COVID's Impact On Downtown Economies: What Does The Future Hold?

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The coronavirus had a unique impact on downtown economies. They are home to a large share of jobs in industries (such as Leisure and Hospitality) that were the most affected by employment losses related to the virus, as well as sectors of the economy where a large share of workers have been able to work from home. In the short-term, both daytime and evening populations have diminished in downtown areas, and therefore consumer activity. The following brief considers the potential impact of the virus on downtown economies.

Decades of investment in sports stadiums, conference centers, festival marketplaces, and arts and culture venues have returned many downtown areas to the primary centers of consumption within cities. This has meant that Leisure and Hospitality sector employment has become a large share of jobs in central business district economies (CBD). In the CBDs of the largest 100 regions across the United States¹, jobs in the Leisure and Hospitality sectors accounted for 17% of total CBD employment prior to the pandemic (one in six jobs). In non-CBD areas of these regions, Leisure and Hospitality accounted for around one in 7.5 jobs.

During the depths of the labor market fallout following the outbreak of the coronavirus and public health shutdowns, 46% of Leisure and Hospitality jobs were lost nationally. As of September 2021, there was still 9% fewer people employed in the sector nationally compared to pre-pandemic levels. Government mandates limiting business operations, reduced levels of tourism, and consumer reluctance to congregate together in large crowds have all taken their toll on the sector. Since downtown areas are home to a disproportionately high number of Leisure and Hospitality jobs, the damage to the sector has had a pronounced impact on these parts of cities.

¹ Central Business Districts are defined according to the 1982 Census of Retail Trade. Data are drawn from the U.S. Census Bureau’s Zip Business Patterns
In addition to being centers of consumption, downtown economies are also home to a high share of office workers. In the hundred largest regions in the United States, office jobs account for 40% of all positions in central business districts but only 20% in non-CBD areas. The high share of office jobs in CBD areas is significant because office work has been the most affected by work-from-home trends since the outbreak of the pandemic.

As the table below reveals, while 15% of full-time workers report working from home at present (originally 38% at the outset of the pandemic), this figure is much higher for certain occupations. Twenty-eight percent of employees in Management, Business, and Financial Operations occupations and 22% in Professional and Related occupations still report working from home, although this figure has fallen considerably since the beginning of the pandemic.

**SHARE OF WORKERS WORKING FROM HOME BY MAJOR OCCUPATION**

Source: Current Population Survey; Analysis by UCR Center for Economic Forecasting
Management, Business, and Financial Operations and Professional and Related occupations can be broken into more detailed occupation titles, displayed in the chart below. Many of these occupations typically find their home in downtown areas, and a high share of workers in these sectors are still working from home, such as Computer and Mathematical occupations (46%), Legal Occupations (40%) and Business and Financial Operations occupations (37%). Work-from-home trends, therefore, have meant daytime activity in downtown areas has been greatly curtailed since the dawn of the pandemic. This means fewer customers for local retailers, restaurants and bars. Some consumption, therefore, has been redistributed within regions from places of work to places of residence, and this represents a loss of income for downtown businesses.

**SHARE OF WORKERS WORKING FROM HOME BY TOTAL OCCUPATION**

In summary, downtown economies have been uniquely affected by the pandemic since they have a large share of jobs in the industries that were most affected by employment losses. This has been compounded by the fact that the population of daytime office workers in these areas has significantly receded. What does this mean for the prospects of downtown areas?
LEISURE AND HOSPITALITY SECTORS REBOUND

Credit card transactions from across the nation reveal spending on Leisure and Hospitality activities has returned, and in some instances, it’s even exceeded pre-pandemic levels. With widely available COVID-19 vaccines and better treatments, there is no reason to expect demand for Leisure and Hospitality activities will be adversely impacted by the virus in the future (notwithstanding short-term disruptions caused by the emergence of virus variants). This bodes well for downtown economies as bars, clubs, museums, and restaurants will resume normal operations.

There are two potential impacts of work-from-home trends on downtown economies. First, trends toward a virtual office could lead firms to leave city centers, either in search of cheaper rents or because they no longer require office space. Second, firms will retain a presence in central city locations but implement hybrid work schedules, giving workers greater flexibility to work from home and perhaps requiring less office space.

IN THE UNITED STATES, AS OF SEPTEMBER 26 2021, ARTS, ENTERTAINMENT, AND RECREATION SPENDING BY ALL CONSUMERS DECREASED BY 1.4% COMPARED TO JANUARY 2020.

Source: Affinity Data From Opportunity Insights ; Analysis by UCR Center for Economic Forecasting
THE DEATH OF THE OFFICE?

Will work-from-home trends finally finish off central cities? In 1921, Henry Ford famously declared “the city is doomed.” The mass production of cars made them affordable for the masses, meaning workers no longer needed to live within walking distance of, or a tram ride away from, where they worked. More accurately, Ford was referring to the death of central cities. In Ford’s era, it was believed that noise, congestion, disease, pollution and crime would be the end of dense urban centers.

In fact, with each breakthrough in communication technologies – from the telephone to the fax, to microprocessors, email and video-conferencing – proclamations about the death of cities have been common. Why would firms put up with the high cost of central cities, it was thought, if they didn’t have to? Employees could connect with one another wherever they live, and suburban office parks would replace offices in congested downtown areas.

Of course, downtowns have been much more resilient than many believed. Today they are still the biggest job centers in most regions. Just as dense urban areas have negative and costly attributes, they also display many positive characteristics. Generally, central cities provide firms better access to workers, business services, infrastructure and networking opportunities. The pandemic hasn’t changed this. Firms will still want a presence in downtown areas.
In many respects, the future of downtowns depends on the future of the office. Just as there are stories of major corporations giving up or reducing some of their downtown office space, many firms are keeping their downtown space and have plans for employees to return to work in some capacity. In a recent survey, while employees state their preference to work from home 2.5 days a week on average, employers prefer their workers to work from home only one day a week. The endurance of work-from-home trends will ultimately depend on worker productivity, with some studies revealing workers are more productive working from home. This can be contrasted with a large body of academic research that reveals that face-to-face contact between workers is a key source of worker productivity.

In the short-term at the very least, workers will be spending less time at their places of work, and this will reduce foot traffic in downtown areas, mostly affecting local businesses that serve these workers. Work-from-home trends could also change public transit ridership, and consequently transit budgets.

Yet overall, demand for office space will not evaporate, and any softening in downtown rents could provide an opportunity for small businesses and start-up companies to locate there.

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3 https://www.washingtonpost.com/outlook/the-great-pandemic-work-from-home-experiment-was-a-remarkable-success/2021/10/14/c21123d0-2c64-11ec-985d-3150f7e106b2_story.html
About the Center for Economic Forecasting and Development

The UC Riverside School of Business Center for Economic Forecasting and Development opened its doors in October 2015 and represents a major economic research initiative in one of California’s most vital growth regions. The Center produces a wide variety of research both independently and in collaboration with academic, business, and government partners. Research products include monthly employment analyses, quarterly regional economic forecasts, a quarterly business activity index, a white paper series, and a major regional economic forecast conference, hosted annually.

About the Author

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Dr. Osman co-authored the book “The Rise and Fall of Urban Economies,” a comparative study of the Bay Area and Los Angeles economies published by Stanford University Press. He also publishes scholarly work in the areas of economic development, regional economics and land use planning.

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