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The Cockamamie Conclusions and Assumptions of the Downtown Doom Loop Analysis V2

By N. David Milder, DANTH, Inc.

Author's Note. An earlier version of this article appeared in my Downtown Curmudgeon Blog. The current version expands upon it by looking more closely at the types of data and reasoning Doomers would need to make their doom loop conclusion sound and evidence-based, as well as providing more details about the current state of remote work and downtown housing.

Introduction. I have really had it with the Doomers, those who argue that our large downtowns are doomed to failure and diminishment.[1] It's time to call them out for being the downtown ignorant Chicken Littles that they are.

Their Covid crisis instigated doom loop analysis has been a considerable worry for many municipal business and political leaders, since it predicts not just the decline, but the end of our large downtowns' ability to be thriving business districts. It also has been almost as good a story for grabbing public attention for many media outlets as fires, riots, and other serious calamities. Of course, it also has been raw meat for some authors who seek greater notoriety. The legitimacy of this argument seems to mistakenly be seen as deriving from the fact that academics and wannabe urban pundits have been its leading proponents and some even used real data analyzed by sophisticated statistical tools. However, the most worrisome parts of the argument are really based not on any data or fancy statistical tools, but on the Doomers conclusions and assumptions. The Doomers thinking displays an enormous ignorance about what downtowns are really like and how they operate. The media writers and their editors who bought the Doomers' analysis are little better.

The Conclusion of a Downward Spiral. Doomers cite the very low occupancy rates found in the office clusters in our largest downtowns – too often based often on questionable data, mind you -- and predict consequent enormous losses in lease revenues and building values. This they then argue will mean the failure of lots of office buildings. Investing in downtown real estate and leasing downtown spaces consequently will be much less attractive, and this will have very adverse effects on other downtown sectors such as retail and personal services. City tax revenues will also drastically fall, with a consequent reduction in essential services, precisely when quality of life problems are surging. Overall, these downtowns will thus become much less attractive in a continually degrading manner.

<u>Oft Cited Doomer Data Also Support Some Recovery Scenarios</u>. Frankly, much of this part of the Doomers analysis is valid. Major downtown office sectors have undeniably been hit hard by the pandemic's growth in remote work, and many outmoded buildings are indeed doomed. But that has happened several times in the office sector since the 1980s, if perhaps not as strongly. Quality of life problems reportedly have surged both in frequency and visibility during the crisis. However, the Doomers turn the current office sector downturn into a unique event by making an unwarranted analytical leap, based on little to no probative evidence: they claimed that these downtowns would fall into an unstoppable downward spiral, AKA the doom loop. *They did not entertain any possibility of a recovery of any kind such as:*

- The downtown's office sector does indeed shrink, maybe even by 20% to 30%, but then it stabilizes at this new equilibrium point that is still a very consequential 70% to 80% of its prior size. But downtown growth is now engined by other sectors such as housing, personal services, entertainment and culture.

After stabilizing, the office sector starts to grow again.

The Doomers' data have no probative value for determining whether the doom loop scenario or one of the recovery scenarios is the more probable outcome. Take the huge losses in downtown office real estate values, and the high office vacancy rates they make so much fuss about. Their data do support that conclusion, but how do those findings then justify the downward spiral conclusion?

If the Great Depression Did Not Doom Manhattan's Office Clusters, Doomers Need to Provide Solid Evidence and Strong Analysis To Show That the Covid Crisis Will Do That. One would think that these findings would merit a close comparison with what happened in the Great Depression when real estate prices in Manhattan, for example, fell by 67% at the end of 1932 compared to their 1929 levels, and then hovered around that value through rest of that crisis.[2] While how the prices of Manhattan's office buildings specifically fit into this pattern is unknown, given their dependence on employed office workers, it seems likely enough that they had fairly similar declines. Certainly, if the overall market dropped by 67%, a decline in office building prices at least equal to the 30% to 40% Doomer analysists foresee for today's downtown office buildings would not be an unreasonable guesstimate.

The conclusion that Manhattan office values during the Great Depression probably dropped as much as the Doomers now see happening there presents a potential lesson learned for the Doomer analysts that is contrary to their doom conclusion: the worst economic crisis in the nation's history probably did severely damage Manhattan's major office clusters, but over time and with a changing economic environment, they were not only able to fully recover, but to grow enormously! Recovery in this scenario took time, but it was from a terribly strong crisis, and recovery still happened. Given the need to employ a guesstimate, *this argument can only claim to establish the strong possibility that downtowns can recover from deeply devalued office buildings and high vacancy rates*, but that is a stronger case than that presented for the inevitable doom loop. The Great Depression *temporally destroyed real estate values* but did not destroy our large downtowns. Why, then should we conclude that today's loss in office buildings' value will do so?

The downward spiral doom loop conclusion by Doomer analysts is just an opinion for which they really offer no supportive data, and their findings of substantial office building vacancies and potential devaluations cannot conclusively prove because they are consistent with either a doom loop or and office sector stabilization or a turnaround possibly happening. To provide evidence for such a linkage Doomer analysts must: *1) identify a number of downtowns that have fallen into a doom loop; 2) identify the levels of office building devaluation and vacancies at which they entered the doom loop; 3) identify the causes of this entry, and identify current downtowns that fit these findings.*

<u>Remote Work Is Going in the Wrong Direction for the Doomers' Analysis.</u> To my knowledge no example of a doom looped large downtown has been ever mentioned. That may be because some Doomers claim that remote work has made the current situation unique and for the first time a true doom loop is possible. Remote work is seen as reducing office worker needs and desires for legacy office space and thereby reducing the frequency of the social interactions that are so often the basis of creativity and team operational effectiveness within organizations. However, the actual trend in remote work counters such a gloomy outlook. *The research by the WFH Research team has shown a consistent decline in remote work from its peak early in the pandemic that has now stabilized into this pattern: about 41% of the workers it sampled work totally remote (12%) or in a hybrid mode (29%).*[3] Moreover, about 33% of the paid full days were worked from home in our largest cities. So yes, remote work has reduced the number of hours office workers are in our downtowns, but most are still working there. Notably, only a relatively small proportion work at home fulltime, most remotes work for firms using a hybrid model that brings them to their offices two or three days a week. Moreover, the WFH surveys find that workers want these days in the firm's offices because they recognize and appreciate the ability to interact with their coworkers there. Engaging in these highly social forms of work is important to them.

Unless another crisis appears, there is little reason to believe that the use of remote work will again surge. *What is now well established in the real world is that though remote work is the mechanism through which there has been a significant,* *but far from complete reduction in the demand for office space, there is no evidence that it is the mechanism through which a doom loop will be hatched.* Later in this article I will show how the Doomers view about the importance of downtown office clusters and remote work is distorted because they have an erroneous view of downtowns being monofunctional.

Another Doomer major justification for predicting the doom loop seems to have been that quality of life issues -- e.g., rising crime rates, more homeless – were occurring along with fewer downtown visits and lots of business closures were occurring early in the crisis. Yes, in the past these issues did cause downturns in many downtowns. What is interesting is that these problems often emerged in the 1970s and 1980s in fairly large downtown office clusters that stayed successful in spite of them. The problem was that other downtown functions suffered, often because of the offices. The fortress building designs of these clusters, for example, often induced the very fear of crime they were meant to protect against. In time, many districts overcame these problems by becoming more multifunctional and walkable, and their office sectors became more prosperous than ever before! Downtown Manhattan and Charlotte's CBD are two examples that come to mind.

The Doomers Choice of the Gloomy Scenario also Shows an Ignorance About Many Characteristics of Our Large Downtowns. Moreover, it keeps being eroded by hard evidence of downtown recoveries, some of which appeared fair;y early in the crisis:

- Historically, large downtowns have proved to be amazingly resilient – they can take a licking and keep on ticking. They survived the Great Depression, and some like Midtown Manhattan even had trophy projects like the Empire State Building and Rockefeller Center developed during that very stressful era. Many also came roaring back after the mid 1990s, having struggled during the 1970s and 1980s because of white flight to the suburbs and ensuant problems. Downtowns with large office clusters have long periodically faced strong challenges and declines, yet few if any went into a perpetual doom loop to socio-economic triviality. So why will it happen now? Remote work alone cannot explain it.

- Downtowns in some states, such as Texas, have long had their office sectors go through serious boom and bust periods because of overbuilding, exhibiting a kind of cyclical resiliency.
- Back around the Great Recession the growing appeal of open offices was supposedly making many older office buildings outmoded, much as remote work is said to be doing today. That was supposedly causing great havoc within the real estate industry. If memory serves me, office growth soon returned with a happy vengeance. The office sector, just like other sectors, will experience periodic serious disruptions caused by capitalism's process of creative destruction. This process is capable of both mass disruption and strong recovery.
- Nonresident office workers only account for a relatively small proportion of downtown visits. Almost two-thirds of these visits are accounted for by visitors who neither work nor live in a downtown. These visitors were quick to stay away from our downtowns as Covid became a national emergency, and accounted for a far greater proportion of the drop in downtown visitation than did the office workers, *BUT they were also the quickest to return in very substantial numbers*.[4] This quick return indicates that the causation of this decline in visitor visitation was situational in nature, not structural. In contrast, the slow return of office workers is consistent with structural causal factors being present. By October 2021, data from Placer.ai was already showing strong signs of recovering downtown visitation. Still, Doomer gloom continued to be published.
- Office workers also account for a relatively small portion of a downtown's retail sales. Tourists and residents are the big retail shoppers and spenders. Many downtown retail problems were existing precrisis, caused by the strong wave of creative destruction that industry has been experiencing for about a decade.
- So the ability of a declining office sector to hurt retail sales and decimate downtown pedestrian activity is far more modest than the Doomers suggest.
- Downtown return to office rates (RTOs) have risen from about 30% early in the crisis to a median of 65% in our large downtowns. *That's not*

evidence of a downward spiral, but of a significant partial recovery, though the extent of the final recovery is still uncertain.

- Midtown Manhattan, once thought to be a potential victim of an office generated doom loop recently was the "hottest office market" in the US in the first half of 2023 that had "far and away" the most absorption of office space.[5]
- In downtown San Francisco, the process of wringing out excessive values from troubled office buildings seems to have started, with prior owners and bankers taking their losses and the new owners attracting new tenants with lower and more affordable rents.[6] This process promises to help increase downtown office occupancy rates, as well raising office worker foot traffic and consumer spends.
- Greater downtown visitation is known to help reduce the fear of crime, and drive bad uses out of the area. This is something about which the Doomers appear to know nothing. A recently released terrific report by a Paul Levy led team at the Center City District in Philadelphia found that: "The cumulative average of visitors across the (nation's largest) 26 downtowns by the end of Q2 2023 back at 79% of Q2 2019 levels; workers of all kinds back at 66%; and residents at 120%."[7] *The direction of downtown visits is obviously strongly upward, not downward.* That will help make these areas seem more activated and alive, while helping to reduce the fear of becoming a crime victim. The quality of life conditions in these downtowns are not on any definitive downward spiral, though serious issues certainly remain unresolved.
- The title of the CCD's report, Downtowns Rebound, sends a very important message about our large downtowns. *They may not have fully recovered, but they are definitely rebounding. There's no downward spiral. They are not doomed or dying.*
- Downtown Doomer proponents seem to mistakenly identify the process of creative destruction that downtown office sectors are going through as a downward spiral to doom.

What does seem to be in a genuine doom loop is the doom loop argument itself!

The Assumption That the Economic Health of All Downtowns is Dependent

on the Strength of Their Office Clusters.

The Confusion That Generates Many Analytical Errors. The focus of the Doomers is on downtown offices and, in their eyes, the failure of that sector drags the rest of the downtown into a downward spiral with it. Such an analytical connection is

Central Business Functions (CBF)	Central Social Functions (CSF)	Central Support Functions (CSUPF)
Are money based, dealing with business transactions, and the creation and management of wealth and job creation	The downtown's collection of activity venues that facilitate people having enjoyable experiences with other people, usually relatives and friends, but, importantly, sometimes strangers	These industries support the proper operation of the CBFs and the CSFs
Major Types of Venues Retail FIRE Industries Manufacturing Professional Services Manufacturing Advertising Telecommunications Mgmt.	Major Types of Venues Restaurants Public spaces Arts & cultural venues Religious venues Sports venues Personal service venues Community, child and senior venues Housing	Major Types of Venues Police and Fire Depts Transportation Water and Sewer Healthcare Government Offices Telecommunications infrastructure

Figure 1. Major Downtown Functions

perhaps easy when the terms Central Business District or CBD and downtowns are so frequently used incorrectly as interchangeable, and CBDs are seen as dominated by large office clusters. This is a confusion too often suffered by economists.

In fact, most downtowns are far more complicated and have three sets of major functions, as displayed in Figure 1: Central Business Functions, Central Social Functions, and Central Support Functions.[8] The Central Social Functions (CSFs) are given short shrift by the Doomers, if they are noticed at all, but they are essential in many ways. First, strong CSFs can help assure that downtowns will keep appearing well activated and magnetic, in spite of any diminished office worker presence.[9] In turn, that helps assure that quality of life problems will not push an office sector downturn into the feared death spiral.

Downtowns Can Be Strong Without Being Dominated by Large Monofunctional Office Clusters. Second, in most small and medium sized downtowns, especially among their strongest, large office clusters are absent, but CSF venues such as restaurants, bars, hotels, churches, public spaces, arts and cultural venues have a major presence.[10] Some of our largest downtowns, if admittedly too few of them, have significant amounts of the venues associated with CSFs such housing, retail, public spaces, entertainment and culture. The CCD in Philadelphia is a great example of a strongly multifunctional downtown. The fact that most visitors to our largest downtowns, both precrisis and today, are not coming there to work, means they are coming to shop or visit many CSF type venues, and these venues have a significant presence. Residents in and near the downtown are also frequent visitors to CSF venues. Indeed, the presence of. Such venues help make living downtown attractive. *That strongly suggests that should a downtown have a failing office sector, it could be offset to a significant degree by developing and growing venues associated with CSF functions. That is contrary to the Doomers' postulation that if a large downtown's office sector is badly hurt, the whole downtown must not only hurt, but fail.*

<u>In Some Large Downtowns CSFs, Not Offices Have the Economic Lead</u>. The leisure, entertainment and hospitality sectors are filled with CSF venues. The Downtowns Rebound study found that the top three cities in terms of overall job recovery—San Antonio, Nashville and San Diego—are also the three cities with the highest share of leisure and hospitality employment. That's a very impressive example of downtown resiliency given that in the early part of the crisis they probably suffered the largest employment losses. In these downtowns, non-office CSF functions and venues have a lead economic role. They, too, have office clusters, but they are not dominant. Doomers do not acknowledge the possibility of this type of downtown.

In contrast are the type of downtowns the Doomers focus on with employment largely in office prone sectors – e.g., information technology, finance, insurance, and professional and business services, They have had a lower rate of job recovery, if still a substantial one that the Doomers seem to ignore. One explanation for this may be that their major sectors have high proportions of jobs that can be done remotely.[11]

<u>Our Large Downtowns Will Likely Become More Multifunctional as Their Residential Units Increase, But That Will Take Time to Reach Significant Levels</u>.

An issue that has emerged in these downtowns is can they become more multifunctional, as evidenced most frequently by discussions about adding more housing. Some serious efforts are underway in several large cites, e.g., in Chicago, Boston and Washington, DC. However, the emphasis has been on producing units by converting outmoded office buildings. Doomers, when they opine on downtown housing, argue such efforts are likely to be too small and ineffective or unlikely to happen. Yet in a study by Moody's Analytics, strong evidence emerged by 2022 that the residents in our large downtowns were not only staying, but also paying the highest rents in their regions.[12] The Downtowns Rebound study found that such growth was already happening: "Residential recovery is the most advanced. Within the greater downtown area, the residential population in 2023 exceeded that of 2019 in every downtown except Phoenix, and ranged as high as 134% in Portland. The median city residential population stood at 111% of the pre-pandemic level."[13]

Strengthening the housing sectors in our large downtowns will take a lot of time and resources, and new construction is likely to be the source of many more units than the reuse of outmoded office buildings. The demand for such units has been demonstrated. The declining value of downtown office properties may make more potential sites available for such development, and make the ROI of such projects more competitive. More downtown housing units probably means a lot more people who live and work in the downtown, and those workers are more likely to work in their company's offices. So more housing can also be good for blunting local doom loop forces in the office sector.

Downtowns are not only resilient, but capable of reinventing themselves when necessary. One might argue that such a reinvention, not a doom loop, is what is now happening. The emerging downtowns will still have important if somewhat smaller office clusters, but they will be much more multifunctional, with considerably more housing, reinvigorated arts and cultural organizations attracting new market segments, far more outdoor dining, retailing and entertaining, and strong ad hoc seniors and start up communities. Such downtowns would be more animated, appealing and energetic than ever before.

I think the evidence overwhelmingly supports the conclusion that today our large downtowns are heading more in the direction of greater multifunctionality than toppling into a doom loop that has never previously been seen or experienced. What do you think?

ENDNOTES

[1] There are many Doomer analysts/authors, here is one well know Doomer article: Gupta, Arpit and Mittal, Vrinda and Van Nieuwerburgh, Stijn, "Work From Home and the Office Real Estate Apocalypse" (October 5, 2023). Available at SSRN: https://ssrn.com/abstract=4124698 or http://dx.doi.org/10.2139/ssrn.4124698. Its first draft was in May of 2022. One with a less academic style, though written by an academic is: John Rennie Short. "Traditional downtowns are dead or dying in many US cities – what's next for these zones?" The Conversation, Sept. 25, 2023. https://theconversation.com/traditional-downtowns-are-dead-or-dying-in-many-us-cities-whats-next-for-these-zones-213963 In the media, even the Wall Street Journal, The New York Times, and The Washington Post have had Doomer articles.

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[7] Downtowns Rebound, Page 14.
[8] N. David Milder. "A Search for a Clearer and More Useful Vocabulary for Talking About and Analyzing Downtowns." The Downtown Curmudgeon Blog. December 2021. https://www.ndavidmilder.com/wp-content/uploads/2021/12/A-Search-for-a-Clearer-and-More-Useful-Vocabulary-for-Talking-about-and-Analyzing-Downtowns.pdf
[9] N. David Milder. "Strong Central Social Districts: The Keys to Vibrant Downtowns." The American Downtown Revitalization Review, Volume 2, 2021. https://theadrr.com/wp-content/uploads/2021/07/Strong-Central-Socia-LDistricts-__-the-Keys-to-Vibrant-Downtowns__-Part-1-FINAL.pdf
[10] N. David Milder, "How Our Downtowns' Three Most Important User Groups Can Help Their Sustained Recoveries." IEDC's Economic Development Journal. Forthcoming.
[11] Downtowns Rebound, Page 22.
[12] Lu Chen & Ricardo Rosas & Thomas Lasalvia. "Loyalty to An Urban Lifestyle: A Study of CBD Apartment Demand during the Pandemic." Moody's Analytics. March 8, 2022. https://cre.moodysanalytics.com/insights/research/loyalty-to-an-urban-lifestyle/
[13] Downtowns Rebound, Page 5,