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PANEL: WHAT ARE THE LONG-LASTING EFFECTS OF COVID ON DOWNTOWNS AND MUNICIPAL FINANCE?

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WESSEL: If I can get everybody to sit down. Okay. We're going to get started again. If I can get people in the back to take your conversations to the hallway or sit down, please. That's all right. I'm going to start without her. So, Natalie, our fourth panelist will be right up here in a minute. I'm really pleased to end the, what's been a terrific day and a half conference with a discussion of something that's been on all our minds for some time. What is the long lasting effects of COVID on downtowns and municipal finance? I think it's an issue in almost every workplace. How much should we expect people to come to work? How much will they actually come despite what we expect? And what are the implications for downtowns across the country of this? What could be a persistent change in in our in the way we we work and commuting patterns and so forth. My colleague, Bill Frye, a demographer in our metro program, has recently passed some data and from the census. And the good news is that big cities are losing only a little bit of population, but they haven't recovered from the losses they had in 2021. And he's kind of optimistic because the pace of big cities shrinking at a small to basically very small rate in 2022. But I don't see any prospect for this increasing. McKinsey Global Institute did a report in which it said hybrid work is here to say office attendance has stabilized at 30% below pre-pandemic norms. And that has been a big problem for urban cores. Places like New York City, Chicago, San Francisco, and, of course, Washington, D.C.. So what we decided to do was invite three people with very different perspectives to talk about this today. And because we only have four chairs up there, I'm going to moderate from here. That was planned. Natalie Cohen started her career at the New York City's budget office, worked on a number of different capacities, most recently eight years at Wells Fargo, and she now has her own firm. James Duguid is the research lead for local economic development work at the JPMorgan Chase Institute, where they've recently done some work on this, which is why we invited him. Jessie Handbury is an associate professor of real estate at Wharton and she has recently coauthored a paper on residential property values here. And then to keep us all grounded, we invited Glen Lee, who's the chief financial officer for the District of Columbia. He's been here since August of 2022. Before that, he spent 28 years on the payroll of the city of Seattle, the last dozen as its finance director. So I'm going to start by just asking each of the panelists a leading question and then we can have a hope, a conversation, and involve as many people in the audience as we can before we run out of time. And Jessie, maybe I can start with you in the work you did. You found that first two years of the pandemic led to an initial plunge in downtown residential property prices, which was followed by a rebound. But suburban residential prices kept increasing. And I wonder, could you talk a little about that work? And more importantly, do you think that's going to continue and what are the implications for city revenues if it does?

HANDBURY: Well, thanks so much for having me. I'm looking forward to learning a lot.

WESSEL: So you got to pull the microphone a little closer.

HANDBURY: Closer? Oh, there we go. Great. So the work that I did with [inaudible] in my department at Wharton was basically trying to think about what the impact of COVID was going to be long term on cities. And we started by pulling the data or results from other papers. And the work that David's referring to is pulled from a paper by Ramani and Blum that was looking at how prices change differentially downtown versus in the suburbs, in cities and then across different cities in the U.S.. And what's interesting there is the trend that you're referring to this, you know, a collapse in prices and then subsequent rebound was in rental prices. And there's a distinction between what we saw in rental prices and actually house prices. So think about it as the price of space for a year, for example, versus the price of the asset where you're sort of buying that asset and the opportunity to earn rents over the long run or the opportunity to to live there over the long run. And so when we were looking at rents, we did see this collapse. Some subsequent rebound, which had a lot to do with sort of people leaving cities and then and then coming back sort of in the immediate aftermath of COVID. And we saw that rebound by the end of around 2020 when rental prices converged a little bit with suburban prices. And then since then, at least through to the end of 2022, have followed a pretty parallel trend. So think of it as like a level shift in the demand for space downtown. On the asset price side, however, if you look at house prices, hard to tell what happened up from because there just wasn't a lot of liquidity in that market. But what we've seen over the past few years is a continuing divergence of the trends. So we've seen suburban prices price growth outpace urban or downtown price growth, which is pretty worrying if you are thinking about that, those asset prices, what differentiates them is the expectations for future rental growth. And so those expectations are weaker for downtowns than the suburbs. And in our papers, Jill and I basically attribute this to work from home as being the lasting, the lasting impact of COVID in terms of its impact on cities and real estate. And it's increasingly becoming clear that work from home and remote work is going to persist. And this sort of shifts what had been sort of the balance of power that had been really shifting towards downtowns back towards the suburbs in terms of where demand growth is going to be in asset price growth is going to be. So James is going to talk a bit about sort of what all of this means and work from home means for businesses, but which is perhaps less clear. They have sort of this really novel nice data on not that residential patterns and prices, property prices. There is this sort of growing divergence that is going to have immediate impacts over the coming years in terms of property taxes. Those are slow to adjust. I'm I'm expecting that the impacts on municipal financing and revenues have really come elsewhere and wage taxes and business taxes, transaction taxes. But I'm looking forward to hearing.

WESSEL: And is there a lot of heterogeneity across cities or is it a general pattern?

HANDBURY: Yeah, this is think of this as being a lot of the patterns I'm talking about as being a top ten big city phenomenon because, you know, what we're thinking about is driving this is the fact that, you know, individuals, when they have the opportunity to work from home, want more space in their home so they're less they're more sensitive to house prices. And so this is more of a factor where you can't afford to, you know, upsize, add another room in a smaller metro versus a big metro. So it's your San Francisco as in New York, that, you know, are really suffering from this.

WESSEL: James, I wonder if you could first give the short, very short explanation of what JPMorgan Chase Institute does, what data you work for.

DUGUID: Of course.

WESSEL: And then we'll charge you for the commercial later. And but you did this interesting work about retail establishments and how they have paralleled the movement of residents from large, expensive cities into smaller Sunbelt cities and from city centers to suburbs or with neighborhoods within that thing. And the city, because of the exposure of because of the adoption of work from home. So tell us a little bit about that. First, tell us what that is, the JPMorgan Chase Institute.

DUGUID: Yeah, a relatively new organization within JPMorgan Chase, and we use the bank's transaction level data on consumer consumers, businesses, investors to do public policy research. So, you know, I would invite you all to check out the various research streams we have. Right. I'm I work on just one our local economic development stream. But, you know, there are many other teams doing really great work or please come talk to me afterwards if you'd like to know more. Our comms team has printed out some nice, like, handouts for me to give for anything I'd give afterwards. But yeah. So one of the things that we did with with this pretty novel data was to look at storefront openings and closings in 16 major metro areas across the U.S. and at the city level. And of what we found and I say we here because my coauthor, Lindsay Lohan, who isn't here today but is like, you know, really fundamental to this to this work. She's currently at Purdue. We found that places. Like San Francisco, L.A., New York. Right where the at the city level, where the big losers in terms of establishment losses. Right. While cities like Houston, Dallas and Phenix had the highest growth rate, what was also, you know, very obvious to us after we looked at population change in these places, was that these you know, there were there was a pretty tight correlation that, by the way, didn't really exist pre-COVID. Right. And that was something that that struck us as we were looking at these relationships before and after the pandemic. Right. You know, I know you had asked, you know, what might explain to me that cross city differences that I think we're less we're less sure about. And we did focus more on like the within on within city patterns. Right. I think a lot of the literature that we relied on. Right. Again, which you will find in Jessie and Jill's paper, pointed to the relative importance of within city moves. But, you know, looking at kind of a very high level at Cross City differences, one of the things that, you know, we did see is that these cities, San Francisco, L.A., New York, were really exposed to work like high levels of of work of residents who work from home. Right. As opposed to, like, jobs that could be in like remote ready positions. Right. And that was an important distinction that that we found, is that that, you know, the new work from home patterns kind of would would work at the kind of consumer level and not just that like kind of characterizing areas where there's a lot of these kind of jobs. So, you know, what we found was, you know, while population kind of continue to decline in in downtowns. Right. We saw initially that this was matched by establishment declines in in those areas as well. Drying out the drying out that time series though, we noticed a kind of a meaningful recovery rate as you pointed out, in downtown areas. Well, it seemed like suburban growth had had hit a ceiling a bit. And I think this raised a question for us that we still haven't answered, and that's whether there is, you know, some limit to how much suburbs can densify and if we are actually going to see, you know, just kind of swapping out of of the levels or if there's just going to be kind of overall lower levels of establishments because they're at these kind of upper limits.

WESSEL: And with the within cities stuff, I'm assuming that's what happens is that the retail establishments are moving to the parts of the city where there's where more heavily residential, where people are working from home. And the problem is in the core places like where we are now, where there's not that much housing.

DUGUID: Yeah. And you know what we found when when looking at it a bit further is that it's not necessarily just the fact that the core is in the center. It had to do with population growth. Right. So there might be places that are relative that are in the that are technically like within the core geographically, but they didn't experience a lot of population growth. You might not expect them to lose that many establishments. Yeah. And this is where I think like looking at what's going on in the housing market, Are there places available for people to find this extra space that they might have been looking for as they work from home? If those areas are available within kind of more urban cause, you might not expect there to be as much losses. But, you know, that's that remains to be seen.

WESSEL: So, Glenn, let's take D.C. as a case study. Case study. Talk a little bit about what you see in D.C. and what are the financial implications for the city's revenues.

LEE: Sure. And thank you for inviting me. I think we see two significant issues. First is a substantial decline in the number of people occupying our office spaces. They may still live here and they may still live ten miles from here, but there's a dramatic decline. The second is our population has declined as well, about 40,000 people over a two year period or 6%. We're not recovering, but we're not going down any further, at least so far. Let me drill into that a little bit. In terms of workers, the district supports about 770,000 jobs. Literally hundreds of thousands of people commuted in every day pre-pandemic. But now we see that offices are occupied at less than 50%. And, of course, with less occupation of offices, their value declines. And that ultimately leads to less property tax revenue. And our current estimates are that we're going to be losing about. About $220 million per year in property taxes as a result of this phenomenon. And that's on a base of our local government fund of about 10 billion. So it's well over 2% of our of our revenue stream now that we're not planning to have. And the council on the mayor of balanced budget about for not having those resources. But we're really interested in in what's happening in the leasing market. Of course that drives the value of properties. And from 2019 until now, unleased properties represented originally about 11% of office spaces. Now it's up to 16% at the latest data we have. So we estimate what would happen. We've estimated what would happen if it reached 20%, because there's plenty of anecdotal information that that vacancies will continue to go up as as firms face new leases at 20% unleased, that would add another 70 million or so. So we'd be close to $300 million a year of less property tax revenue. Again, that's about 3% of our local government resources. As I said, the peak to trough loss in population is about 40,000 people. It's about 6%. And that comes after 20 years of solid growth between one and 2% a year. It's clear that there's a high correlation between population growth and the and the district's financial health, largely because of our fairly progressive income tax system as well as the property tax on residential properties. The actual performance of our transaction taxes and income taxes amassed by some short term issues. So we've actually recovered to pre-pandemic levels. But the trend is not in favor to continue at that growth rate at all. Finally, I'd like to bring up not an issue that we actually directly manage, but we have a heavy reliance our dependance on, and that is the local metro or train system here. For us locals, we know it's called the modest system or metro system. They too have faced the dramatic reduction in use. I think they're at less than 50% use right now on the trains and therefore they have 50% loss in their fare box revenue. They've just balanced their current fiscal year, which started a couple of weeks ago on essentially hundreds of millions of dollars of one time federal money. So in July of next year, they estimate they'll have an operating deficit of $750 million per year, and that would reflect about 30% of their operating budget. So why it is that is something I worry about. Well, the district is part of a three state relationship compact to support and subsidize the system. And so we're now in a position of having to backfill between us, Virginia and Maryland. This loss or lose system capacity, dramatically lose system capacity. So we're pretty concerned about this. Probably my number one concern right now, not only the revenue or the economic hit to the region, but also just the budget hit. We're going to have to figure out how to fund this. So what is the district doing? The mayor and council have some programs to subsidize firms that want to come into unoccupied office space, subsidize some conversion projects of taking office space and converting it into residential, and then trying to bolster a lot of street activity. So different fairs and events, farmer's markets and some what we hope that successful, it's hard to estimate its impact, but they're working hard at it.

WESSEL: So how much of a factor is the federal government's very slow return to work?

LEE: It's substantial. Between 25 and 30% of workers in the district are federal employees and, you know, well over half commute every day. So probably at least what reports I've seen relative to all other employers, they're the least in terms of proportion who are returning. Right. And so we're concerned a couple levels. First, we need more people in the city to come back, but also, as reported by the federal government just a week or so ago, they have a lot of leases for office space here in the district that are coming due well over half in the next 2 to 3 years. They're receiving a lot of pressure from Congress to terminate those leases, which will have an immediate increase in the number of unleased properties in the Detroit.

WESSEL: It is an interesting episode where the mayor called on the federal budget to make federal workers come back to the office. And our local congressperson, who doesn't really have a vote said that she endorsed that until she realized that a lot of these people were her constituents. They didn't want to come back to work. And she then reversed himself. So, Natalie, when I think about what this means for the municipal bond market, it seems a little gloomy for urban for cities that have lost population or are seeing declining property values or were struggling with other problems before and now have to worry about this. Is this showing up in the market yet? Is it something that you worry about relative to all the other things to worry about in the in the municipal bond market, including the great quality of disclosure, which I've learned a lot about from mark inflation, rising rates while the hand there's all this federal money flowing to cities from all these things. So how does this fit into that picture?

COHEN: Right. Is this on?

WESSEL: Yeah.

COHEN: Okay. So just to touch on a couple of the comments that were already made, I've been following the commercial office. There are a fair number of bankruptcies. I would say there are. And this is downtown core type of office buildings. In a way. There have been a number of people giving their or landlords giving their keys back to the lenders, which was, you know, in the Great Recession called Jingle Keys. And there's a little bit of that going on in commercial real estate now, which absolves the the owner of actually defaulting. But now it's a bank problem, real estate owned. So a lot of the media has focused on the banking side. But I who you know which the regional banks are high owners of commercial real estate and given you know what we saw recently with SVB and Signature and Republic and so on that is a concern that could start to roll out. And when it stops being, you know, real estate owned and actually a defaulted credit, that has to be written off. So yes, that then translates into lower values and lower property revenues. But taking it to a little higher level, the geographic structure of large cities has been a hub and spoke for a long time, many decades. And so that model is now kind of being blown up in on the positive side, in many cities, not just the largest ones, there's a relocation geographically of the activity. You have pockets, and I'm in New York, so I'll relate Brooklyn and, you know, pockets in smaller cities where like Pittsburgh, for example, where a lot of young people went for jobs and lower cost of living, that you see those pockets of activity, the restaurants are filled even if they're these I call them cabana type, you know, exterior exterior housing because of COVID. So you see that kind of activity. There's it's flourishing in those areas. So it's kind of relocated. But that obviously does significant damage to major transit systems. And if you're looking at suburban growth, just to flip to that reconfiguring transit going from here to there, how do you figure that out? It's no longer a hub and spoke. You know, you're Jon Hamm, mad man. As you know, that model is over where it's obsolete a lot. But again, looking back to history, we've survived these very major shocks and changes. If you think about the seventies, there was white flight from the major cities, the urban crisis, and we had globalization where technology allowed companies to disaggregate what functions were done where. So the headquarters may have been in the major city, but the production may have been in Mexico or the Far East or somewhere else in in the world. And then you had the 1990. A positive side was that as industry moved out of the cities to other locations, at least in New York and I can think of New Orleans is another example. You had, you know, a move in of an artist community. You had the loft spaces that were taken over by the creative groups of people and that breathed life into those those areas. So there was definitely a a downturn followed by a rebuilding and a final example. Just coincidentally, a longtime colleague of mine who's been involved in real estate and development in the city, shared a draft study of the rebuilding of the World Trade Center site after 9/11. And obviously, that took ten years, 20 years, 15 years. Pick your number on what stage of development. But it did happen and it did create this incredibly vital downtown and the commercial office buildings in the financial district. Many of them were converted to residential. So we need residential. The issue is the will of the politic to say we've got to change zoning, we've got to help the transit so that people can get around and permitting, which was discussed. I was happy to hear that yesterday that the mayors are some mayors are thinking about that. That is slow granting hard stuff to do. And on top of that, you know, the response when I talk about this is that it's very costly to convert some of these older buildings. You've got to do a lot of fixes, a lot of changes to the electrical systems and how the spaces are structured. New York City offered some significant tax credits on that front and it did eventually work. I know there's there's a lot of complexity to that discussion, but it did convert many of those older buildings that are very charming into residential. So if you walk around the financial district, it's got that kind of residential life to it.

WESSEL: So are big city municipal bond yields are affected by this, as best we can tell?

COHEN: Are big city - well, I would I would point to rates as more of the issue. It's really a rates driven market. And I did pull in case you were going to ask that question.

WESSEL: That's why I invited you, Natalie.

COHEN: I did pull some of those statistics. And you know, from 20, 20, 20, 21 to 2022, there was $100 billion drop in volume. From 2022

WESSEL: Of all municipal bonds?

COHEN: Rates, rates related almost.

WESSEL: Are you talking about the whole muni bond market or just.

COHEN: Yes, the whole muni, the new new and refunding and total package? Obviously refundings fell away because they were no longer economically sensible. But from 2022 to 23, we've had further declines and it's continuing to go down. So in the first first quarter, almost a 25% decline in volume, Again, this is total and then second quarter about 16% decline in volume. So I looked at what was declining and what areas actually showed some growth. Unfortunately, higher education is really way down. That's significantly down in terms of facilities and so on. I think higher ed for a lot of reasons has has some, you know, fixing to do so to speak in terms of positive VRDOs came back obviously because rates encourage that and so that sector has shown some growth new --

WESSEL: VRDOs? This is an acronym free zone.

COHEN: Oh sorry. Variable rate transactions.

WESSEL: Mm-hmm.

COHEN: So, you know, variable rate makes more sense when you have that kind of spread and a higher rate environment. It was so compressed during the the zero bound of the Federal Reserve for so many years that a taxable refinancing of tax exempt money made sense. So we had a lot of refunding of debt in the last couple of years that went taxable. So that was kind of another interesting distortion. I think that's going to continue. I mean, I was surprised when during the various phases of the stimulus programs that there was such excitement about how the muni market was going to grow. And I mean, I can't distill what was rates and what was, you know, what was the impact of COVID and so on. But it really or the the stimulus programs, the stimulus money that was coming into state and local government displaced a lot of that.

WESSEL: Right. Yeah. I got the feeling yesterday from the mayor of Richmond that they borrowed less.

COHEN: And he was explicit about it.

WESSEL: Yeah. Yeah. So, Jessie, I'm trying to figure out whether this could actually lead to a new equilibrium. That's good. And I say this as a father of a guy who lives in San Francisco, and when he had a cold, he decided to look on Zillow about buying a condo and it didn't make him get better quickly. So you take a city like San Francisco, just an example. Housing prices have been a problem. Demand has been very strong. Supply is ridiculously constrained. Does this if the prices fall, does this mean more people come back in and we solve the problem that Glentalked about, about population? Or is that just a naive chapter, one of any context? What kind of view of the world?

HANDBURY: I think in terms of population growth, it's going to be a long path to coming back to growth. While there's the re allocation of that James talked about and Natalie talked about in terms of businesses, my sense is that a lot of the commerce that's happening in downtowns, so your non-tradable services, your bars, your restaurants are gyms like in a SoulCycle survive when people aren't downtown five days a week? Probably not. Those types of services are going to fall away. What does that mean? That means that because you just don't have that office foot traffic, right.

WESSEL: Then you have fewer amenities and people don't want to live there.

HANDBURY: So then you have fewer amenities and people don't want to live there. This is good from an affordability standpoint. So indeed, right, to the extent that now a different profile of resident can now reside downtown, perhaps a more creative profile that really values the interactions that they can have in a downtown area. That could be some sort of renaissance or rebirth. And downtowns could take on a different sort of bit less of an office profile and a bit more of a consumer city profile. That would just take time. The conversions that Natalie was talking about are expensive and will take a lot of time again and there'll be some pain, I think, on aggregate. My sense is that, you know, downtowns would just be, you know, a step below the suburbs now. And so that's the new normal. Yeah. And I think also when you're thinking about, you know, aggregate, you know, are the all of the municipal revenues that were being earned from all the businesses that were downtown going to move to the suburbs, Probably not, because the scale economies in the suburbs and the you don't have the same density there. Yeah. So I just think that, you know, we need to get used to I don't have a super optimistic view, but I think that there are potentially some distributional changes that that that are positive.

WESSEL: James, so what else did you learn in your survey of retail establishments that you found interesting or surprising? Yeah.

DUGUID: Maybe to follow on from from Jessie's point, it is possible that, you know, working from home doesn't just change where you're doing your shopping, but what what you're shopping on or like, you know, how you how you are consuming. Right. One of the things that that we saw was that, you know, if you look at, you know, where establishments were growing by by product, you know, we saw that. Okay. Yes. It looks like, yes, grocery stores are kind of matching population growth in the suburbs. That's not happening with restaurants. Right. And, you know, in a way, they didn't look like people would just move out to the suburbs and then completely substitute or like completely just retain their consumption patterns.

WESSEL: They don't go out for lunch when you're working from home. Yeah.

DUGUID: And the effort for us, that was something that we we thought was worth calling attention to because it does have implications for sales tax receipts for employment, you know, in in these different areas. And then to the extent that your suburbs might fall outside of the jurisdiction of your city, I think that is also an important.

WESSEL: Yeah. So what's the work from home situation at JPMorgan Chase Institute in D.C.?

DUGUID: So right now we're we're in two days a week and it's going to go up to three in August.

WESSEL: And are people hapy about that?

DUGUID: Yeah, they're thrilled.

WESSEL: So, Glen, I want you to respond to anything, but I wonder if you could talk a little bit about whether you think there's potential for office to residential conversion in the district. There've been a few of these. It always looks to me like a great idea in principle, but the idea of putting the plumbing and everything. Some places I've seen the conversion means basically gutting the entire building, and the only thing that's left is the walls outside. And we have some incentives in the district for this now, right? Or not?

LEE: Some. But I I'm not an engineer. I'm an economist. So I'll talk about finances, I think, and governments. First, there has to be a lot of zoning and building controls adjusted and someone mentioned that. I think that actually is a painful process. It'll take time in any jurisdiction, whether D..C or not. The second is, in reality, private capital needs to flood these markets to really make up the difference that the public sector isn't going to be able to incentivize. Several hundred million dollar conversions in their downtown core. And I'm not sure what sources of that capital could be. Many of real estate investment trusts, of course, have been hit very hardly ever very difficult times. So whether they have the resources or not. But that's really the solution is for the private sector markets to respond to that providing capital, from my perspective.

WESSEL: It seems like a bit of a problem if there's not the demand for the housing downtown, the economics of spending a lot of money to convert. Challenging.

LEE: Right. But large cities will only have a couple of shots and only have resources for a couple.

WESSEL: Right.

LEE: To really incentivize effectively a handful of development. And that won't nearly be enough to offset the other losses.

WESSEL: Okay, I can keep going, but I want to turn to the audience, give you a chance to answer questions. I start off here with Mark, and then over here, and then Mr. WMATA.

AUDIENCE MEMBER: So right off the bat, Jessie caught my attention when she used the words balance of power. There have been for probably 100 years a struggle between neighborhoods and downtown and downtown was always on top. I wonder, you know, she mentioned suburbs, but within a city like Kansas City or a city like Detroit or a city like Pittsburgh, it's the neighborhoods versus downtown.

WESSEL: That's a good point. And I should have asked, that's Mark that's from Governing, ex-Governing magazine. Ex mayor of something. Where were you? Mayor of Kansas City. Kansas City, Missouri. Introduce yourself.

AUDIENCE MEMBER: My name is Johnnes, I work here at the Federal Reserve Board here in D.C. So what I find interesting is this asymmetry in what kind of cities were hit by by the pandemic and by the permanent work from home that we see right now. So you mentioned that the places that are hit are D.C., New York, Los Angeles, etc.. And like we heard yesterday, that, for example, Richmond, Albuquerque, etc., are doing much better. So I wonder what distinguishes these cities? Is it those that had, like, you know, a hip urban downtown area that now just has become really unattractive? Or is it cities that provide more public services which are certainly not in demand anymore? What's going on here?

WESSEL: And also, I think there may be some relationship to attitudes towards COVID that some places didn't get a big hit because people didn't take COVID seriously, so they didn't all bunker in there.

AUDIENCE MEMBER: And that's a good point. Maybe that correlates with having a hip urban downtown area.

COHEN: So that's absolutely what's happened, where people moved out of the larger, more dense, looking for less dense because of COVID. But I think there's also and this is just a hypothesis a lot of movement, say, from New York City, went to Palm Beach and West Palm Beach and Florida and so on and other places with less lower density. Smaller cities are growing and now have to deal with growth issues. So there's definitely that kind of asymmetry.

But there was all kinds of news and discussion about the wealthy folks that could no longer go to the high end restaurants and the theater and so on of moving out into saying, this is why I've suffered in New York for so many years or why I suffered San Francisco for so many years. I'm out of here. And it's a hypothesis as to why it seems like the states that have no income tax, no state income tax are the recipients of these migrants. Untested, I look to all of you statistical wonks to come up with the right analysis of that, but that seemed to be the case.

WESSEL: Haowen, guy right in front of you.

AUDIENCE MEMBER: Hello, Leonard Meyer, WMATA. I just I had a quick question for Glen. I you were talking about solving, of course, this operating budget shortcoming with WMATA, but it seems that this private investment and conversion of these office spaces into residential seems to go even further from this hub and spoke model that it seems like this transit is relying on, right? And I was just wondering on how you would solve that. And it seems like maybe those like fares and whatever would return more to this hub and spoke commute model. So yeah, I would just want to want to know about that.

LEE: I don't know whether changing fares on the transit system would encourage people to commute every day again. I, I agree with a panelist here that we are moving it seems away from a very intense hub and spoke environment that certainly intensified over the last 20 years in North America. From my perspective and unwinding that, including transportation systems, is really the challenge of our time from my perspective.

WESSEL: I guess it's an advertisement for busses. Yeah, Dan?

AUDIENCE MEMBER: Dan Bergstresser, Brandeis University. Both yesterday and today I've gotten a little bit nervous when I hear people talk about making it easier for developers to to build or to to transform buildings, because, you know, when you look at earthquakes in places like Turkey, you know, everything kind of falls down. And I worry if we're being a little bit too cavalier sometimes about about the benefit of the bureaucracy, when that bureaucracy makes sure that, you know, ensures that the, you know residential buildings are durable. You shook your head no.

WESSEL: Well, no, go ahead.

LEE: I can't imagine that any city would adopt net new building codes that would put people in jeopardy. And I'm advised by my attorney to say so. So I'll leave it at that. But the reality is that it depends on your tax structure, whether in the long run that helps your government in its services sustain or not. Here in the district, we have a fairly progressive income tax, which means more population generally provides more resources for our services. I came from a state without an income tax, so growth didn't necessarily mean more resources to provide the basic services. And so I that's my answer to your question. The safety issue, of course, is always an issue.

WESSEL: And also, Dan, it seems to me there's a difference between saying the permits take too long to get and the standards used to grant them. And the District has made some progress, but it's pretty easy to get someone in any group of people from the District to talk about how long it took to get a building permit. And it wasn't because they were making earthquake sensitive additions to their houses in upper northwest. Mark over here. And then the woman behind you, Mark, raise your hand so she can find you for the mic.

AUDIENCE MEMBER: Mark Steinmeyer. Excuse me. Smith Richardson Foundation. I want to go back to the variation among cities. And while everyone's attention is on New York and San Francisco, those cities were doing so well that the magnitude of the fall is striking. But they have room for error. What about, you know, Buffalo, Milwaukee, these places that maybe were not as vibrant, but just losing even a smaller percentage of their downtown core revenue is going to be more ever have a greater impact?

DUGUID: Yeah, I might have to pass that one off to some of the other panelists, because one of the things that, you know, we did in our study was we well, we're limited by places that Chase covers, right, because we're using Chase transaction data to to do this. And then we also want to limit ourselves to where Chase had really good coverage. And so this is like kind of limits the study to these major metro areas. So, you know, from an empirical standpoint, I can't comment too much on those cities that were out of our sample.

WESSEL: Natalie.

COHEN: Yeah, I was just going to comment. Yeah, there there is trouble out there in some of the smaller cities and you mentioned Milwaukee. There's there are some fiscal and, you know, existential issues around that city. Buffalo, I'm not as familiar with, but for sure, upstate, you know, there's been industrial development in upstate New York that has helped that environment. But they certainly have lost a ton of industry that used to be there.

WESSEL: I think Mark's point is, if you were already sort of on the edge, you didn't need any extra help.

COHEN: And is it going to tip you over?

WESSEL: Glen, could you talk a little bit about Seattle and what's what's things like there? You don't work there anymore so you can be honest.

LEE: I don't, yes. It's a real challenge primarily because I think the the main employer is the industry of high tech within my term as city finance director or CFO, a large employer that we all know added 55,000 employees who mean salary was well over $300,000 a year within four blocks of my office. And so there was a dramatic impact on the economy. But I'm I understand that those workers and their work is more was more adaptable to leaving. And so you've seen that particular firm multiple times saying we're coming back, but they can be perfectly productive and profitable without that. We we have other major firms in the same area. And I think San Francisco suffered the same. I don't know about New York, where Salesforce.com, Microsoft and whatnot. The nature of their work allowed people to be more remote than a law firm that had 100 years of of, you know, approach to things. That's just speculation on my behalf. But I think it's borne out in how performance has worked in many cities.

AUDIENCE MEMBER: Okay. Sadie Bo, Grad Tax Policy Center. All this conversation about zoning and permitting is making me think of the very common backlash, whether you know, NIMBYism or other forms of retaliation to most proposed changes and development. And I'm not sure how much any of you can can speak to this, but I'm curious if you have a sense of what the public reaction has been like either to increasing development patterns in suburbs or to some of these proposed office residential conversions in downtown areas.

HANDBURY: I just want to bring something back that's in part in response to your question. And it's an observation that there's a correlation between the the sort of the Florida locations, the Texas locations that we think of as having, you know, maybe low income taxes and the zoning policy in terms of, you know, suburban zoning being more free there. I think they're the cities that or they the locations that gained a lot. So I do think that is sort of NIMBYism and zoning restrictions are sort of constraining, as James said, some some cities up in, you know, particularly the north, northeast, northwest from, you know, surviving or thriving.

WESSEL: But both the mayors yesterday talked about ADUs as being popular. And that's not going to solve the $40000 - 40000 unit shortage in Richmond. But it's interesting that that seems to have become politically acceptable. Louise?

AUDIENCE MEMBER: And no one's mentioned -

WESSEL: Introduce yourself. Introduce yourself.

AUDIENCE MEMBER: Oh, sorry. Louise Sheiner, Brookings. I'm just wondering how big business travel is, especially for these big cities. You're talking about how much lower it is and whether or not that's I mean, whether or not you think that's going to come back.

WESSEL: So I think the hotel occupancy in D.C. is pretty good, right?

LEE: Yes, It's almost at pre-pandemic levels. And certainly on a gross sales point of view, both restaurant sales and hotels are up. I think what's unique is, as I'm learning, D.C. is a very different destination than any other major city because it's our capital. And so we've been fortunate to continue a large amount of good recovery and business travel as well as tourism here. But I'm not sure if that is unique or across the country.

COHEN: It's definitely true. In New York, the tourism is is up. I don't know what hotel occupancy looks like, but it's probably neighborhood by neighborhood because there are so many pockets of activity. But once Broadway reopened and, you know, the movie houses reopened and some of the stores reopened and so on, and it's just it's flooded with tourists in certain areas.

WESSEL: So you're sort of implying that tourism is up and compensating for some of the weakness in business travel. Yeah, the the revenge travel. Eli?

AUDIENCE MEMBER: Hi, Eli Asdourian, Hutchins. So the last time American cities lost a lot of population in the sixties and seventies, it was blue collar manufacturing jobs. And many of those cities were just permanently gutted. It never recovered population, but it seems like now the cities that are losing population are losing white collar workers because their white collar job hasn't gone away. So I guess I'm wondering if all of this population loss really has implications for whether or not these cities remain the economic powerhouses of the U.S.. Right. Like, do the New York and Boston, etc., still stay the center of economic activity if the jobs haven't left?

COHEN: Very good question.

WESSEL: I think Jessie's moving her fingers toward the button.

HANDBURY: Yeah. I mean, I've done some research on sort of the the trends in the sixties and seventies, and then actually a lot of those cities had rebounded and come back. Maybe not in terms of overall population, but in terms of the income distribution by, you know, by 2010, 2020. Um, I think that one thing that where that's important to note is yes, there are some moves between states and out of cities entirely. But, you know, I think someone's already mentioned a lot of jobs are still people going in two or three days a week. You can't commute. Well, some people do it, but you can't really feasibly, like fly somewhere or commute 8 hours to go into a job three days a week. So I think, you know, you're still going to see I don't think, you know, as many large firms are moving their offices, they're just saying people can work remotely, you know, X number of days a week and come in fewer, fewer days. So I'm not sure that we're going to see that shift so much.

LEE: I'll bring it back to this issue of downtowns. That kind of two to 2 to 3 days a week might be enough to sustain kind of some businesses downtown, but maybe not at the level that there was previously, while also keeping office buildings occupied and like less or like, you know, fewer buildings able for the renovations that or sorry remodeling that. You know, a couple of people have talked about to be interesting to see how that kind of like in between you know in between level of occupancy changes things.

WESSEL: Yeah. Yeah. Okay. Well, I want to thank our panelists, an interesting conversation. I kind of feel like we have to wait a year wait, wait a year or two to see how much of this is lasting. Again, on behalf of Washington University, Brandeis, and the University of Chicago, and Brookings, I want to thank all of our participants and all of you who came and have such good questions. It's always a good sign when there are more questions than we have time to answer them. And I want to thank our research assistants, who were very good at the time keeping, which helped to squeeze in an enormous amount of time and an enormous amount of content to a limited amount of time. I should mention that the Municipal Finance Conference has an advisory committee of people from a variety of backgrounds, which is very helpful, and we get a lot of paper submissions and we have to decide which ones to accept. So I want to thank them and remind them all that we have a meeting scheduled on the second floor here immediately after this conference. Well, thank you, Glenn, Jessie, James, and Natalie.