

# Bond Case Briefs

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## Why Companies Are Moving Back Downtown.

*Tax incentives aren't always the best way to lure businesses. Many are simply going where the talent is.*

**Ryan Woodings** owns a 15-person tech startup in Boise, Idaho.

His company, MetaGeek, specializes in helping businesses fix and maintain their Wi-Fi systems. Or, as the website puts it, "making Wi-Fi more awesome for more people." A decade ago, MetaGeek was a side project out of Woodings' house. His mom was his first hire. Eventually, the company grew and moved into an actual office in a suburban neighborhood on the outskirts of Boise.

The location posed some problems. Foremost among them was what might be termed the "intern dilemma." Each semester, MetaGeek seeks the help of a handful of student interns from Boise State University. "Being 20 minutes away from campus," Woodings says, "we could only get students who had a car and had certain class schedules."

So MetaGeek did what a lot of companies are doing these days. It moved downtown. The student interns are now able to bike over to the office between classes. In the afternoons, MetaGeek employees can take walks on the nearby greenbelt that runs through town along the Boise River. If they want to bike home, the city runs a bicycle rental program and has an expanding network of dedicated bike lanes. "Downtown Boise is where everything is," Woodings says. "When you have a lunch meeting, or get coffee with a client, it's always downtown."

MetaGeek is one of several tech companies that have put down roots recently in the center of Boise. Last summer, Boise State moved its computer science department downtown so that it could be closer to students' potential employers. And Boise isn't unusual. In cities across the country, businesses are trying to capitalize on the increasing density of tech talent clustered in the heart of cities. In Massachusetts, General Electric is setting up its new headquarters along the central Boston waterfront. In Rhode Island, Hasbro has moved 350 jobs to downtown Providence. In Illinois, nearly 50 companies, from Kraft Heinz to Motorola Solutions, have reestablished their headquarters in or near Chicago's loop. According to the U.S. Census Bureau, the number of metro area jobs located within three miles of downtowns increased seven percentage points between 1996 and 2013. The suburbs still have about three-quarters of metro area jobs, but downtowns are luring quite a few employers back.

Much of that has to do with the tastes of the millennial generation, adults 34 and younger, many of whom continue to express a preference for walkable neighborhoods with bike lanes, public transit and a mix of recreational amenities. Last year, millennials became the largest component of the American workforce. For many companies, attracting and retaining millennial workers seems to require having a downtown office. "Probably for the first time in history, instead of people moving where jobs are," says Tom Murphy, a senior fellow at the Urban Land Institute, "jobs are moving where the talent is."

The most talked about move of this kind in recent years is GE's decision to move from Fairfield,

Conn., in the suburbs of New York City, to its new location in the center of Boston. A mix of \$145 million in tax breaks from the city and the state of Massachusetts made the relocation cost-neutral, but that wasn't the main reason for the switch. If it had been, GE would have moved to New York, where Gov. Andrew Cuomo had brokered a deal offering more in tax incentives.

At the time of the announcement, Jeffrey Immelt, the CEO of GE, explained the move in terms of the company's changing identity. He pointed out that the global industrial conglomerate is getting into software, and its location in the Seaport District of downtown Boston puts GE employees in the same neighborhood as dozens of venture capital firms and tech startups. Immelt noted that GE should have no problem finding and hiring local talent, as the Boston metro area is home to 55 colleges and universities and Massachusetts spends more on research and development than any other region in the world.

But the company's decision to move was also based on a desire to be in an environment with sidewalks, ample transit and other amenities that would appeal to younger employees. GE executives boasted about the industrial feel of the site, which includes two historic brick warehouses overlooking the Fort Point Channel.

The reasons why GE moved are the reasons a lot of companies are moving back downtown. "Municipalities used to offer the lowest tax rates and the biggest subsidies to attract companies. That's no longer the case," says Murphy, who was mayor of Pittsburgh for 12 years before joining the Urban Land Institute. "People want a sense of place with good public transit and a good mix of activities. Cities that are making those kinds of investments are probably going to be the winners."

Last year, the urbanist advocacy group Smart Growth America studied nearly 500 companies that added jobs downtown between 2010 and 2015. About half moved in from the suburbs; others were moving from another downtown location, or expanding their existing downtown presence. What they had in common was a relocation of jobs to areas that were more bikeable, walkable and transit-accessible.

That's what happened with Red Hat, a software company in North Carolina. In 2011, Red Hat had outgrown its headquarters in a research park in southwest Raleigh. When management surveyed workers about what they were looking for in a new location, "the pretty much unanimous feedback was that [they] wanted to be in a more urban environment," says Simon George, a senior director at Red Hat. "That factored heavily into our decision-making." Ultimately, the company took over a former Duke Energy building in downtown Raleigh, adding more than 250 jobs to the downtown core. "The expectations of employees have changed," George says. "They want to be able to walk from home to work. They want to be able to walk to restaurants. They don't want to be driving everywhere."

**All across the country**, suburban office parks are less economically competitive than they once were, says Stephen Friedman, a development adviser and urban planner in the Chicago area. "The times have changed and the attitudes have changed," he says. It isn't just that millennials want to work downtown. It's that so many of them want to live there.

In 2013, the Urban Land Institute found that 62 percent of millennials preferred a home close to shops, restaurants and offices. In another survey by the institute, millennials in the Boston metro area were more concerned with the ease of their commute and the proximity of public transit than the quality of schools or public safety. Nearly 80 percent said it was very important to be near public transit while only 30 percent said it was very important to have free or discounted parking.

As recently as a decade ago, "the sheer amount of space available in the suburbs might have been a

positive attribute,” says Bethany Schneider, an analyst with the commercial real estate firm Newmark Grubb Knight Frank (NGKF). “Now, more companies aren’t looking for room to grow. If anything they’re looking to be more efficient.”

Schneider was part of a team at NGKF that last year studied suburban office parks near five major cities: Chicago, Denver, New York, San Francisco and Washington, D.C. They found that between 14 percent and 22 percent of the suburban office inventory was “obsolete.” It didn’t meet at least two of six common features that prospective tenants said they wanted, especially proximity to transit. Tenants in obsolete suburban office parks “are facing a losing battle to retain their best workers,” the study’s authors concluded, and “owners of such spaces are facing an even greater challenge — how to keep their investments attractive to tenants.”

In June, Friedman gave a presentation about the growth of downtown jobs to a group of Chicago area real estate professionals. He noted that the retail and office vacancy rates were lower in the city than the suburbs, and he named some of the big companies everyone knew were setting up shop in downtown Chicago. (That very week, McDonald’s was the latest to announce a new central Chicago headquarters.) Midway through his presentation, however, Friedman got to an important slide. At the top it said, “The Suburbs Are Hardly Dead!”

“The companies that need the young millennial labor force have moved some functions downtown,” Friedman says. “But it’s not like everything is lost in the suburbs.”

Indeed, the flight from suburban office sites can be overstated. When companies move downtown, they get press. When they change locations within the suburbs, they don’t draw the same attention. Right now in the Chicago area, about two-thirds of total regional employment is in the suburbs, where rent is about half of what it is in the city. Downtown vacancy rates are trending downward, but that’s true in the suburbs as well. The rate of employment growth is expected to be faster in the city, but the total number of added jobs will be higher in the suburbs.

Still, suburban communities worried about long-term trends are looking for ways to adapt and become more competitive with urban downtowns. The optimal solution, according to Friedman and his colleague Ranadip Bose, is to “sub-urbanize” — to provide enough urban-style amenities to be able to compete for city-minded millennials.

One place attempting such a reinvention is Research Triangle Park (RTP) in the Raleigh-Durham area. The campus is half the size of Manhattan, and boasts several global science and tech companies, notably IBM and Cisco Systems, but it’s also an artifact of 1950s community planning. The fact that tech companies like Red Hat are choosing downtown Raleigh over nearby research parks illustrates the problem RTP currently faces: It has no housing, no light rail, and no main street with cafes, restaurants and shops. The RTP’s layout inhibits the kind of informal socialization and networking between tech workers that is increasingly common in urban innovation districts.

That will soon change. With \$50 million in public and private investment, the Research Triangle Foundation has plans to redevelop a 50-acre site, adding apartment buildings, a central marketplace and public gathering spaces, including an amphitheater, dog park and sculpture garden. Like many downtowns, the redrawn Research Triangle Park will have a bike rental program and a circulator bus to get around campus. The foundation’s CEO, Bob Geolas, is also hoping for a regional dedicated rail system, with the park as the central hub, so that RTP’s 40,000 workers don’t have to commute by car.

Geolas says that about eight years ago, the park’s tenants started to express anxiety that the campus was a liability in recruiting talent. “The suburban park model really isolates and separates out what

the companies are doing from the general public,” Geolas says. “When you visit a traditional urban center, there’s an energy there. Downtowns have a sort of personality that does not exist in a suburban research park like ours. A big part of what we’re doing is building a personality that people can relate to and be inspired by.”

The foundation calls the redevelopment a “park center,” but it does envision many of the trappings of a traditional downtown: pedestrian walkways, transit, housing, coffee shops and lunch spots. The difference would be the natural ambience, with plots of grass and rows of trees woven throughout the campus. “What we really want,” Geolas says, “is the most urban park experience that you can imagine.”

Such an extensive overhaul might be out of reach for the typical suburban community, but villages outside Chicago are already contemplating small ways that they can become more urban. The village of Schaumburg, which lost the Motorola Solutions headquarters last year, is looking to update that site by breaking up so-called “superblocks” into smaller 600-foot-long blocks with more foot paths. The village is getting its first new apartment complex in more than 15 years, a 180-unit building catering to young professionals working in town. And the village is adding bike trails that connect Schaumburg to a nearby community college and forest preserve.

Of course, some places don’t see a need to change, and won’t. Last year, when Kraft Heinz opened a new headquarters in Chicago, it closed its offices in the village of Northfield. “We were disappointed to see them leave. We weren’t worried economically,” says Stacy Sigman, the village manager. “We have a great campus. Immediately we were inundated with calls to take over the space.” Technically, the office Kraft left behind was vacant for 15 days, but a medical supplies company, Medline Industries, had already secured the lease, adding 1,800 jobs — more than the number that had left.

Northfield has an array of advantages. It’s an inner-ring suburb with about 6,000 residents, less than 30 minutes’ driving time from downtown Chicago on a light traffic day. It has some of the best public schools in Illinois. Sigman says Northfield doesn’t have plans to adopt urban-like features. “It’s contrary to who we are,” she says. “We like the small quaintness. I think that’s what makes us special.”

Some places don’t have a choice. They have to change. Geolas, the Research Triangle CEO, would like to see suburban research parks evolve into something more attractive to millennial workers, and he finds a source for optimism in the history of downtowns. “I’m old enough to remember when [magazines] ran stories about how downtowns were dead,” he says. Eventually developers and city planners found a formula to reinvigorate urban business districts with density and a diversity of uses. Now the same process needs to happen in the suburbs, he says. “We have to reimagine what those places can be.”

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