let's recognize and leverage

THE OPPORTUNITIES THE COVID CRISIS HAS GIVEN OUR DOWNTOWNS

By N. David Milder

INTRODUCTION

This article is driven by a deep concern that far too much attention has been paid to doom and gloom prognostications, while far too little is being paid to the opportunities the crisis has created that, if seized upon, can help our downtowns recover robustly.[1]

While we need to acknowledge that we are not going to have a full return to a pre-Covid world, that does not mean our downtowns are in for a catastrophic future, for it is well known that crises can create substantial opportunities as well as serious challenges. One reason for this failure to look for crisis-generated opportunities is that while the doom and gloom discussions have focused on the Central Business Functions (CBFs) found in our large downtowns, especially office uses, many of these potential opportunities involve venues associated with a downtown's less appreciated Central Social Functions (CSFs). In turn, that is probably influenced by a widespread misconception that Central Business Districts and downtowns are interchangeable terms.[2]

Given that for well over 30 years, knowledgeable leaders and admired urbanists such as Jane Jacobs have argued against monofunctional downtowns focused on office work and use, one might suppose that this issue is long settled.[3] As Mike Berne, in a recent discussion among downtown experts, stated: "Can someone tell me why the need to convert from sterile, office-only Downtowns to more diversified ones complete with residential is worthy of so many articles these days? Haven't Downtowns been moving in this direction for a quarter-century now?"[4] The answer seems to be that movement away from office monofunctionalism has been very slow, as the current crisis demonstrates, probably because the real estate industry continues to believe the financial highest and best use in these downtowns is office development. That was strongly reflected in NYC a few years ago by the industry's insistence that the East Side of Midtown Manhattan be rezoned to give a strong priority to very dense office development.

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Additionally, while downtown office use may be influenced by strong long term *structural* challenges posed by remote work and office buildings becoming outmoded because of their inability to attract tenants adopting hybrid work models, the visibility of the recovery and growth opportunities generated by the CSFs is *situational*, varying with the ebbs and flows of the Covid 19 virus and our ability to cope with it. That means that at first glance these opportunities will often appear to be just potentials, or to lack credibility. However, one might reasonably argue that *their persistent resurgence demonstrates a proven strength that will be fully unleashed when either the pandemic significantly ebbs, or we learn how to better cope with it.*

Also, the importance of some of these CSF assets, such as housing, attractive public spaces, and strong entertainment/cultural assets, to the health and well-being of our downtowns, and even to the value of their office buildings, too often have not

SOME EXAMPLES

Since the early stages of the Covid 19 crisis, our downtowns, especially the larger ones, have been pictured in the media to be either in serious decline or on the verge of failure. While there have been strong analyses that refute such arguments, there has been little recognition of the fact that a robust crisis can not only be destructive and create serious problems, but also new or expanded opportunities for our large downtowns to grow and prosper. These growth opportunities also are appearing robustly in many suburban downtowns. The intent of this article is to attract attention to some of these crisis generated growth opportunities so downtown leaders and stakeholders can start to take meaningful positive active steps to help their districts recover.

The time has come for analysts, leaders, and stakeholders to look at these new opportunities, and to start forging realistic, viable strategies and programs for the recovery and future growth of their downtowns. Moreover, these opportunities may appear in surprising manifestations. An objective of this article is to provide some examples that will encourage downtown leaders and analysts to look for other new crisis generated opportunities in their downtowns.

been properly appreciated in the past. In Europe, for example, city centers have not been as dominated by office uses as is the case in the U.S. As downtown office assets have apparently weakened, the spotlight is shifting to these other assets.

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LARGE CITY DOWNTOWNS

Reverse Remotes. While the media is full of lamentations about remote work being the scourge of downtown offices, it also offers many downtowns some interesting opportunities for recovery and growth.

Reverse remotes are people who live in and near large downtowns but work remotely for an employer located elsewhere. Many are downtown residents who prior to the pandemic were reverse commuters to jobs located outside of the greater downtown area, but who now work remotely instead.

A recent study of Philadelphia by Pew found that such reverse remotes would offset about 50% of the city's workers who live in the suburbs and will be working remotely in the future.[5] That suggests that the potential number of reverse remotes can be significant in size. For example, based on survey data showing how many people want to live in urban areas and census data on our adult population, I estimate that there are about 49 million adult Americans who prefer urban living, and a significant number of them might be attracted to affordable downtown housing units while working remotely for employers located in distant cities. A recent article in the *New York Times*, for example, featured a young man who moved to New York from Seattle because of the urban lifestyle it offers, but works remotely for a firm in Seattle.[6]

Downtown leaders should consider developing programs to attract and keep such reverse workers. *Cultivating reverse remotes leverages the attractiveness of the quality of life a downtown offers to folks who really like urban living.*

Meccas for Office Tenants Adapting Hybrid Models. Evidence suggests that the adoption of hybrid models will be widespread. For example, an April 2022 survey found that in Manhattan "…78% of employers (indicate a) hybrid office model will be their predominant post- pandemic policy, up from just 6% prepandemic."[7] Nationally, the WFH research team is finding that 80% of our major corporations are adopting hybrid work models.[8]

New office buildings that have the right features and amenities are not having any problems leasing large amounts of space to firms adopting a hybrid model of working, especially those in high tech industries. That may well translate into stronger demand in our large downtowns for hybrid model accommodating spaces. Also, hybrid downtown offices are becoming much more specialized in function, focused on being the places where employees meet and collaborate.

A downtown's wealth of venues that can serve as "Out of the Office Offices" where employees can meet and work together in attractive and congenial settings – e.g., nearby coffee shops, restaurants, public spaces, libraries, etc., all CSF venues – could make it the premier location in its region for firms using hybrid models. These are exactly the types of venues downtowns with strong CSFs have in abundance. Downtown organizations can and should reposition their districts as the best locations for firms adopting hybrid models.

Under-Leveraged Affluent Residents in and Near the Large Downtowns. It is incredible how many articles have appeared about the weakening of downtown offices and office worker attendance, but none have appeared detailing the large concentration of very affluent residents that are still to be found in and near our downtowns. Many strong businesses and cultural and arts organizations want to be located very close to such concentrations of wealth and spending power since these residents are their best customers and financial supporters. This is an asset whose importance cannot be either discounted or overlooked.

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TABLE 1. SOME SELECTED DEMOGRAPHIC INFORMATION ABOUT THE MIDTOWN MANHATTAN CBD AND SOME NEARBY AREAS

Zip Code	Population	Res/Emps	Work in Zip	% WorkLive*	Med HH Inc	Avg HH Inc
Midtown CBD Core						
10018	5,229	0.0	141,039	0.3%	$104,635	$563,934
10022	31,924	0.2	131,623	1.5%	$109,019	$696,005
10036	24,711	0.2	154,032	1.2%	$105,324	$238,172
10017	16,575	0.1	150,240	0.8%	$100,652	$359,718
Total/Avg	78,439	0.14	576,934	1.0%	$104,908	$464,457
Midtown CBD Southern Transition Band**						
10001	21,102	0.1	200,779	0.5%	$81,671	$179,965
10019	42,870	0.3	155,996	1.9%	$84,424	$298,604
10016	54,183	0.5	113,487	2.0%	$105,324	$238,758
Total/Avg	118,155	0.29	470,262	1.5%	$90,473	$239,109
Upper East Side						
10128	39,430	2.17	18,196	4.2%	$104,638	$374,794
10065	24,130	0.44	54,271	2.3%	$115,519	$549,575
10021	83,520	2.99	27,943	2.6%	$107,907	$542,324
10075	23,121	2.52	9,180	2.0%	$102,941	$475,895
10028	45,141	2.55	17,673	2.5%	$104,638	$394,584
Total/Avg	215,342	2.13	25,453	2.7%	$107,129	$467,434

Data source: https://www.unitedstateszipcodes.org/

*Percent of those working in the zip who also live there

**Parts of these zips are not usually considered to be in the Midtown CBD

Perhaps that lack of interest is due to some indirect attention paid to these affluent households in the discussions about population flight from our largest cities that appeared earlier in the pandemic. However, a close look shows the findings of the related research often appear to be in a fog of unreconciled conflict and often do not have a downtown focus. For example:

- NYC apparently did experience a once in a 100 years emigration shock early in the pandemic, when about 300,000 residents, many with very high incomes, left the city. However, the city's demographers now say that was a blip in the city's long-term growth, and evidence suggests that residents are rapidly returning. However, it is still too early to tell when this population loss will be completely replaced.[9]
- A research note from Freddie Mac found that homebuyer net migration from the NYC-Newark-Jersey City area between March 2020 and Feb 2022 was 49,880, but that did not specify how many were in and near the downtowns in that region. Nor did it address renters.[10]
- A study by Placer.ai found that since 2018: "with some exceptions – much of the migration over COVID followed trends that had already been taking place."[11]
- A study by Moody's Analytics finds that renters who are downtown dwellers nationally have remained loyal to their neighborhoods, with relatively few permanent moves. It also finds that they pay the highest rents in their regions.[12]
- Another study found that there is a trend, particularly among nesting Millennials in NYC and other large cities with expensive housing costs, to leave the city for larger and more affordable spaces in suburban towns with great schools and urbanized downtowns. However, that flight is not destructively extensive to the degree that recovery would be difficult.[13]

Very importantly, housing prices in Manhattan and other large downtowns have rebounded to precrisis levels. As a result, it is reasonable to conclude that people are still willing to pay premium prices for residences in and near their downtowns.

People may want to work less frequently in downtown offices, but many sure still want to live there! These concentrations of wealthy residents will not be disappearing anytime soon.

Today, as we recover from the crisis, our large downtowns will benefit from the pent up spending power of the huge numbers of very affluent households not only in their districts, but also within about a 12 to 15 minute drive of their cores. A look at the Midtown Manhattan CBD and some nearby areas demonstrates the size and incomes of these households.

There are about 78,000 people living in the core business area that have an average household income of about $464,000, and in a walkable area to its south are another 118,000 people with an average household income around $239,000. (See Table 1.) Then within an easy cab ride on the Upper East Side are another 215,000 with an average household income of $467,000, with a comparable situation on the Upper West Side. *These people have done comparatively well financially during the crisis, staying fully employed, and amassing large savings of discretionary dollars to spend.* They also have commensurate pent up demand for retail, dining out, going to arts and entertainment events, and having their bodies pampered.

As Covid is perceived to be under better control, and more downtown venues open, a boom in their spending is very possible. They can lead the demand for downtown goods and services, when the foreign and business tourist, and office worker markets have faltered.

What is surprising is that prior to the crisis many downtown retail and cultural operations had shifted their primary marketing efforts towards affluent tourists, especially those from abroad. *Today, they need to refocus their attention back on these potential patrons who are within a 15 minute taxi/Uber ride – that is, to the folks living within their 15 minute neighborhoods!* Interviews with local leaders indicate that refocus is happening, if out of sheer necessity.

It also should be noted that these affluent residents are very likely to shop in luxury retail establishments and the luxury retail market has quickly rebounded from the Covid 19 caused economic crisis.

More Downtown Housing. *Some of the newly out of date office buildings represent an opportunity to create the*

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kind of affordable housing that many of our downtowns badly need: units not just for the homeless, but also for downtown office workers that are competitive to those in the suburbs in cost and features.

Our research indicates that business districts with lots of close-in residents have survived the crisis more successfully. (See Table 2.) For example, the seven BIDs in the Midtown Manhattan CBD had 57% of their retail and 43% of their domestic tourist foot traffic return by June 2021, while in 12 BIDs elsewhere in the city that have a stronger residential base those numbers were 79% and 61%. *However, nothing will likely happen in NYC and elsewhere without a substantial overhaul of state and city regulations that govern such redevelopment projects, a subject too large to cover here.*

TABLE 2. NEW YORK, NY FOOT-TRAFFIC RECOVERY BY SELECTED BIDs, JUNE 2021 COMPARED TO JUNE 2019

BID	FOOT TRAFFIC	
	Retail	Domestic Tourism
MIDTOWN CBD		
34th St	52%	51%
5th Ave	64%	44%
Grand Central	52%	34%
Garment Center	61%	53%
Bryant Park	62%	45%
47th St Diamond District	71%	ND
Times Square	40%	32%
Average	57%	43%
STRONGER RESIDENTIAL		
Lincoln Center	73%	48%
Madison Ave	81%	45%
Columbus - Amsterdam	95%	76%
Columbus Avenue	77%	55%
East Midtown Partnership	64%	46%
Hudson Square	74%	73%
Lower East Side	66%	51%
NoHo NY	74%	78%
SoHo Broadway	90%	87%
Long Island City	75%	51%
Steinway Street	90%	62%
Park Slope 5th Ave	84%	64%
Average	79%	61%
CITYWIDE	86%	58%

Source: Placer.ai

Work-Live in the Downtown. People who work and live in our downtowns will help keep them active more hours of the day, seven days a week, and spend more in the district than their nonresident coworkers. However, very small percentages of our downtown workforces – about 1% in Midtown Manhattan (see Table 1) – live close to their downtown workplaces. However, many large corporations such as Goldman Sachs are committed to bringing every worker back to their offices full-time. Given that commuting is such a big driver of remote work, those living nearby are obviously more likely to do so. *That commitment to a full return to office (RTO) can be an asset if those firms are then willing to help build the nearby housing where their workers can live, have walkable commutes, and enjoy the downtown's CSF venues every day.*

Is this possibility far-fetched? Perhaps. However, company housing was once widespread in the U.S. especially in a number of industries and geographic areas. It currently is making something of a comeback in the hospitality industry in the West. Many of the financial firms aiming at 100% RTO rates have operating units that have been buying private homes across the nation, and then renting them out. Dealing with housing is not new to them. There will probably be a number of outmoded office buildings within easy walking distance of their main offices that can be converted to residential uses. While this opportunity is admittedly iffy, one might argue that it still would be worthwhile to give it a very close look.

Tapping the Active Senior Market Segment. There has been mention of the outmoded downtown office buildings being turned into housing by local leaders in NYC and elsewhere, but how such housing will be filled remains uncertain. To some degree, it will likely be filled by the homeless, on whom most of the attention has focused, but past experience in many downtowns across the nation strongly suggests that the homeless should not get more than their fair share of such housing units and the offices of the agencies needed to provide them with supportive services.

The creative class theory has come to hold a dominant position among economic development analysts, so when they look at our downtown populations there is a tendency to focus on the young creatives, who prefer urban living, have decent to high paying jobs, have not nested, and consequently have a large amount of discretionary dollars to spend. Some developers have targeted their rental housing projects for them. However, these young adults seem to prefer hipper neighborhoods that are more energetic at night, and where rents are meaningfully lower that in most downtown cores.

Years ago, Eugenie Birch noted that seniors were among those moving into our downtowns, and they and young creatives seemed to be the market segments driving their housing growth.[14] While their presence has continued to be noted, and some downtowns have made concerted efforts to woo more young creatives, there has not been similar concerted efforts to attract active seniors. Yet, one might strongly wonder why this has been the case?

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Active seniors seem to be a perfect fit for walkable, well activated downtowns, since they usually are cornerstone market segments for many museums, theaters, opera and ballet companies, and symphonic orchestras. For example, 78% of the San Francisco Opera Company's subscribers belong to the Baby Boomer and Silent Generation age cohorts.[15] Indeed, for some time now, these organizations have been concerned about their dependency on their grey audiences. Moreover, active seniors are frequent users of downtown restaurants, libraries and public spaces.

What also makes active seniors a uniquely attractive market segment to target for downtown housing is that their numbers are growing rapidly, and households headed by those 55 and older have far greater wealth than those headed by younger folks. In 2019 they numbered 54.1 million, are projected to reach 80.8 million by 2040, and 94.7 million by 2060.[16] Very importantly, they have the money: the median net worth of households headed by those younger than 35 is $13,000, while households headed by those 55 to 74 range from $212,500 to $266,400, and for those 75 and older, it's $254,800. The differences in average net worths are much greater (see Table 3).

TABLE 3. HOUSEHOLD NET WORTH BY AGE IN 2020

Age of Head of Family	Median Net Worth	Average Net Worth
Less than 35	$13,900	$76,300
35-44	$91,300	$436,200
45-54	$166,600	$833,200
55-64	$212,500	$1,175,900
65-74	$266,400	$1,217,700
75+	$254,800	$977,600

Source: Federal Reserve Bank. Cited on https://www.cnbc.com/select/average-net-worth-of-americans-ages-65-to-74/

In some downtowns, seniors are already a significant segment of their populations. In Philadelphia, for example, residents aged 55 to 64 make up 9% and those 65 and over constitute 18%, for a total of 27% of the core's population. That's way above the national level of 15.1% for those 55+. It's a great demonstration of what can be accomplished.

Paul Levy, the longtime manager of Philadelphia's Center City District, reports that a big influx of senior residents "came with the passage of our 1997 ten year tax abatement for the conversion of vacant office and industrial buildings to residential use."[17] A similar wave may now be possible in many other large downtowns. With an estimated national growth of 149% between 2019 and 2040, and the high net worths of households, the senior segment represents a strong potential market for

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downtown housing, while a good number of outmoded office buildings are becoming available for conversion. Levy has also written about how many downtowns are experienced in making such conversions.[18]

The rehabilitation of the 40-story Seneca One Tower in downtown Buffalo, NY, also indicates that there may be more opportunities for converting downtown office spaces into housing than has been usually thought. Buildings of this size are generally assumed to be bad candidates for conversion to housing, but Seneca One is a mixed use project that combines 115 apartments, with office spaces, a food hall, a large gym and a craft brewery.[19] Also, the floorplate size reduces as the floors get higher, tapering into a sort of spire at the top, thus easing the window access problem that impedes the conversion of larger floors from office to residential use.

Entertainment Venues. Our large downtowns usually have in and/or near them, a host of arts and entertainment venues. Many are world class. They are not going away anytime soon, though many had long been facing problems maintaining or growing their audiences, and the pandemic forced them to close for long periods of time. Very importantly, the world class venues depended on domestic and foreign tourists accounting for a half or more of their visitation. *Still, they are very likely to rebound as Covid's threats and local regulations allow. It is this capability for a relatively quick recovery and to attract many people, once conditions allow, that makes them among the potential leaders of downtown recoveries.* This resiliency is the result of:

- Many of the large venues are very committed to fully recovering and have either large endowments, valuable assets for which there are eager buyers, and/or the ability to raise the very large amounts of money needed to keep them operationally alive through Covid caused economic downturns.
- Local audiences are often returning, when the pandemic allows, in surprisingly strong numbers. They are already in some instances making up for the drop in tourist patrons.
- Domestic tourism is recovering much faster than had been anticipated earlier in the pandemic.

SMU Arts recently did some interesting research showing the impact of an important pandemic related factor on 51 major arts organizations located across the nation, and its findings support such optimism. It found that while Covid vaccination rates, having performances

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that people can attend, and making ticket prices cheaper all can generate ticket sales, *a higher vaccination rate was about three times (15%) as influential as the other two variables (6% and 5%).*[20] In other words, across the nation, when effective steps to control the pandemic were taken, arts attendance rose significantly.

Anyone familiar with these large downtowns knows that their theaters, museums, and restaurants, and other venues in broadly defined entertainment niches have gone through ebbs and flows of curtailing and reactivating their operations during the pandemic in sync with the seriousness of the virus threat. This was most noticeable when the Omicron variant of the virus struck. Since the resiliency – resurgence aspect of this pattern is so important to my argument that CSF venues will lead these downtowns out of the crisis, it is worth taking a closer look at some specific venues in NYC.

The Metropolitan Opera Company. Since 2003 attendance for high culture entertainment performances such as opera, ballet and symphonic music declined significantly, while the national population grew, and attendance for Broadway shows and all sorts of popular music concerts grew.

All of the high culture arts have been struggling to attract new and younger patrons. Reflecting that, during its pre-crisis 2018-19 season, The Met Opera Company in NYC sold 75% of its available tickets. During its recent 2021-2022 season it sold 61% of such tickets.[21] That's an impressive 81% of the pre-crisis sales amid a strong Omicron resurgence, a 60% drop in sales to foreign tourists, and a significant decline in domestic tourists sales as well. Tourists, foreign and domestic accounted for about 50% of the company's annual sales pre-crisis, so the overall total ticket sales probably reflects a big surge in ticket sales to people who live in and around NYC – those who preferred to stay home rather than travel or relocate during the pandemic.

The company was determined to keep open for the 2021-2022 season, and staged 196 performances, with no cancelations – there had been over 50 cancelations in the prior season. It also budgeted for an attendance decline over the next four years and impressively raised $130 million in *supplemental funding* to offset lost ticket sales.[22]

The major arts and cultural organizations in our large downtowns frequently have this type of strong fundraising power. That is in contrast to the 36% to 45% of the smaller nonprofit arts organizations – it varies year to year – across the nation that operated pre-crisis in the red financially, and have far weaker fundraising capabilities.[23]

The fundraising power of these large cultural organizations is strongly enhanced by the fact that their 15 minute neighborhoods contain so many affluent households. A 2007 study found that 93.4% of all charitable giving to arts organizations is from households with annual incomes over $200,000.[24] Many of the Metropolitan Museum of Art's most generous donors and board leaders, for example, live in the square mile south of it.[25]

The Metropolitan Museum of Art. It's important to look at the Met Museum's experience during the pandemic within the context of what was happening to museums in general. On the demand side, according to Morning Consult's valuable Return to Normal Tracker, museums were the places people were most willing to visit during the pandemic. Moreover, "for many, museum-going was an initial foray back into the world after the pandemic shut everyone off from it."[26] These findings support the contention that there is a large amount of pent up demand for museum visits.

On the supply side, things were quite different. Consumer fears and local regulations often combined to put museums already in financial jeopardy on the brink of closure, and for some of them to even think of "deaccessioning" some of their art objects to keep financially whole. The enforced lockdowns were often brutal. Most of the museums in California, for example, were closed for over 200 days in 2020. When such restrictions were lifted, attendance returned. The Los Angeles County Museum of Art, for example, saw a 197% jump in attendance in 2021 from 2020 as days closed fell from 249 to 77.

2020 for the Met Museum was filled with 169 closed days. Its situation improved significantly in 2021, when it was the most visited art museum in the U.S., with almost 2 million visitors.[27] That compares to the 6.5 to 7 million visitors reported in prior years, so a full recovery still has a way to go. As can be seen in Table 4, attendance in 2021 compared to pre-crisis 2019 rebounded substantially in the second half of the year to -37% from the -60% earlier in the year. Still, right around Christmas, as the Omicron threat surged in NYC, the museum decided to limit daily visitors to 10,000, about half of the normal level for that usually busy time of year.

TABLE 4. MONTHLY VISITS TO NEW YORK'S METROPOLITAN MUSEUM OF ART IN 2021, COMPARED TO 2019

Percent	Month	Percent	Month
-60%	January	-42%	July
-59%	February	-46%	August
-69%	March	-41%	September
-61%	April	-27%	October
-56%	May	-30%	November
-57%	June	-34%	December
-60%	Average	-37%	Average

Source: Placer.ai data published in Sarah Shevenock. "Why Museums Weathered the Pandemic Better Than Most — and Where They're Headed Next." Morning Consult. March 14, 2022 https://morningconsult.com/2022/03/14/comfort-with-museums-pandemic/#:~:text=Not%20only%20did%20museums%20introduce,also%20helped%20consumers%20feel%20safe

There is little reason to fear that these museums will either close or not try to recover at least precrisis levels of attracting visitors.

The museum foresaw a budget shortfall of about $150 million for 2020-2021. It responded by cutting expenses, doing a limited amount of deaccessioning, and tapping into its large $3 billion+ endowment.[28] Such large endowments are common among NYC's large museums – MoMA has a $1.2 billion endowment.[29] The Met Museum, MoMA and the city's other large art museums also have several billionaires and many influential people in the financial sector on their boards. The potential dollar value of their arts assets is mind boggling. They are well positioned to financially survive crisis situations.

There is little reason to fear that these museums will either close or not try to recover to at least precrisis levels of attracting visitors. With regard to that latter point, my prior look at museum reports showed that, in 2014, 75% of the visitors to both the Met Museum and MoMA, and 87% of those to the Guggenheim were tourists. The quick return of foreign tourists seems unlikely, so these museums and other world class venues that were so tourist dependent will need to boost visitation from other market segments. So far the attendance data suggests this is happening for the Met Museum. If attendance is now around -30% to -35% off, and tourists previously accounted for 75% of its visitors, then the local market segment is now probably accounting for well above its previous 25% of Met visitors.

Broadway Theaters. At first glance, the future of these theaters may seem to still be in real jeopardy. By my personal count, on July 1, 2022 only 19 of Broadway's 41 theaters were offering plays for ticket buyers to see. However, back in May, 35 theaters were open for business and the 2021-2022 theater season – usually seasons run from September through May – is now over. While the 2018-2019 theater season broke records for attendance and revenues, the 2021-2022 season only hit about half of those numbers.[30] So, how can these theaters be possible engines that will help drive Midtown Manhattan's economic recovery?

A closer look shows that Covid was still buffeting the ability of these theaters to stay open. The recent season was 10 weeks shorter than those of the recent past, and in 16 of its 42 weeks there were many cancelled performances, the most important being those during the Christmas and New Year's holidays.[31] Moreover, many of these closures were being caused by the casts and theater crews coming down with the virus, not because of audience fears or resurrected safety regulations. The behavior of the producers and theater owners during the 2021-2022 season shows they will open and reopen whenever the virus and regulations allow.

The remaining key question: is their audience coming back? Data from Statista indicates that between January and May in 2022, the occupation of available seats in these Broadway theaters varied between 62% and 92%, and in 12 of the 20 weeks in this time period, the occupancy was over 80%.[32] According to data from the Broadway League, the average for the 2021-2022 season was 82%.[33] Given that pre-crisis, tourists accounted for about 66% of the tickets sold by these theaters, and that the tourist flow in and near NYC has declined, the 82% occupancy rate can only be possible if local residents are now buying a lot more theater tickets and accounting for a much higher percentage of the Broadway theaters' audiences. That is exactly what we want to happen if these theaters are to help spur Midtown's economic recovery.

Restaurants. Our downtowns are unlikely to have strong Central Social Functions and be the important places where people come to connect and socialize with others if they lack a cluster of strong restaurants. Moreover, this is true no matter the size or location of the downtown. Nevertheless, their importance to the economic health and well-being of our downtowns has consistently been under-rated. This industry has been long known as one of the toughest for firms to survive and startups to succeed, yet during the pandemic they have proved to be adaptive, resilient and very responsive to virus surges and ebbs and shifting regulatory constraints.

Many restaurant operators recalibrated their objectives from maximizing profits to just keeping their businesses alive and saving their capital investments. One way of doing this has been the downsizing of operations. Many employees were laid off, and profits were either diminished or nonexistent. For example, Sylvia's, a well-known and long-established restaurant in Harlem, reported it is operating on sales revenues that are about 50% of its pre-crisis level, and it has adjusted operations accordingly. However, within the industry, consumer demand returned quickly, but the ability of restaurants to respond varied with the levels of virus threat and regulatory constraints.

TABLE 5. RESTAURANT CHAIN FOOT TRAFFIC RECOVERY IN DOWNTOWN BIDs IN 19 OF THE NATION'S LARGEST CITIES: OCT 2019 COMPARED TO OCT 2021

City	Downtown EDO	Dining	City	Downtown EDO	Dining
New York		85%	San Jose		86%
	Times Square	70%		SJDA BID	68%
	Downtown Alliance	73%	Austin		98%
	GCP	51%		Austin DID	100%
Los Angeles		97%	Jacksonville		95%
	Downtown LA	69%		Jacksonville BID	96%
Chicago		98%	Columbus		97%
	Chicago Loop Alliance	93%		Dtn Columbus Dev Corp	No Data
Houston		98%	Charlotte		100%
	Downtown District	88%		Charlotte Center City	111%
Phoenix		100%	San Francisco		65%
	Dtn Phoenix Partnership	46%		Greater Union Sq	63%
Philadelphia		99%	Seattle		85%
	Center City District	76%		Dtn Seattle Assn	68%
San Antonio		102%	Denver		100%
	Centro PID	111%		Downtown Denver BIDs	108%
San Diego		89%	Washington		84%
	Downtown BID	66%		Dtn BID	66%
Dallas		91%	Boston		104%
	Dallas DID	42%		Downtown Boston BID	48%

Data Source: Placer.ai.

Cellphone data from Placer for downtown BIDs in 19 of our 24 largest cities show that by October of 2021, restaurants had recovered about 76% of the traffic they had in Oct of 2019. Given the challenges these downtowns faced, that level of recovery is rather impressive. It's also far above the rate remote workers were returning to their downtown offices. In downtowns where Covid regulations were looser, the recovered dining foot traffic was very impressive: Austin 100%, Charlotte 111%, San Antonio 111%, Jacksonville 96%, and Denver 108%. (See Table 5.) Much the same is true for other CSF operations such as leisure venues, spas and beauty, and fitness.[34]

The Center City District in Philadelphia has long been a model of a diversified, multifunctional downtown with an especially large amount of housing in and near its core. A June 2022 report on its retail stated that its "daily pedestrian foot traffic is at 84% of pre-pandemic levels; shopper and visitor foot traffic is at 96% while residential foot traffic exceeds 2019 levels."

Moreover, it has continued to attract storefront establishments during the pandemic – 174 have opened since 2020, and 42 more have publicly announced they will open within the remainder of 2022. Of additional interest to the argument presented in this article, the 94 recent and upcoming openings in 2022 were dominated by food and beverage operations, 56%. Retail and services followed at 27% and 17% respectively.[35]

SUBURBAN DOWNTOWNS

The resurging strength of our suburban communities is drawing increasing attention within the economic development community. Recently, for example, Aaron Renn reminded us that "We're a Suburban Nation. We Need to Get Used to It."[36] A few years back, a group was formed to advocate for a "New Suburbanism."[37] And I have argued that many suburban downtowns are about to enter a new Golden Age.[38]

Our suburban downtowns, even their strongest, differ from their big city brethren quite dramatically in the functions they perform. While the employment center functions, especially in the form of office work, have long dominated our major downtowns, this has been far less the case in our suburban and independent rural cities. Their downtowns are seldom referred to as CBDs, because their CBFs are seldom as strong as those in our big cities. While they often can have a relatively significant number of people working in them, they are hardly ever dominated by a monofunctional downtown office cluster, nor are they the location for most of the people working in the town. Instead, the vast majority of office buildings are usually situated in a nearby office park or along a strongly trafficked highway corridor within the town.

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TABLE 6. PERCENT OF WORKERS IN THE DOWNTOWN CORE IN FIVE SUBURBAN AND FIVE INDEPENDENT CITIES IN 2017

Cities	A) Jobs in Ring .5 Mi	A) Jobs in Ring 1-Mile	Jobs in City	% City Jobs in .5 mi
Suburbs				
Morristown, NJ	10,504	23,431	24,477	43%
Cranford, NJ	2,856	6,624	12,367	23%
Garden City, NY	8,218	31,309	32,961	25%
Dublin, OH	2,778	16,529	42,587	7%
Downers Grove, IL	2,018	6,558	66,007	3%
Averages	5,275	16,890	35,680	20%
Independents				
Auburn, NY	3,974	6,321	12,130	33%
Laramie, WY	1,132	7,143	13,216	9%
Rutland, VT	3,810	7,659	12,008	32%
La Crosse, WI	1,148	4,178	45,594	3%
Appleton, WI	1,981	7,528	46,361	4%
Averages	2,409	6,566	25,862	16%

Source: OnTheMap online database.

As can be seen in Table 6, in the cities listed with the most jobs – Dublin, Downers Grove, La Crosse and Appleton – their downtown areas only hold between 3% and 7% of the town's jobs.

Morristown's downtown stands out with about 43% of the town's jobs. It is a very interesting town because it has long been a standout as a suburban downtown employment center, yet years ago its political and business leaders worried about its well-being because the offices alone where not taking the district where they wanted it to go. Today, the downtown is vibrant, well activated, with a slew of CSF venues and places such as a Performing Arts Center that draws 200,000 people annually, The Morristown Green public space, about 100 eateries and watering holes that average over $1 million/yr in sales, and a very strong pamper niche. They all add a strong urban flavor to its magnetism. It has very few national retail chains, but many successful small boutiques. It is widely acknowledged that what turned this downtown around was not its offices or retail, but the 1,500 or so new residential units that were built between about 2000 and 2010, with more units added consistently since then.

This pattern of new downtown housing sparking the development and growth of CSF venues is replicated in a growing number of affluent suburban downtowns across the nation. Cranford, NJ, for example, has built 366 Transit Oriented Development housing units since 2006. Its CSF venues have achieved such vibrancy that the business and political leaders in a nearby town once noted for its large cluster of national retail chains (now

TABLE 7. OVERALL FOOT TRAFFIC LEVELS RELATIVE TO 2019 FOR OCT 12-NOV 29, 2020 IN FIVE LARGE DOWNTOWNS AND FIVE SUBURBS

City	Downtown Zips	Suburban Zips
Atlanta	-64.2%	-37.4%
Chicago	-72.2%	-31.5%
Dallas	-67.0%	-34.0%
NYC	-71.8%	-40.5%
San Francisco	-77.2%	-44.5%

Data from Safegraph in Michael Sasso and Andre Tartar. U.S. Downtowns Yearn for Vaccines as Merchant Traffic Off 79%. https://www.bloomberg.com/news/articles/2020-12-03/u-s-downtowns- yearn-for-vaccine-as-merchant-traffic-falls-70?sref=mHw3n8zP

disappearing) wish they had more downtown housing. Looking elsewhere, take a ride on a Metra train from downtown Chicago to Aurora and you will ride by town after town (e.g., Downers Grove) with lots of residential units near their rail stations.

In a parallel trend, suburban office parks built between 1960 and the 1980s were facing hard times even before the pandemic, and Covid just strongly exacerbated it. According to JLL, in Q1 of 2022, office vacancy rates in the suburbs were higher than in our central business districts.[39] Besides being physically outdated, these suburban office parks also were designed for workers taking on tasks that required "a quiet place to focus" that these days are being done at home. They were not designed to facilitate and support workers engaging in tasks that require them to socially connect face to face with their fellow workers. Successful office buildings today are designed to optimally perform this social connection function.[40]

Suburban office parks are, like many retail malls, increasingly being repurposed into "schools, senior living centers, apartment complexes, public parks, warehouses."[41] They often are attractive sites for dense affordable housing because the land costs are relatively low.

Morristown and many other wealthy suburban downtowns are primed for a relatively speedy recovery because they suffered far less from the Covid crisis, while it helped them in several ways:

- They were much more dependent on residents than office workers or national and international tourists than most of our large downtowns, and they often had sizeable amounts of residents within a 5-minute walk or drive of the downtown core.
- Remote work was helping these downtowns, not hurting them, by adding a significant number of new people to their daytime populations. Telephone conversations with several managers of these suburban downtowns indicated their presence has been very noticeable.
- Their number was increased by the pandemic accelerated trend for nesting Millennials to move to the suburbs. While this positively heightened the demand impacting many downtown businesses, it also negatively pushed local housing prices higher.
- Consequently, the recovery of their restaurants, retail and formal entertainment venues will be less impeded by strong declines in consumer demand.
- They have lots of nearby housing units, and their residents pump prime downtown visitation after 5:00 PM and on weekends.
- Consequently, even fairly early in the pandemic, their downtown foot traffic was returning much more quickly than in their nearby central city downtowns – see Table 7.
- Their restaurants, PACs, theaters, concert halls and other CSF venues were and are bringing people in during the crisis more quickly and more often than is the case in our major downtowns.
- Any tourist flows they had were likely to be dominated by domestic visitors who are returning quickly to pre-crisis levels.

Importantly, my past field observations in several suburban towns in New Jersey found that their strong restaurants and attractive retail, financial and personal service operation drew many office workers from buildings within about a five minute drive. Downtown Englewood drew from offices along Rte. 9 and Morristown drew from those along Rtes. 10 and I-287. If office buildings like them are now failing because their designs are functionally outmoded, then nearby downtowns may have a meaningful opportunity to attract more offices. Their strong CSF venues can provide many "Out of Office Offices" that can facilitate workers making the social connections with fellow workers and clients. However, they must take care not to replicate the same mistake our large downtowns have made, and not concentrate these offices in large monofunctional clusters, but mix their locations with other uses in the district.

Metuchen, NJ, is another downtown positioned for a quick recovery and demonstrates many of their characteristics. Metuchen also shows that its recovery of store-

TABLE 8. DOWNTOWN METUCHEN FACT SHEET MARCH 2022

15,049	Town Population
$128,619	Median HH Income
62.5%	BA degree +
200	Office locations
259,583 sf	Total Office Space
5,047	Primary jobs in town in 2019
153	Storefronts
414,113 sf	Estimated Storefront Space
33	Number of Closures since 3/2020
38	Number of new businesses since 3/2020
	55% Percent CSF firms
$168,970,007	Total investment in Dtn since 2016
397	New Housing since 2016
Sources: Metuchen Downtown Alliance; OnTheMap	

front tenants is being led by operations associated with the downtown's Central Social Functions. It also shows how quickly the right moves have produced impressive results. Its major revitalization effort started relatively recently in 2016, and since then has seen about a $169 million invested in the downtown, with 397 new residential units being built. Many of these units are near the commuter rail station that has direct connections to New York, Newark, and Trenton. Large amounts of office space and jobs are also within about a 15 minute drive in such towns as New Brunswick, Iselin, and Clark.

Metuchen's residents have a high median household income of $128,619 and 62.5% have a BA degree or higher. See Table 8.

Between March 2020 and March 2022, 33 downtown businesses have closed, while 38+ have opened. Interestingly, *55% of the new businesses, such as food and beverage and personal service operations are related to CSFs – that indicates they are already leading the way to recovery in this town.*

CSF type functions appear early in the agglomeration process.[42] As can be seen in Table 9 that reports on the presence in 2011 of CSF types of businesses in all 201 downtowns in Wisconsin with populations between 1,000 and 50,000, between 55.5% and 65.3% of their retail and service businesses were CSF operations. They were more numerous than the regular retail shops. This finding supports the conclusion that CSFs appear early and strongly in the agglomeration process. That can be explained by the low cost and relative ease with which the CSF firms can open, and the fact they often need small market shares to survive. Recent research has shown that such firms may be quick to close in an economic crisis, but, importantly, quick to reopen and recover as conditions improve.[43]

In my consulting experience with suburban downtowns, initial stated concerns about revitalization and growth most often turned out to mean more and better retail. Today, as Metuchen exemplifies, it is not retail that is leading their recoveries, but the CSF venues such as restaurants, bars, coffeeshops, hair and nail salons, spas, martial arts schools, public spaces, arts and entertainment venues, etc. (As noted above, much the same is also happening in downtown Philadelphia.)

Suburban retail is resurging in the strong malls, but in our suburban downtowns that previously had strong clusters of legacy retail chains, the situation is more challenging. The legacy chains continue to retract, and attracting either some of the many new chains that have emerged during the crisis, or some of the internet-birthed chains like Warby Parker are now challenging endeavors.

TABLE 9. THE PORTIONS OF THE RETAIL AND SERVICE BUSINESS MIX ASSOCIATED WITH DOWNTOWN SOCIAL FUNCTIONS IN WISCONSIN COMMUNITIES WITH POPULATIONS BETWEEN 1,000 AND 50,000 IN 2011

Cities/Villages with 1,000-2,500 Pop. - Averages of 143 Downtowns			
NAICS Description	Number	Percent	Rank
Full-service restaurants	3.19	19.7%	1
Drinking places (alcoholic beverages)	2.17	13.4%	2
Beauty salons	2.15	13.3%	3
Other amusem't(bowling,golf,fitness)	0.98	6.0%	7
Barber shops	0.5	3.1%	14
Totals	8.99	55.5%	NA
Cities/Villages with 5,000-10,000 Pop. - Averages of 45 Downtowns			
NAICS Description	Number	Percent	Rank
Full-service restaurants	7.93	20.9%	1
Beauty salons	6.69	17.7%	2
Drinking places (alcoholic beverages)	3.91	10.3%	3
Other amusement (bowling,golf,fitness)	1.93	5.1%	6
Barber shops	1.33	3.5%	11
Totals	21.79	57.5%	NA
Cities/Villages with 25,000-50,000 Pop. - Averages of 13 Downtowns			
NAICS Description	Number	Percent	Rank
Full-service restaurants	12	23.7%	1
Beauty salons	9.46	18.7%	2
Drinking places (alcoholic beverages)	6.08	12.0%	3
Limited-service eating places	2.31	4.6%	8
Nail salons	1.62	3.2%	10
Barber shops	1.54	3.0%	11
Totals	33.01	65.3%	NA

Data from : Bill Ryan, Beverly Stencel, and Jangik Jin."Retail and Service Business Mix in Wisconsin's Downtowns, Downtown economics, Issue 173, April 2011 https://fyi.extension.wisc.edu/downtowneconomics/files/2012/08/retail-and-service-business-mix.pdf

Suburban retail is resurging in the strong malls, but in our suburban downtowns that previously had strong clusters of legacy retail chains, the situation is more challenging. The legacy chains continue to retract, and attracting either some of the many new chains that have emerged during the crisis, or some of the internet-birthed chains like Warby Parker are now challenging endeavors. For example, four internet born retailers – Warby Parker, Bonobos, Fabletics, and Indochino – are now opening brick and mortar locations. The vast majority are going into large retail malls or big city commercial districts, with only a few going into suburban downtowns like Westfield and Hoboken in New Jersey and Pasadena in California. That situation is likely to ease as the recovery progresses. Moreover, their relatively quick recovery of shopper foot traffic and the affluence of households in their trade areas enhances their locational appeal. It also should be remembered that many of the legacy chains left these suburban downtowns not because of the weaknesses of their locational assets, but because the chains were incompetently managed.

Whether retailers are large or small, it has become readily apparent that those that adopt an omnichannel approach that combine online and brick and mortar sales channels are more likely to succeed. The pandemic has accelerated the use of digital tools by our small businesses. A 2022 survey by Morning Consult found that: "63% of SMB respondents have added or transitioned to digital/online operations in the past year."[44] It also has strongly accelerated their adoption and use of omnichannel marketing strategies. For example, a 2021 report focused on eight primary sales methods that are used by

Looking to the future, these urbanized suburban downtowns should continue to grow and then leverage their already strong collections of CSF assets. They are likely unincumbered by the severe stresses that very large clusters of office space have caused for our largest downtowns, unless they create such situations for themselves by pursuing a wrong-headed office development strategy. Their future is also unincumbered by the weaknesses in the mass transit systems in their regions.

98% of the small and medium-sized businesses in the U.S. found that:

- “80% use at least three of them.
- The most popular of these eight sales methods are: Brick and Mortar (used by 79% of SMBs), Wholesale (78%), Web Store (68%), and Online Marketplace (68%).
- 72% of SMB revenue is driven by the top four sales methods: Brick and Mortar, Wholesale, Web Store, and Online Marketplace.
- 69% of SMBs with <10 employees are Advanced or Super Sellers (the two top categories), despite their small size.”[45]

These findings suggest that the independent merchants in our suburban downtowns are likely to come out of the Covid 19 crisis in far better positions to compete than they have been in for over the past 100 years. They, and not the retail chains, are likely to lead the recovery of retail in these downtowns.

BIDs and Main Street programs need to encourage and support the adoption of omnichannel marketing strategies by their merchants. In the most successful of them, where the revitalization success they have achieved has bolstered commercial space costs, they also need to become much more active in working with landlords to create flexible leases that can reduce the initial financial stress on newly opened independent stores, while promising landlords a strong prospect of market rate rents from them sometime in the reasonable future.

Looking to the future, these urbanized suburban downtowns should continue to grow and then leverage their already strong collections of CSF assets. They are likely unincumbered by the severe stresses that very large clusters of office space have caused for our largest downtowns, unless they create such situations for themselves by pursuing a wrong-headed office development strategy. Their future is also unincumbered by the weaknesses in the mass transit systems in their regions.

That said, they may find higher housing costs an increasing challenge. One solution may be the reuse of nearby failed or failing office parks and office buildings along well trafficked highway corridors for some of the needed housing.

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