandemic lows, the question remains: as office and working culture shift, what happens to the US's cities?

Getting the Most out of the Workday

Over the last century, US business models have become more and more dependent on collaboration for innovation. The US workforce is a creative one, and there's lots of historical data to point to proximity and informal interaction breeding innovation. Despite recent innovation in remote-working tools, there's still that glaring collaborative element missing.

Data on pandemic-era productivity is nascent, but early results are mixed. Companies have begun striving for that pre-pandemic level of functionality – just last month, Mark Zuckerberg called for “increased intensity” among Meta employees. Anecdotally, mentorship and on-the-job learning have both suffered when employees are physically separated. Recent studies have shown that early-career workers may even miss the social interaction that the in-office experience provides. Overall, the data is inconclusive so far.

The Power of Choice

This isn't to say a change in home vs. office dynamics is coming immediately. The labor market has been very tight for several quarters now, leaving the power of choice in employees' hands – and many of them have chosen jobs and companies that allow them to continue working from home.

However, with the quick economic cycles we've experienced lately, the labor market may soften soon. This can cause the tide to shift, giving employers power, especially if they feel productivity and innovation levels have been down. The office is far from dead.

Digging into Downtown

In the past few years, we've seen population fluctuation in cities like never before. People fled major metros at the start of the pandemic, or fled back quickly after vaccines, or slowly left because of permanent remote work opportunities, or moved to a big city after college graduation, or left because of exorbitant rents. It's a lot to keep up with, and it's a continually evolving story.

In order to predict the future of cities, it's important to dig into the economics. Residential Choice Theory has been used to explain population dynamics since the 1960s and simplified the problem to commuting cost vs. housing cost and size. It was all about the dollars. These models were useful

in explaining suburbanization post-WWII, but they miss out on non-monetary aspects of neighborhood culture that drive preferences today.

Reliving the Past

Willingness to pay for certain amenities (like a downtown neighborhood that's easy to get around without a car AND has great schools AND lots of culture) tends to vary along demographic characteristics, like income, education, desire for a family, or career and social aspirations.

Living in the suburbs used to be a status symbol, because it meant you could afford a large house and a lengthy commute. However, a greater percentage of the US now considers themselves "urban lovers". This is thanks in part to generational differences in preferences like choosing not to have children, and to the improvement of urban quality of life. Some people actually enjoy living in a metro location and are willing to pay a premium to live there, no matter where they're working.

Even prior to the pandemic, there was a trend toward reverse commuters in cities like San Francisco and Washington, DC. In the exact opposite of 60s suburb culture, people began paying big and having a lengthy commute to live in cities. This hasn't disappeared just because of the pandemic. New York City is a great example: rents are even higher than their late 2019 levels, and vacancy rate remains extremely tight. We've also seen in our data that central business district submarket demand has rebounded very nicely compared to other types.

What's to Come?

Even with downtown metrics looking so positive, the path forward for cities isn't entirely clear. City governments could face a major issue if a decline in commuters and office tenants leads to a decline in tax revenues. With lower taxes typically comes fewer government programs and lower quality of life, which could drive people back to other cities or the suburbs.

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