



The Research Bureau

Downtown Worcester's Office Occupancy in 2008: What do the data show?

Office occupancy rates are a key indicator of a downtown area's economic vitality. This is certainly the case in Worcester, where downtown currently provides about 30% of the city's commercial tax base, and about 9% of its overall annual tax levy. Typically, areas with high office occupancy rates also have strong business and retail economies, while low or declining occupancy rates may signal business and retail flight and an ensuing weakening of a downtown core. For many decades now, the suburbs and "exurbs" have outpaced central cities in terms of both job and population growth, to the detriment of many of our nation's once vital cores. However, in more recent years, this growth in the suburbs has not necessarily been at the expense of urban areas; research indicates that many American cities and their downtowns have been making a comeback.¹

Worcester's City Manager has made revitalizing Worcester's downtown a priority of his administration. In May 2008, he signed "The Gateway Cities Compact for Community and Economic Development" with the chief executives of ten other older, industrial cities in Massachusetts. This document expresses a shared commitment to develop and state legislative approval to adopt a program of incentives tailored toward the unique needs of these "Gateway Cities." According to a recent report by MassInc, analysis of the current set of economic incentives offered by the Commonwealth demonstrates how and why they have proved to be ineffective in revitalizing Massachusetts' depressed urban cores. Within the next few months, Worcester's City Manager plans to submit "Worcester ACTS," a five-year "Action Plan for Economic Growth" to the City Council. This will contain his recommendations for changes at the statewide level which would assist downtown Worcester and the other "Gateway Cities" in their respective efforts at economic development.

Downtown Worcester's Central Business District contains 4.75 million square feet of office space, of which 88.4% was occupied as of August 2008. Office occupancy in the CBD increased slightly from 87.3% in 2007 to 88.4% in 2008. Class "A" buildings (considered "premier space," or newly constructed buildings or office space that has undergone extensive renovation) account for about 1.3 million square feet (28%) of office space. The occupancy rate for Class "A" office space increased one percentage point from 87.9% in 2007 to 88.9% in 2008. The 48 Class "B" buildings (older renovated buildings considered to be in fair to good condition) comprised more than half (52%) of downtown office space, or almost 2.5 million square feet, of which 88.6% was occupied, a two percentage point increase from 2007. Finally, the 950,000 square feet of Class "C" space (older unrenovated buildings offering "functional space") had an occupancy rate

¹ Alan Ehrenhalt, "Trading Places," *The New Republic*. August 13, 2008, <http://www.tnr.com/politics/story.html?id=264510ca-2170-49cd-bad5-a0be122ac1a9>.

of 87.1%, a slight decrease from 2007 (87.9%). Class C space had the lowest occupancy rate of the three classes, which had also been the trend in 2004 and 2005. In 2006 and 2007, Class B space had the lowest occupancy rate. While the overall 2008 occupancy rate increased from 2007, it has not reached what it had been in the three prior years.

There are 551,820 square feet of vacant office space available in Worcester's Central Business District, and using an industry standard of 200 square feet of office space per worker, the amount of space currently vacant could potentially support almost 2,800 additional workers in the downtown area.

As local leaders have recognized, the City needs to be concerned not just with attracting new businesses to downtown, but retaining those that are already here. Among the factors that influence businesses' location decisions, there are some (e.g., proximity to a major city like Boston, or the availability of undeveloped land) that are beyond the influence of City leaders. There are others, however, over which the City has considerable influence, including tax rates, the overall "user-friendliness" of the development process, and infrastructure issues (including water and sewer systems and transportation).

Strengthening Worcester's transportation network could make the City more appealing for employers looking to locate their business and employees outside of the Boston area. In early October, state officials and CSX, the company that owns the Worcester/Framingham tracks, reached an agreement after years of negotiations for the state to purchase the rail lines between Boston and Worcester. In the immediate future, five additional daily trains will be added between Worcester and Boston, and another six daily trains would be added over the next four years. (Currently, ten roundtrip trains travel between Union Station in downtown Worcester to South Station in Boston on weekdays). These additional trains should make it easier to commute to jobs in the Boston area while encouraging more businesses to locate in the Worcester area since commuters will have more options to get to work here.

The full report, including detailed information about 88 downtown properties, is available at www.wrrb.org.

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