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Cities betting on incentives to fuel downtown comeback

Experts are divided on what kind of incentives cities should be offering to lure businesses and consumers back to commercial properties, especially in downtown districts.

City leaders in Durango, Colorado, recently unveiled an initiative aimed at keeping businesses in town.

Introduced last month, the Economic Development Incentive program will be tailored to individual companies, but its focus overall is on creating jobs, bridging market gaps and retaining growing businesses in Durango.

“This program ensures Durango has pathways to provide essential services for residents to thrive and helps local businesses grow and retain well-paying jobs, preventing the need for relocation,” said Tommy Crosby, the city's economic opportunity manager, in the announcement of the program. “We believe this program will play a crucial role in maintaining Durango’s unique, resilient, and dynamic community.”

They're not alone with that thought. This spring, the Miami Downtown Development Authority expanded an incentive program to include small retail businesses and tech startups, pumping up a $500 per-job grant for businesses moving downtown to $2,000 per employee, along with providing $500 per 500 square feet of leased space.

“We have seen massive growth since the pandemic, and the Miami DDA is looking to the future to focus on the city’s trajectory as a global business epicenter,” said Christina Crespi, the authority's CEO and executive director, in a statement. “We are seeing occupancy rates for downtown office space increasing even as developers continue to add new supply. These incentives will build on that success.”

Across the country, cities large and small are launching or expanding incentive programs as part of a broader bid to save downtown communities after the one-two punches of the Covid-19 pandemic and the onset of remote work. Even as some workers return to the office, hybrid work means many workers are no longer filling office spaces five days a week.

According to data from tracking firm Placer.ai, while nationwide office visits reached a post-pandemic high in June, that number remained more than 29% below what it was in June 2019. Office visits in Miami lagged pre-pandemic numbers by 9.8%, the smallest margin among markets tracked. San Francisco had the largest gap, at 49%.

That decline in activity, combined with rising interest rates, has led to to huge losses in value for office buildings — declines that in turn lead to less tax revenue, creating the potential for what could be a vicious cycle.

Experts are divided, however, on how much incentives can do to turn the tide, and what incentives in particular cities should be offering to help bring people back to office properties, especially in downtown districts.

“Communities have been competing for business enterprises seeking a lower operating cost for decades, and there is some question as to how you measure success, and if they are needed at all,” said Glenn Brill, a managing director in FTI Consulting’s Real Estate Solutions practice.

Brill said the era when large companies moved out of high-cost markets such as New York and attracted incentives to relocate back-office operations to smaller cities is over. Relocation programs in New Jersey, for example, used to draw in businesses from New York, but that type of success has slowed.

Many of today's efforts are more about keeping a company within its existing community. Those initiatives must account for new challenges facing business owners, though.

“Targeting local businesses with incentives to grow employment and occupancy is a relatively new tactic as cities seek to retain employers and bring back employees to [central business districts],” Brill said. “However, employers are somewhat beholden to their employees, a hybrid workforce is largely here to stay, and the risk of disruption to the workforce in exchange for money is likely not worth it if their employees prefer to work elsewhere.”

Ultimately, economic development is the product of community development and making an area attractive based on factors like good public safety, education, transportation and housing, Brill said. Essentially, municipal leaders need to make their downtowns a place people want to be — not have to be.

“You need a place where qualified labor wants to visit, live, work [and] play," he said. "Improve the commute and the perception of public safety, and downtowns will improve as people choose to seek them out."

How to draw people downtown

The sentiments expressed by Brill are backed up by the latest research from the University of Toronto’s School of Cities, which tracks cell-phone activity across 62 downtown metropolitan areas in the United States and Canada as a means of assessing activity in communities since the onset of the pandemic. The data found economic diversity — including entertainment, restaurants, retail and tourism — is playing a huge role in the post-pandemic urban recovery.

Led by Professor Karen Chapple, School of Cities researchers found most metros are on an upward trajectory, albeit at a slower rate than they've been on previously. That's happening even though office vacancy rates are ticking up, Chapple said.

“We’re seeing more shopper and visitor activity that’s compensating for the loss of worker activity that we know is happening from increased office vacancy rates,” Chapple said in an earlier interview.

Some of the incentive programs being developed in cities across the country have retail efforts in mind:

Anirban Basu, chief economist for the Associated Builders and Contractors, said older central business districts require catalysts to help revitalize them — so it makes sense for cities to provide incentives.

"Absent aggressive municipal effort, these areas are poised for relentless decline. That not only leads to diminished real property tax collections over time, but produces a host of issues that increase costs for government," Basu said. "Rather than sustain those losses, it makes sense to invest upfront."

Steven Strauss, a visiting professor at Princeton University’s School of Public and International Affairs, said well-crafted incentive programs can work — and while he would not comment on specific incentive plans, he laid out how cities might go about the process.

“I think wfh (particularly hybrid) is here to stay," Strauss said in an email. "Any revitalization plan that does not engage with that reality is likely to be problematic.”

He also said he was dubious when it comes to one-size-fits-all solutions, as incentives should be tailored to a city’s specific challenges. In some cities, people still want to live downtown, such as New York, so the bigger challenge becomes the addition of housing — and office conversions can be difficult.

Ultimately, spending money to improve long-term infrastructure for downtowns is a good idea, Strauss said.

“Cities should be open to innovating, aside from converting office properties to housing," he said. "Can they be converted to museum space, parks and common areas in the sky, restaurants, gallery space, etc."

How incentives factor into company relocation decisions

When discussing incentives, economists often point to the research of Timothy Bartik, senior economist at the W.E. Upjohn Institute for Employment Research, who in a 2019 book wrote that for new facility locations or expansion decisions, companies often prioritize factors other than incentives. Only 25% of the time do incentives alter the outcome of a relocation or expansion decision, Bartik found.

It can be hard to tell in a specific deal whether incentives played a dominant role in any decisions made. In many cases, companies also are choosing from a range of offerings from various states that are presenting a host of incentives packages.

A Kauffman Foundation study from 2014 found companies that received incentives were no more likely to generate new jobs than similar companies that did not receive incentives.

One relatively new area of economic-development incentive programs, however, focuses not on companies but on workers.

City leaders in Tulsa, Oklahoma, in 2018 instituted the Tulsa Remote program to lure in remote workers, offering incentives of $10,000 for workers to relocate. By June 2021, Tulsa Remote had received 20,000 applications and invited about 2,700 workers to the city, with 763 ultimately moving there.

A study in April 2022 by the Center for Regional Economic Competitiveness and Smart Incentives found that the remote-worker incentive program in Tulsa — along with a similar program in Vermont — have been effective at generating net economic gains at relatively low costs.

Such initiatives gained momentum in the wake of the pandemic, when many workers learned their job responsibilities were not tied to a particular office location, or even to a particular city. That led to dozens of cities across the country implementing their own remote-work incentive relocation programs, fueling what's become a new wave of economic-development efforts for communities nationwide.