



CBD VS. SUBURBS?
THE MILLENNIAL EFFECT



Talent attraction and retention remains paramount in corporate location decisions.

Human capital has remained at the top of the annual list of global CEOs' greatest concerns¹ as companies' insatiable need for the best and brightest talent has determined the course for corporate location decisions. In the past decade, some companies have attempted to increase their attractiveness to talent by relocating to central business districts (CBDs) explicitly to be near a younger labor pool. What started with a few downtown satellite offices has since cascaded into complete relocation of some of the country's largest corporations. Is this the right approach to talent attraction and are these companies achieving their objectives? Does this also mean that suburban offices will no longer be in demand? We explore myths and realities of this trend to help companies navigate challenges and potential pitfalls in location strategy.

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In the midst of one of the country's longest economic expansions on record, scrutiny of key strategic office location factors has intensified among corporate decisionmakers. While some cite a change in corporate strategy, companies have been following the labor pool since the inception of the modern office. Now however, the drive for attraction and retention of labor has taken on greater importance. Low unemployment rates are

coupled with the growing need for employees who bring a tech-savvy capability and forward-thinking perspective to old products and services. New ideas are the precious raw materials of sectors responsible for the nation's economic growth. The perspectives and ideas in highest demand are from the sought-after youngest generations who have become the bellwether of the tech-oriented consumer market.

The technology sector now makes up 9.2% of the U.S. economy and accounts for 11.5 million jobs², up by 1.5 million workers since 2010. In addition, computer and information technology occupations are projected to grow 13% by 2026³, surpassed only by healthcare-related occupations.

The intense focus on labor attraction efforts has been accompanied by a greater presence of technology in the economy, both as a collection of relevant industry sectors and a growing portion of the most traditional companies. The technology sector now makes up 9.2% of the U.S. economy and accounts for 11.5 million jobs², up by 1.5 million workers since 2010. In addition, computer and information technology occupations are projected to grow 13% by 2026³, surpassed only by healthcare-related occupations. Even conventional sectors like banking and insurance are being transformed by technology for customer-facing initiatives and internal productivity-enhancing systems. Companies have responded by thinking differently about their talent strategy, making efforts to re-evaluate their location decisions and workplace experience.

¹ The Conference Board - CEO Challenge

² CompTIA, Cyberstates 2018

³ Bureau of Labor Statistics <https://www.bls.gov/ooh/computer-and-information-technology/home.htm>

Over the past decade, a particularly visible response to shifting labor pools has been the well-documented relocation of corporate offices from suburbs to urban cores or other semi-urban pockets of talent. The marquee headquarters relocations of GE and McDonald's, along with hundreds of moves in almost every major market, have made headlines and appeared to signal the end of the suburban office market. In addition, tech-oriented business unit relocation to downtown areas has only added fuel to the argument, with headline projects such as Ford's planned Mobility Lab in Detroit's famously abandoned Michigan Central Station and Coca Cola's Information Technology Center of Excellence in Atlanta. The raw numbers back up the headlines. Since 2014, headquarters operations moved from suburban markets to a CBD three times more often than downtown headquarters relocating to the suburbs⁴. The clear majority (80%) of tracked moves were done so intra-market, meaning companies can retain a portion of the existing labor pool in similar operating conditions, but presumably with improved access to the talent they need. In Chicago alone, 5.7 million square feet in the city's downtown office space have been absorbed by former suburban-based companies completely relocating or opening satellite offices to be closer to the talent.

What makes this trend so interesting to many is that it runs counter to what most had come to expect based on decades of unabated outward corporate migration. Reaction has varied from elated city politicians and urban planners on one side of the spectrum to scrambling suburban office landlords adding food trucks to high-vacancy office complexes. Regardless of the perspective, the raw numbers at the national level support this trend. Vacancy rates for both direct and overall space are 1% lower in the CBD markets compared to suburban markets when looking at the nation's 85 largest office markets. This superior performance comes despite a higher real estate cost per square foot in downtown markets, meaning companies are ranking labor proximity higher than real

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estate cost when evaluating locations. The gap widens when only considering Class-A space, where CBD space has 3% lower overall vacancy than suburban counterparts. If suburban vacancy would improve to the same level demonstrated by CBDs, these markets would see millions of additional square feet absorbed. Instead, this lagging performance has left hundreds of thousands additional jobs on the table which has added fuel to the argument that cities are better positioned to attract and retain talent in the long term.



The center of talent in a region isn't always the city's historic core, as talent may gravitate to other areas of a metropolitan region for access to amenities, employment or housing affordability. Good examples of this are in the St. Louis area with the highly desirable Clayton submarket and the Phoenix region with its young talent center of gravity in the Tempe area.

⁴ Cushman & Wakefield Research



Is the trend of companies moving to urban cores over?



Just as the trend of companies moving downtown enters maturity, some are looking for cracks in the narrative with expectations that the country will soon be back to business as usual. The skeptics point to the behavior of the often-cited driver of corporate relocations from the suburbs to urban cores—the Millennial generation. In 2018, Millennials are between the ages of 22 and 37, the youngest just entering the workforce and the oldest raising families. Conventional wisdom states that Millennials are following the trend of earlier generations by having children and relocating to the suburbs for better school options, more open space and affordability. While the same motivations hold true from generation to generation, these life-altering decisions have moved to later in life compared to previous generations. The average age of marriage has increased more than five years since the late 1970s, with most now approaching 30 before getting married⁵. Women are also having their first child later in life, exemplified by the higher birth rate for women in their 30s compared to women in their 20s⁶. The rationale is that Millennials will inevitably settle down and a key talent pool will migrate out of the city to the suburbs. Companies, laser-focused on talent attraction and retention, must soon follow suit resulting in a slowdown or even reverse of the downtown relocation trend.

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Building upon the perspectives and decisions of past clients, we evaluate the validity of this argument and identify other drivers of corporate location decision to assess the longevity of the downtown relocation trend.

⁵ US Census Bureau

⁶ AP https://www.apnews.com/cfed1e4019b545c19589c5a372257735?utm_campaign=SocialFlow&utm_source=Twitter&utm_medium=AP



It's not over. Cities will continue to attract large numbers of corporate offices.

One point of view is that the lure of CBDs for corporate offices will continue unabated in the near-term. This would undoubtedly disappoint suburban office landlords and brokers who have been biding their time waiting for the return to what was considered traditional corporate location behavior. The most common argument heard for the back-to-the-suburbs optimism is the inevitable conformity of the Millennial generation and the lure of a suburban residence, just like generations before them. It's true that the Millennial generation behavior is turning out to be much more consistent with previous generations as home location preferences are beginning to play out in similar patterns, although at a delayed pace, as the last of the recession effects wear off. However, it is a bit too simple to think that the economic health of central cities hinges on the housing preferences of this one generation.

The question isn't where Millennials are moving, it's where the highly educated Millennials are moving.

The talent focus by corporations is not really about access to Millennials as widely believed. Some generalize the entire 56 million⁷ Millennials in the U.S. workforce as being the stereotypical tech worker when in reality it also includes those that work as convenience store clerks and bartenders. These lower-skilled segments are required for certain projects, but aren't driving the office relocations of the downtown boom. Cushman & Wakefield has found that most companies truly covet the best and brightest segment of this generation to breathe new life into tired brands and move companies in new directions. Accordingly, most corporate location decisions specifically target the highly educated (bachelor's degree or greater) portion of the population and make decisions based

on access to this group. The question isn't where Millennials are moving, it's where the highly educated Millennials are moving.

The concentration of highly educated Millennials living near city centers is more than double the national average.

Looking at the density of the highly educated Millennial cohort, we find that the group resides in higher concentrations within centrally located urban areas. Across the nation's top 10 metro areas, the concentration of this group is 27% greater than the U.S. as a whole, reinforcing the perception that top talent flocks to large cities. Further, focusing on central urban areas within these metro areas using a 30-minute drive time analysis, we find that the concentration of educated Millennials is more than double the U.S. average⁸. This considerable variance in residential location preference is even more pronounced in older cities with vibrant central areas such as Boston, New York, San Francisco and Chicago. Setting aside the question of where this group will eventually locate, today the best and brightest unequivocally cluster close to urban cores.

Acknowledging that the urban concentration advantage may diminish if Millennials continue to seek affordable, family-friendly housing, it's worth noting that long-term city living isn't as crazy as some make it out to be. The original lure of suburban areas since the late 19th century was based on access to larger, affordable homes and the perception of better schools and lower crime. It was also a response to conditions in cities at the time which were vastly more crowded and polluted than they are now. Generation X began a process that fundamentally changed cities

⁷ Pew Research Center <http://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force>

⁸ Cushman & WakefieldResearch-Emsi

before Millennials entered the conversation. Starting in the 1980s, this generation carved out derelict neighborhoods around the downtown core for affordable housing and transformed them to desirable neighborhoods in the process. Millennials have been able to enjoy the fruits of amenity-rich urban neighborhoods as opposed to earlier “pioneering” generations. Young talent seeking greater levels of diversity, walkability, density, and economic vitality have an already vast and still-growing number of urban neighborhood choices, at least for a portion of their lives. The net effect is that cities have been forever altered for the better. The variety and overall number of housing units, neighborhood amenities, and access to public transportation now offer an appealing alternative to suburban living for an even greater segment of the population.

Many of those who can afford to remain in these urban neighborhoods of choice make a concerted effort to do so. Cities now offer many single-family districts with high-performing schools which have attracted a high-income and highly skilled demographic. This demand has begun to play out in the real estate market, with city neighborhoods now commanding some of the highest single-family home values as equity erodes in established suburban enclaves. Urban homes nationwide are now valued roughly 25% more than suburban homes on a square foot basis⁹, compared to pricing parity only 20 years ago. The result has been a

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counterweight against the concept that corporate leadership resides primarily in the suburbs and corporate offices will remain nearby to minimize commute time. It’s now common to see the C-Suite taking the bike or the train into work alongside the new Millennial hire.

Perhaps the most obvious flaw in the argument for a suburban office resurgence is not considering the generation right behind the Millennials. The oldest of this group, often called Generation Z, are now entering the workforce and displaying many of the same traits as Millennials. It’s expected that this diverse group will also gravitate to cities in the critical post-college years for the same reasons their predecessors did, which will extend the run of urban neighborhoods as the hotbed of young talent. The next generation will continue to be alluring to corporations, as they are expected to possess required technical skills and best represent fast-changing consumer tastes. Successful attraction of smart young talent will be the advantage companies need to generate the next big idea.

Distinct from generational trends, downtowns will continue to be the center of business activity which creates a self-sustaining dynamic of its own.

Generation X began a process that fundamentally changed cities before Millennials entered the conversation. Starting in the 1980s, they carved out derelict neighborhoods around the downtown core. Young talent seeking greater levels of diversity, walkability, density, and economic vitality have an already vast and still-growing number of urban neighborhood choices, at least for a portion of their lives. The net effect is that cities have been forever altered for the better. The variety and overall number of housing units, neighborhood amenities, and access to public transportation now offer an appealing alternative to suburban living for an even greater segment of the population.

⁹ City Lab - <https://www.citylab.com/equity/2016/02/rise-of-urban-real-estate/470748/>



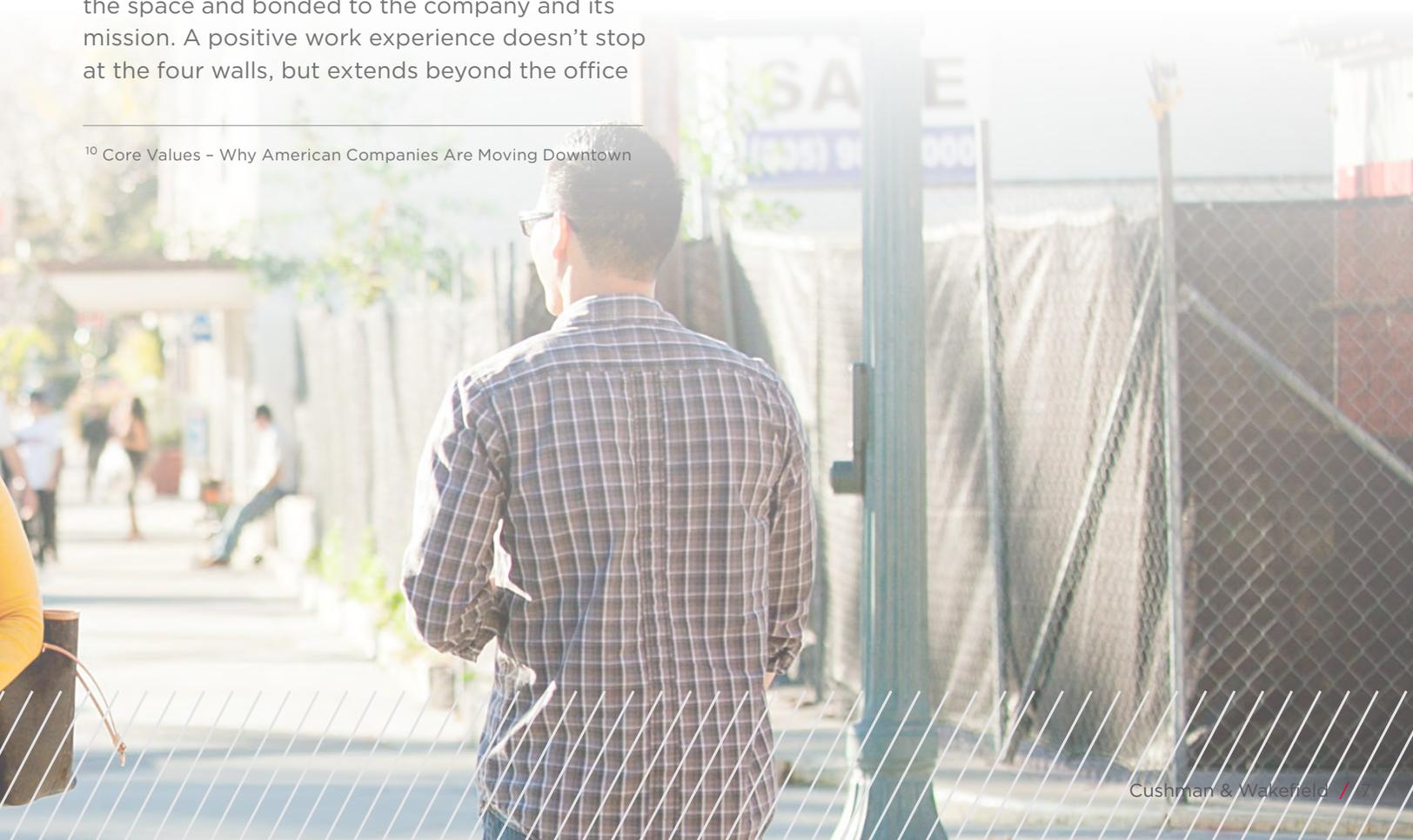
Agglomeration of related companies and service providers supports talent attraction due to the clustering of both entry-level and advanced jobs in a wide array of sectors. It's natural behavior for talent to choose a neighborhood to live based on easy access to multiple job opportunities fitting with the skills they possess. The clustering of companies also helps to create a business community where it's easy to meet with people from other departments, other companies or other industries in an effort to be innovative¹⁰. The benefits of agglomeration have increased with the explosive growth in business incubators and coworking spaces designed to be a catalyst for product and service innovation. The central cities' critical mass of business, people and creative collaboration venues continue to exert a strong pull on businesses intent on staying relevant in the new economy.

Finally, CBDs offer a distinct working experience which can be used as a valuable recruiting tool. The drive for talent has resulted in intense interest in the overall workplace experience, not just the ability to meet with colleagues and get work done, but also the ability to feel refreshed within the space and bonded to the company and its mission. A positive work experience doesn't stop at the four walls, but extends beyond the office

into the surrounding neighborhood. Walkable neighborhoods, ease of commuting, presence of entertainment and amenities and the overall safety of the area is an extension of what companies view as key differentiators in workplace strategy. This consideration is a central component of the holistic value proposition companies must offer to attract and keep top talent. One of the most common complaints about suburban offices is the lack of comparable features as many properties were designed to be inward-facing and built in remote locations. Conversely, cities are by nature endowed with excellent infrastructure and a vibrant mix of business activities that support a positive working experience, enhances a company's innovative brand and perhaps acts as the deciding factor in where top talent chooses to work.

Downtowns across the nation should continue to enjoy their status as a business location of choice due to the fit with ongoing demographic shifts and the need for companies to offer exciting, collaborative work environments.

¹⁰ Core Values - Why American Companies Are Moving Downtown





Cushman & Wakefield partnered with a Fortune 500 food services firm to create a global headquarters strategy to optimize the company's financial performance and advance its objective to be an employer of choice where individuals are highly engaged and productive. Talent objectives were integrated as guiding principles for the project including improved employee experience, attraction, retention, and engagement. Cushman & Wakefield assessed the impacts of a downtown versus suburban location on employees commutes, access to public transportation, amenities, and talent growth.

After considering different location options, including moving from downtown to a suburban location, the company leased 300,000 square feet in a center city setting to house its 1,200 global headquarters employees. The vibrant, downtown location was selected as the best option to attract and retain critical talent.



The suburbs can rise again, but there's a catch.

Contrary to the belief that urban markets will continue to see an influx of corporate offices, there are several indicators pointing to a revival of the suburbs as an attractive destination. As cited earlier, older Millennials are starting families and their location preferences may align more with qualities abundant in the suburbs. If companies perceive that their targeted workforce is relocating, they may no longer feel the need to relocate to more expensive and congested urban cores to attract and retain key talent.

Since the recession, there have been many headlines on organizations migrating downtown from the suburbs and the impact this migration has had on CBD real estate markets. The lesser-known story is how the suburban office market has experienced a renaissance of its own. Since 2009, the overall non-CBD office vacancy rate has improved by 4.4% in the suburbs across the top 85 U.S. office markets compared to a 2.6% vacancy rate improvement across the same CBDs. The suburban office market has seen strong improvement during the current economic expansion and could be poised for an even bigger comeback over the next few years.

Amongst all Fortune 500 corporate HQ relocations since 2014, over 40% have been suburban to suburban location moves¹¹. These inter-suburban relocations represent a greater percentage of headquarters moves than relocations from the suburbs to CBDs. Many of the 49 Fortune 500 organizations that have relocated their headquarters within the suburbs over the past five years have undergone extensive location strategies to evaluate strengths and weaknesses of potential locations. These companies analyzed the impact of their suburban locations on recruiting, retention, operating costs and other strategic objectives and have consciously decided to stay put. These companies, and many others with upcoming

lease expirations or opportunities to relocate, are satisfied with the amenities and attributes provided by a suburban location. They have continued to attract and retain the right workforce despite the perception that highly skilled young talent prefers an urban environment. As members of the Millennial generation begin to migrate to the suburbs like generations before them, these suburban headquartered companies will be there to offer employment opportunities without a hefty commute downtown.

Though urban environments offer the most significant clustering of business and related activities, agglomeration of industry groupings can happen anywhere with many relevant examples of such activity in suburban markets as well. For example, Lake County, IL has become a hot spot for the biotechnology and pharmaceutical industries. Baxter International, Abbott and Fresenius have all established their U.S. or global headquarters in this area 40 miles north of downtown Chicago. As recently as 2014 during the peak of corporate relocations from the suburbs to the city, a leading pharmaceutical company selected Lake County as the location for its global headquarters due to the access to targeted pharma talent and peer organizations. The organization had the opportunity to create a new identity in a downtown headquarters, but chose a suburban location to better support its culture and growth objectives. Industry clusters like the notable pharma concentration in the Chicago suburbs have and will continue to keep the suburbs a relevant location choice for many businesses across the country.

Although there is a common perception that tech talent prefers to live in urban environments, data on this topic tells a different story. Across the nation's ten largest markets, on average 50% of

¹¹ Cushman & Wakefield Research

the population employed in technology roles live outside of the core business district. In Chicago and Philadelphia, this percentage exceeds 55%. Despite the heavy concentrations of highly educated Millennials in downtown areas, a large portion of the tech talent, which will continue to be increasingly critical to companies across a range of industries, already resides in the suburbs across the nation's largest metro areas.

Despite the concentration of highly educated Millennials downtown, large portions of tech talent already reside in the suburbs across the nation's largest metro areas.

“Live, work, play” has become a buzz phrase in real estate encompassing the attributes preferred by Millennials, and even Baby Boomers, in a neighborhood environment. A part of what has driven Millennials to urban cores is their desire for a walkable, mixed-use setting and the ability to enjoy a range of amenities right outside their front door. While we often correlate these characteristics with an urban setting, some suburban office developers are working to create elements of an urban, walkable environment of their own through rethinking the formula for suburban office parks. As many large organizations have migrated downtown and downsized their footprints, they have often left behemoth vacant corporate campuses without a backfill of corporate users to fill the empty space. In an attempt to reinvent these facilities into more attractive and useable assets, developers have revamped these campuses into mixed-use neighborhoods with many of the walkable elements found in a downtown setting. Vacated and underutilized suburban office parks across the country including Sanofi's campus in Bridgewater, NJ and Generation Park in Houston, TX are being revitalized to create an urban setting in a suburban location. These new and improved suburban office parks now include office space, residential, retail and other amenity-rich elements to attract corporate

users and their targeted workforce. The suburban office campus today looks quite different than that of the 1990s with a dense, walkable urban environment replacing the sprawling, cubicle-filled office parks.

It is important to note that not all suburban locations are created equal. Those locations with the most success attracting large corporate users are still easily accessible via public transit, creating an easier commute for those employees who still choose to reside downtown or who covet a carless lifestyle. Chicago's O'Hare submarket along the CTA's Blue Line boasts one of the lowest metro vacancy rates along with a large corporate tenant list including U.S. Foods, True Value and U.S. Cellular. The recent Dulles Corridor Metrorail project in Northern Virginia represents a 23-mile addition to the Metro system and has attracted several corporate openings to the Tysons Corner submarket including Amazon Web Services and Fannie Mae.

In addition to robust public transportation infrastructure, suburban markets with traditionally designed centers supporting walkability, multiple uses and amenities have an advantage in attracting new corporations. In 2017, Marriott announced the relocation of its global headquarters within Bethesda, MD, a Washington, DC suburb, from a traditional office park to the revitalized town center nearby. The move represents the organization's desire to maintain its Bethesda roots in a walkable, transit-served and amenity-rich environment. The new headquarters will offer onsite amenities including a fitness center and day care, and will be set among walkable retail, restaurants and bars. The relocation illustrates the ability for the organization to relocate to a setting that will appeal to both younger, urban-craving, and older, suburban-dwelling generations by providing a suburban address with a city feel.



BETHESDA, MD



Sound location decisions require a real estate strategy.

For companies considering a relocation, the most important detail to recognize about company location trends is that ultimately they are just trends. Every company's labor needs and operational requirements are unique to their specific industry, competition and leadership vision. The first step in evaluating location suitability is to develop a strategy that aligns operational needs from all company departments to the real estate footprint. A strategy demands agreement on key operational factors and the relative importance of each. Once this framework is in place, an unbiased evaluation of current state strengths and deficiencies will be possible.

Finally, it is important for companies to recognize that the "current state" is ever-changing, so what's seen as ironclad truth today may be antiquated thinking tomorrow. The speed of disruption in the market continues to increase, particularly in workplace technology and transportation which will have the

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greatest influence on office location decision. The ability to be productive and collaborative outside the office using widely available technology has become a reality for a growing number of employees. Meanwhile, the world's largest technology companies promise a transformation of the commute experience with autonomous vehicles. A location strategy that stays true to organization goals while supporting flexibility in how people work, develop new ideas and share content regardless of location is a best practice approach that all companies should emulate.

About Cushman & Wakefield

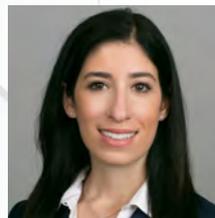
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