

# OFFICE CONTRACTION MAY EXCEED MY ESTIMATION



## DOWNTOWN MARKETING & DEVELOPMENT

By Barry Cassidy

As I toured America the last month or so, I saw that many cities were ghost towns. If there was a large office concentration, those buildings stood vacant. Corresponding retail was either completely closed and all of the inventory pulled off the shelves or closed without notice of closure with inventory and fixtures remaining inside. It was hard to tell if the stores with inventory remaining would ever open.

Recently it was announced that some of the businesses were contracting a little more than I thought. Radian, a mortgage insurance company, was contracting from 150,000 square feet to 55,000. They found that the work would be completed through remote locations and people working at their dining room table were appropriately effective at their jobs. Children's Hospital of Philadelphia terminated 300,000 square feet leased at the Wanamaker Building, which housed the back-office operations.

The consequence on retail may be more than I had originally envisioned. I thought that the contraction in retail due to the virus would be more than enough to buffer any loss of office space. I thought if there was a 25 percent contraction in office space, retail could expand based on what had been wiped out during the pandemic. I now realize that I may have misjudged what is about to happen to the center city office market.

There has also been a contraction in the Suburban Mall market; Exton Square Mall "doesn't want to be a mall." If the Exton Square Mall were a human it would be missing appendages like arms, legs, and fingers because all the vacancies make the shopping experience difficult at best.

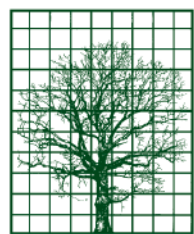
I like to gauge customer strolling interest at about 100 feet. After 100 feet, they are

going to a destination because there is nothing to hold their interest. I use that as a guide on the street, but in the Exton Mall, there are massive groupings of 100 feet piled upon one another.

In many cities, I saw massive holes in continuous retail that even make the Exton Square Mall look good. If the trend is to eliminate 300,000-400,000 square feet a month of office space, the remaining retail will take a similar corresponding hit. The complementary retail that services the needs of the lunch crowd will be affected, perhaps the convenience stores, while maybe higher-end shopping could remain if properly clustered. High-end retail cannot be an island in a city but part of a retail package of goods and services.

I was on a conference call with my former college instructor Philip Rode, LSE Cities Executive Director, who brought up "community space" in offices that will take up some of the slack in the contraction of space. I thought that it was a little Pollyannaish to think that way, but low and behold, my Cushman and Wakefield e-newsletter arrived. They talked about ways to measure the employee experience and identify all the ways the office will make your employees happier, healthier, and more engaged.

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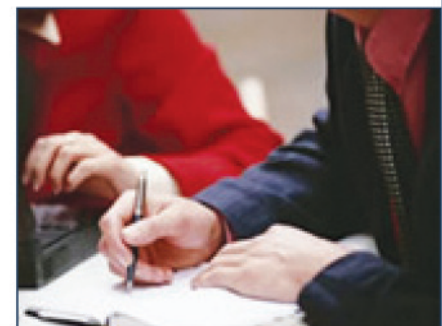
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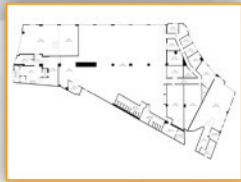
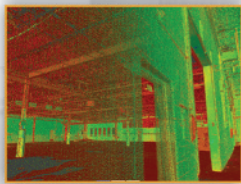
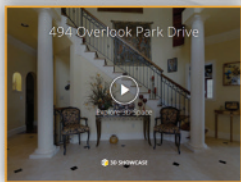
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In addition, they are working to “design a workplace strategy and policy program that generates excitement and brings people to the office as their preferred work destination.”

I am not sure that a redesign will make a significant difference, and as the newsletter went on to say, the remote worker is not as effective as an in-office worker. Companies will have to create some attribute study that reflects the reduction in the operating cost for the rental of space versus the lack of productivity.

There are still aid packages available to businesses even though the Paycheck Protection Program and the Restaurant Revitalization fund have expired. Businesses could get an Economic Injury Disaster Loan (EIDL) for up to \$500,000. Some SBA grants for \$15,000 work in tandem with the EDIL and are also a stand-alone program. The grant program is restricted to Low to Moderate Income areas and is geared toward smaller businesses that had an economic impact during the virus.

There is also some help with the three-month forgiveness of SBA 504 and 7a loans. The shuttered venue grant is still active with a maximum of ten million dollars, and that is more for theaters and museums.

Tax credits are still available through the Employee Retention Tax Credit, which could be worked up to \$10,000 per employee for time missed because of the virus. In addition, there is a Families First Tax Credit to cover up to approximately 500 dollars a day for people who missed work because of Covid. Finally, a Tax Loss Carryback allows you to write off past tax liability when filing taxes.

A lot of it is kind of mumbo jumbo when you read it, and it is not for the light of heart to attempt to get through the paperwork. You will need a skilled professional dealing with tax issues for the credits and a knowledgeable banker to get through the SBA stuff.

All that being said ... We are looking at a serious adjustment in office space and corresponding retail. Lack of jobs could bring some cities to their knees as violence rages on the streets. Many of the service establishments that catered to the unskilled worker will vanish. This action could signal a city's flight for what was once a mainstay of low-paying jobs.

Barry Cassidy is a freelance grant and economic development consultant. He can be reached at [barrycassidy@comcast.net](mailto:barrycassidy@comcast.net).

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