



The Research Bureau

APPRECIATING THE VALUE OF COMMERCIAL PROPERTIES

The Significance of Commercial Real Estate

REPORT 24-05

April 2024





EXECUTIVE SUMMARY

COMMERCIAL REAL ESTATE (CRE) is a key economic engine for municipalities. It provides space for jobs for the community, provides own economic value through its use and outputs, and serves as an important source of revenue for City governments. This report on commercial real estate answers a few questions about it and other economic indicators in Worcester.

This report explains the importance of commercial real estate for cities and their residents, explains some of the basic terminology needed to understand commercial real

estate listings, and looks at a number of economic indicators related or adjacent to commercial real estate. Some of these economic indicators include: property tax rates and levy percentages in Worcester and comparison cities, incidence of remote work and where remote workers reside, and major occupations and industries for employed residents. Finally, the report briefly looks at assessed values and commercial building permits, and includes a [dashboard of FY21-FY23 commercial assessed parcels](#).

PAGES 3-6 | DISCUSSES THE OVERALL IMPORTANCE OF COMMERCIAL REAL ESTATE

- **Property taxes make up the bulk of city revenues**, in many cities nationwide.
- In Worcester, which like 121 other communities in Massachusetts has a split tax rate, the commercial, industrial, and personal property tax levy constitutes about 36.5% of the total tax levy in 2023, but assessed values of these properties are only 21% of the citywide total.
- Office space drives people downtowns and into retail; the existence of retail encourages others to travel and spend their money in a community; interactions between workers leads to knowledge spillover; and **CRE drives long-term economic growth**.
- Explains common office space terminology: absorption, A, B, C space, and rents.

PAGES 7-9 | ECONOMIC INDICATORS USING AMERICAN COMMUNITY SURVEY DATA

- Because of the difficulty of finding data about occupancy and rents in smaller metro markets like Worcester, this section uses proxy economic indicators.
- According to the American Community Survey (ACS), total employment in Worcester and its Metropolitan Statistical Area has grown steadily since 2013.
- The most common occupations for City of Worcester working residents (more than 42%) are in "Management, Business, Science, and Arts."
- **The most common industry for Worcester working residents (more than 35%) is in "Educational Services, and Health Care and Social Assistance."**
- 11% of Worcester working residents reported working from home in the 2022 ACS; while this is up from 5.7% in 2019, it is below the national number of 15.2%, and lower than both Boston (20.9%) and Lowell (11.8%). 52.9% of Worcester workers live and work in the city.

PAGES 9-12 | ASSESSING DATA AND COMMERCIAL BUILDING PERMITS

- **According to FY23 assessing data, there are 312 parcels in Worcester that are used primarily for office space**, of which 221 are general office use.
- Included on page 10 are two maps of downtown Worcester: Map 4 shows downtown assessed office parcels, and Map 5 shows assessed retail and mixed-use parcels.
- Building permits can show us the amount of new construction, renovations, alterations, additions, and the like occurring on and around commercial property. In 2023, building permits for commercial properties made up slightly less than 20% of all building permits issued, but accounted for nearly 75% of the costs of projects.
- In 2023, **there was a nearly 75% increase in the number of commercial building permits issued compared to the year before; all other permits only saw a 17% increase** from the prior year.



INTRODUCTION

Commercial real estate (CRE) is a hot topic of conversation, especially as we move past the COVID-19 pandemic. The Research Bureau has written on CRE in the past, most recently in 2020 in its [Downtown Office Occupancy Report](#), and before that in its yearly [Downtown Worcester Office Occupancy](#) survey series, which ran from 2002 to 2011. Using publicly available data on commercial economic indicators and CRE space, this report explains what commercial real estate is and some common terms used when discussing CRE, explains how we can evaluate it and why cities should want to have it, looks at employment data available for those living in and working in Worcester and its metropolitan area, and briefly lays out commercial building permit trends. For further information about Worcester’s demographic (and

related economic) profile over time, The Research Bureau published [Reinventing Worcester](#) in August 2023, which could be read as a companion to this piece.

In preparing this report, The Research Bureau also prepared a visualization of commercial assessed data from FY21 through FY23, [which can be found here](#). For updated data about assessments, see the [City of Worcester’s assessment records](#).

Ultimately, CRE is necessary to the vital economic and fiscal health of a community, and has other important knock-on effects as well. All should be concerned that Worcester’s CRE market remains healthy going forward.

WHAT IS COMMERCIAL REAL ESTATE?

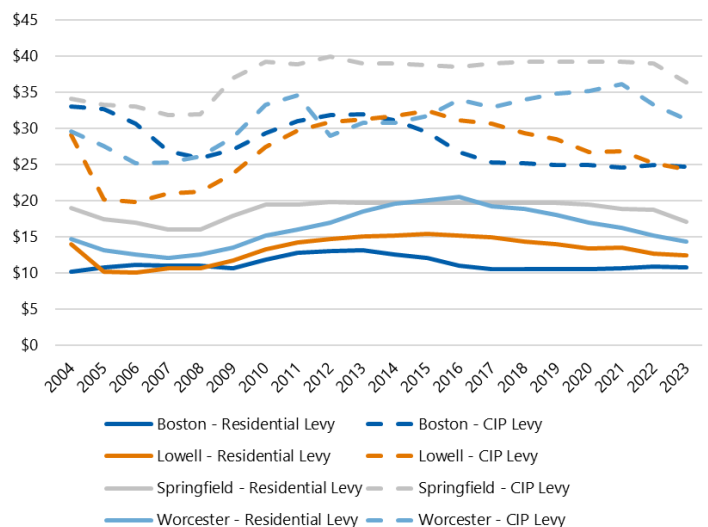
Commercial real estate is profit-generating space. Whether that profit is created by retail, office space, or industry, CRE is the engine that drives local economies. In turn, CRE plays a critical role in the decision-making of municipalities and the people that live and work within them. In Massachusetts, commercial space plays a significant role in determining what municipalities can do, as they largely rely on residential and commercial property tax revenues and state aid to fund their activities. In Worcester, residential, commercial, industrial, and personal property tax made up 44.24% of revenues in the FY24 approved budget (state aid for education made up 43.52% of revenues, general state aid made up 5.99%, and all other revenue sources made up 6.25%). While residential property taxes make up the bulk of Worcester’s property tax revenues, commercial, industrial, and personal property tax (CIP) revenues are a significant source of income. In Boston, the reverse is true.

In Worcester, Springfield, and Lowell—the next two largest Gateway Cities after Worcester chosen for this analysis—**residential property taxes make up the majority of property tax revenues**. All the municipalities included in this analysis, including Boston, tax CIP property differently than residential property, using a “split tax rate.” There are a total of 122 communities in Massachusetts with split tax rates. The difference between residential and CIP rates is controlled by state law, ensuring that the gap between the two cannot widen or narrow too much all at once; nor can a municipality move all of the tax burden onto one class of property or the other. The following charts show the 20-year change in CIP and residential tax rates and levy percentages in each of these communities.

Chart 1 shows residential and CIP levies in these four municipalities between 2004 and 2023. In each, the CIP levy rate is higher than the residential. Interestingly, among these cities Springfield has the highest rates for both categories in 2023, with Worcester coming in second.

Chart 2, on the next page, shows the percentage of total levies that both residential and CIP taxes make in each community. **In the Gateway Cities in the sample, residential taxes make up a larger portion of the property tax levy, while in Boston the reverse is true**—which may have implications for Boston tax revenues going forward (see the recent [Boston Policy Institute paper on this subject](#)).

Chart 1: Residential and CIP Tax Levy Rates, 2004-2023 (Nominal Dollars)



Source: Massachusetts Division of Local Services



Chart 2: Percentage of Tax Levy Paid by Residential and CIP Property Taxes, 2004-2023

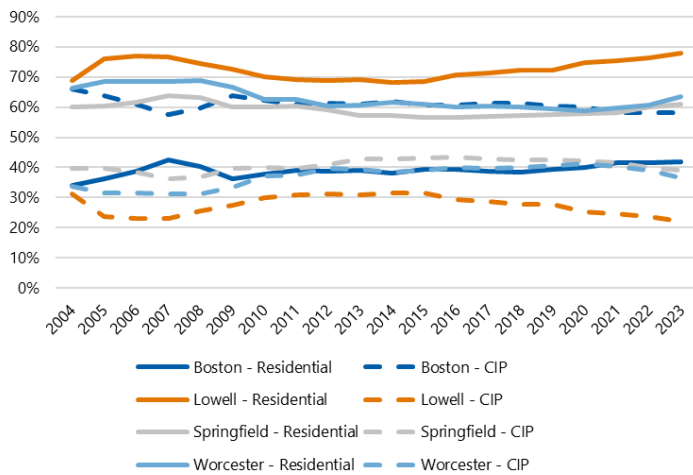
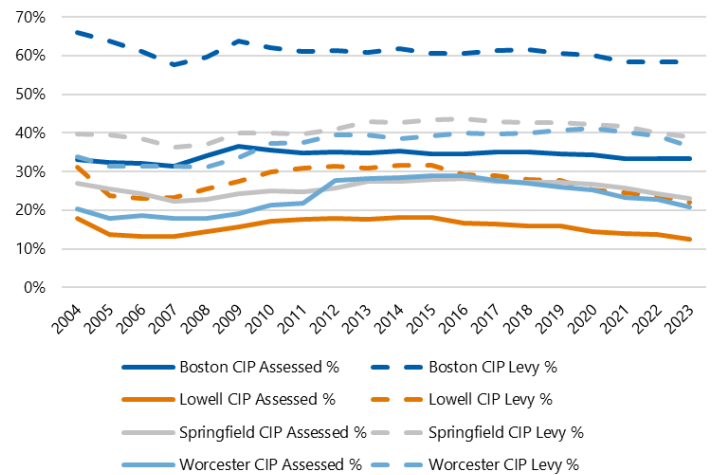


Chart 3: Percentage of Total Levy That is CIP vs Percentage of Assessed Values that are CIP, 2004-2023



Source: Massachusetts Division of Local Services

Chart 3 is focused solely on CIP. The solid line represents the percentage of CIP property values out of total assessed values in each community. The dotted line shows the percentage of the total tax levy that CIP property contributes to. **What is true in every community here is that the percentage of the CIP levy is higher than the amount their assessed value represents** (in other words, in Worcester for example, about 21% of total assessed property values are CIP, but makes up about 36.5% of the tax levy). Over twenty years, the average gap between percentage of assessed values and percentage of the tax levy has been widest in Boston, with Worcester a distant third.

While tax rates are set annually by City Council, property values are determined by the local city assessing department. In Massachusetts, assessors are bound by law to determine the "fair cash value" (or "fair market value") of a property or, what a buyer could expect to spend on a property in the market in an arms length sale¹ (See M.G.L. Ch. 59 §2A and 38; "Introduction to Assessment Administration," Chapter 2; and Bureau of Local Assessment, Informational Guideline Release 2019-8, April 2019). Assessors determine the value of properties in a community through different methods: the sales comparison (or market) approach, the cost approach, and the income approach. Each of these three methods, used together, aid local governments in determining the final value of a building. The *sales comparison* approach looks at recent sales in the municipality of comparable buildings to create a value for properties that have not been sold. The *cost approach* is figured on the cost to replace the building whole cloth, minus the depreciation of the building as it stands, plus land values. The *income approach*, used especially with

CRE, considers buildings to be an investment, and that owners of a commercial property expect some return on that investment; therefore, the rental income of a building is considered as a major part of its value. **This means that the use of the building or the space is a key part in making these assessments.** If a commercial property is not making an income, its value will suffer. Empty office or retail space, then, can be a detriment to communities because of the simple fact that it may lower building values and therefore the tax to be derived from it. It should be noted, too, that local assessors rely on a large variety of data to make their assessment decisions, and, that means, if data is missing or incomplete, assessments could be disputed.

Finally, municipal bonds are a way that municipalities—indeed, governments of all sizes—raise money. Investors buy bonds, with the promise that the government will pay back the principal plus interest. In other words, municipal bonds are loans to governments. Bond ratings agencies (Moody's, Standard & Poor, and Fitch Ratings) are in the business of determining whether a government can pay back bond principal plus interest, and in doing so may look closely at the health of municipal revenue sources, which very well could include the utilization of commercial space. If there is reason to believe that municipal revenue could slow—and therefore impede the ability of governments to pay back their bonds—then credit ratings could fall. While commercial real estate might only be part of the tax revenue equation in a municipality, its existence and flourishing is indicative of a healthy economy, and plays an important role in the economic outlook that would allow municipalities to pay their bond obligations. In FY24, Worcester's bond ratings were Aa3 from Moody's, AA- from Standard and Poor,



and AA from Fitch Ratings. According to each of these agencies, these ratings are close to the top of their scales and indicate that Worcester’s municipal bonds are a safe investment. The City has maintained these ratings since FY17, when Fitch Ratings raised its rating from AA- to AA; prior to that, Moody’s and Standard and Poor’s upgraded their ratings in FY13 and FY14, respectively.

BESIDES MUNICIPAL REVENUES, WHAT ELSE MAKES COMMERCIAL REAL ESTATE IMPORTANT?

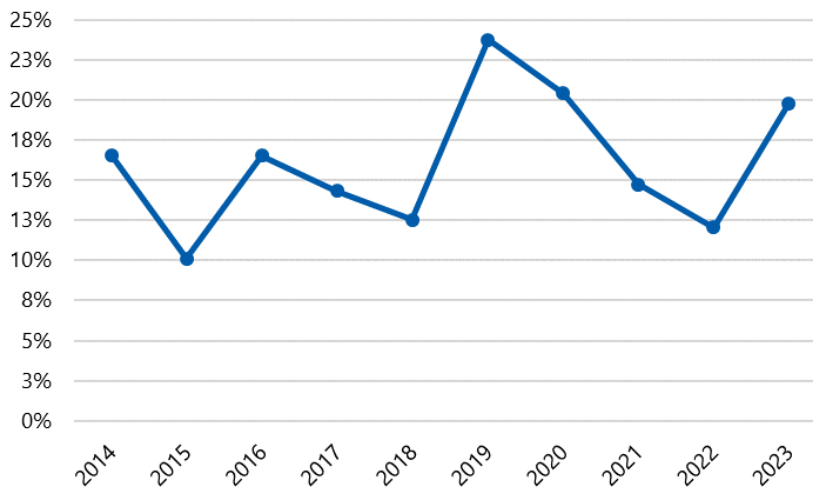
Besides the fact that commercial property has the potential to bring in direct revenue for the municipality, there are a number of other reasons that active and regular use of commercial space is key for municipalities. For example, **downtown office space—and downtown office workers—bring vibrancy to downtowns**, as during the day those workers utilize opportunities for food, retail, and other services. In other words, downtown office space, indeed commercial space of all kinds, drives economic activity and "spreads the wealth" between different sorts of commercial functions. As Jane Jacobs wrote in her 1958 essay, "Downtown is for People": "What makes it [downtowns] lively is the way so many different kinds of activity tend to support each other." In other words, successful commercial space compounds upon itself.

Commercial space brings people into a community to live, work, and simply spend their hard-earned dollars. The U.S. Census Bureau's Annual Current Population Survey, for example, noted in its March 2023 release that in Massachusetts, 19.78% of all those who relocated did so for job-related reasons (not including retirement)—97,658 out of more than 493,000 people. The line chart

on the page shows the total percentage of job-related relocations between 2014 and 2023. Just as commercial activity has the potential to compound on itself, it may have other effects—the creation of new housing for workers and the development of new services to provide to new residents and workers.

Relatedly, dense commercial space provides an opportunity for informational spillover between industries. This is not the idea that workers spread trade secrets to competitors, but rather that "geographic proximity provided by cities allow ideas to travel more rapidly" (Glaeser, 1998). Professor Ed Glaeser (the Fred and Eleanor Glimp Professor of Economics at Harvard University) modelled elsewhere that "individuals become skilled through random contact with more skilled neighbors" and that "the probability of learning is a function of the fraction of skilled individuals in the community and the density of the community" (Glaeser, 1997). All members of a community, whether workers or residents, benefit from the skill exchange, but the idea could be applied to the use and proximity of commercial space as well—the "face to face" interactions that take place every day during commercial activity (whether interacting with colleagues and clients, or through point of sale interactions) provide those random encounters that increase the skills and knowledge of everyone.

Chart 4: Percentage of all Relocators in Massachusetts who Moved for Job Related Reasons (Not Retirement)



Source: Census Bureau Current Population Survey (March 2023)



UNDERSTANDING COMMERCIAL OFFICE SPACE TERMINOLOGY

ABSORPTION

An important measure of commercial real estate is, of course, the use of office space. Unfortunately, sources of direct data about office space use can be difficult to find. Though limited in what it can tell us, one source of such data comes from Colliers International quarterly release of Boston office space data, in which selected buildings in the Worcester submarket (though Colliers does not delineate the boundaries of this area) have a few data points. One of these points is called "net absorption." The chart below shows net absorption between 2019 Quarter 1 and 2023 Quarter 4, on a quarter by quarter basis, for Worcester-based office space (and based only on a survey of selected properties).

Absorption measures the physical occupancy of office or other real estate space. Gross absorption, not shown here, is the total amount of newly occupied space. **Net absorption**, on the other hand, is a combination metric that shows total movement in the physical occupancy of space: **newly vacated or built space is subtracted from the total amount of space that is newly occupied**. In other words, a positive net absorption rate indicates that more people and businesses are moving into office space than moving out (or than is being built), which is generally a welcome sign that there is demand for office space. Absorption has remained generally positive in the pandemic period.

A, B, AND C SPACE

Another metric that one will encounter when looking at commercial real estate is the classification of space as A, B, and C. These classifications are helpful indicators of the quality of commercial space in an area, though they can be fairly subjective when compared across cities, as there is no official definition of what constitutes an A, B, or C space. Indeed, much of what determines an A, B, or C rating is comparison with other properties within a market. That means that what constitutes an "A" space in one community may not be an "A" space somewhere else (i.e., "A" space in Boston likely looks different than in Worcester, while "A" space in New York City may be different still than what one can find in Boston).

Still, there are some loose definitions of A, B, and C office space that we can use that can help us understand what we are looking at in Worcester and beyond.

"A" Space: "A" space is generally the best in the market, with above average rents but generally newer facilities, good access to amenities, and nearby to transit hubs. "A" space generally has the best locations in town. Usually, these locations are in or very close to downtown.

"B" Space: "B" space may not be as up-to-date as "A," but tends to represent average rents for an area and has decent access to amenities, transit, and the like.

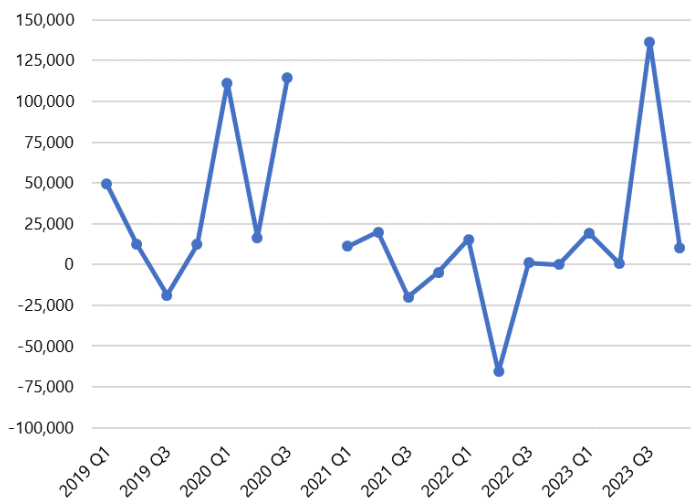
"C" Space: "C" space is the lowest class of space, with below average rents. "C" spaces do not have the best location compared to other "A" and "B" spaces, tends to skew older, and may not have as many amenities within or nearby. Still, most spaces in a city may be "C" spaces.

Classifying space provides a way to quickly compare available spaces across a market, but should not necessarily be relied on to compare across markets, as what constitutes each type of space will be different everywhere. If someone is looking for CRE, they should rely on a qualified broker to help make heads or tails of what A, B, and C space might mean in any particular market.

TYPES OF RENT

If an organization does not outright own their space, they may need to rent or lease it instead. In general, there are a few different kinds of leases, in which the tenant pays to use the space and pays any accompanying property taxes. One of the most common kinds of lease is a *triple net lease*, in which the tenant pays all costs related to their occupation of the space, including building insurance, utilities, and maintenance of any areas shared in common by all tenants.

Chart 5: Net Absorption (Quarterly—Worcester Submarket)



Source: Survey of Selected Buildings by Colliers International



WHAT FACTORS MIGHT INFLUENCE THE WORCESTER-AREA MARKET?

Data about vacancy, occupancy, and rents for CRE can be difficult to find, outside of the largest metro-markets; this is especially true when trying to find time-data to track the market. Data is usually available for larger metro-markets (Boston, New York City, etc), but data for “smaller” markets is harder to come by. Some data is available for Worcester, but it can be scarce. For example, international real estate firms like Colliers publish data quarterly on vacancy and absorption that covers Boston, and it includes some data points about some buildings in the “Worcester Submarket,” though the boundaries of that submarket are unclear. Other data sets could be used as “proxies” to understand the Worcester market, whether the City or the Worcester MA-CT Metropolitan Statistical Area (MSA), which includes all of Worcester County.² The unemployment rate, top occupations and industries, the incidence of remote work, and where residents work can all give some insight into Worcester CRE use. Assessing data, as well as commercial building permits, can provide some additional insight.

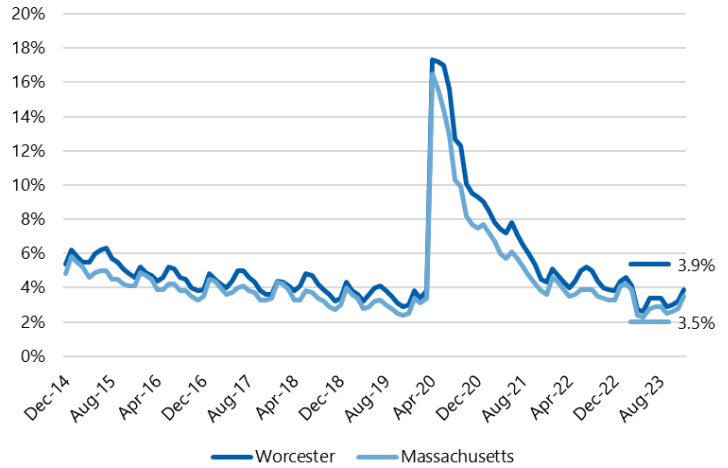
EMPLOYMENT AND UNEMPLOYMENT

The American Community Survey and the Massachusetts Department of Economic Research have a wide range of available data regarding employment and the industries in which workers work.³ Chart 6 shows the unemployment rate in Worcester and Massachusetts between December 2014 and December 2023. Worcester has had a slightly higher unemployment rate than Massachusetts for all of this period, but not significantly so. Worcester’s unadjusted unemployment rate in December 2023 of 3.9% was slightly higher than the national rate of 3.5%.

According to the U.S. Census Bureau, employment has steadily risen in both the Worcester MSA and the City of Worcester. Chart 7 shows the total civilian employed population in the American Community Survey, 1-Year estimates; specifically, this measures all civilians 16 years or older who did any work during the survey reference week, or had a job but were absent that week. Notably, the ACS does not include 2020 1-year estimates given its status as a pandemic outlier year. Statistics may vary slightly from official Bureau of Labor Statistics data, as slightly different survey methods are used.⁴

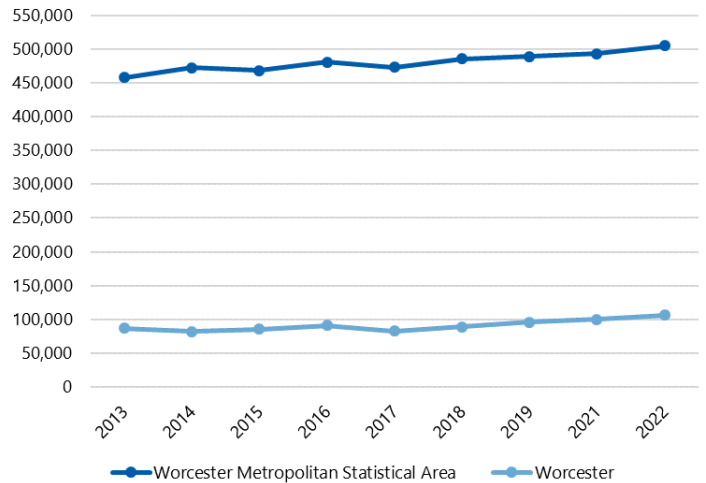
Using American Community Survey data, the employed population in both the Worcester MSA and the City of Worcester has increased steadily over ten years. **Significantly, it has increased more in Worcester itself, and has run above the change in general population**

Chart 6: Unemployment Rate (Not Seasonally Adjusted)



Source: Massachusetts Department of Economic Research

Chart 7: Total Civilian Employed Population, 2012-2022



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates (Table DP03)

growth. Using the ACS estimates, the employed population in Worcester has **grown 22.85% since 2013, while in the Worcester MSA it has grown 10.27% (comparatively, population has grown 12.48% and 5.84% respectively).**

Most workers in Worcester and in the Worcester MSA are working in “management, business, science, and arts occupations” (MBSA); in terms of industry, most workers can be found in the “Educational Services, and Health Care and Social Assistance industries.”⁵ Occupations can, of course, cross industries (a marketing manager, for example, could work in health care, retail trade, and construction. In Worcester, according to Census microdata, 165 marketing managers work in two industries: “scientific research and development” and in “Civic, Social, Advocacy Organizations, And Grantmaking And Giving Services”). These numbers, overall, do reflect



Worcester's strong medical, life science, and higher education industries. **About 60.9% of workers in "Educational Services, and Health Care and Social Assistance" are working in an MBSA occupation, according to the latest Census figures.**

Between 2013 and 2022 the number of people working "Educational Services, and Health Care and Social Assistance," increased in Worcester by 39.39%; in the Worcester MSA, it has grown 9.06%. Worcester itself has experienced a greater percentage growth in the number of residents working in this industry as compared to the United States, which itself has seen growth of 12.08%. In terms of the number of people working in "Management, Business, Science, and Arts" occupations, Worcester has seen 46.77% growth since 2013 and the Worcester MSA has seen 24.5% growth. Worcester's growth in residents that identify as having one of these occupations has run above the national percentage change of 31.03% since 2013.

If we consider all workers in Worcester and think simply about the percentage of those workers that are employed in the "Educational Services, and Health Care and Social Assistance" industry, Worcester's growth has been similarly dramatic: **in Worcester, the percentage of workers working in this industry has experienced a percentage increase of 13.47%, while in the Worcester**

MSA it has decreased by 1.10%. The table below shows the percentage of residents in Worcester and the Worcester MSA working in each occupation and industry category.

We have also included maps on the next page from the American Community Survey for where people employed in "educational services, and health care and social assistance" reside in the City of Worcester, as well as people employed in MBSA occupations. Both maps show the percentage of employed residents in that tract (using the ACS definition of employment) that are employed in these industry and occupation super categories. The census tracts with the highest percentage of workers in these occupations are found on the west side and just south of Route 9; the census tracts with the highest percentage of workers in the chosen industry are more evenly distributed across the entire city.

REMOTE WORK AND COMMUTING

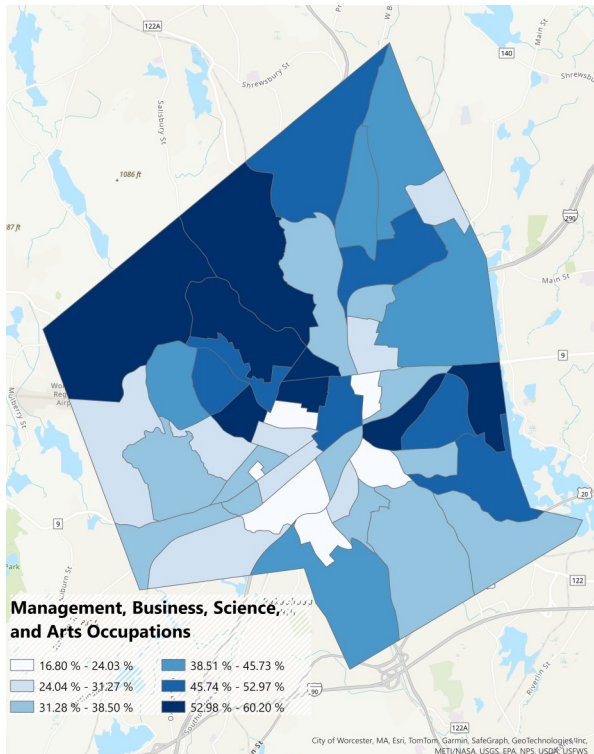
One thing that could affect commercial space going forward is the incidence of remote or hybrid work. According to the American Community Survey (Table S0801), **in 2022 11% of working Worcester residents reported working from home, compared to 6.9% in 2019** (compare this to 15.2% nationally in 2022, and 5.7% in 2019). Additionally, **Worcester's incidence of remote work is lower than Boston's** (20.9% of residents

Table 1: Percentage of Residents Employed by Industry

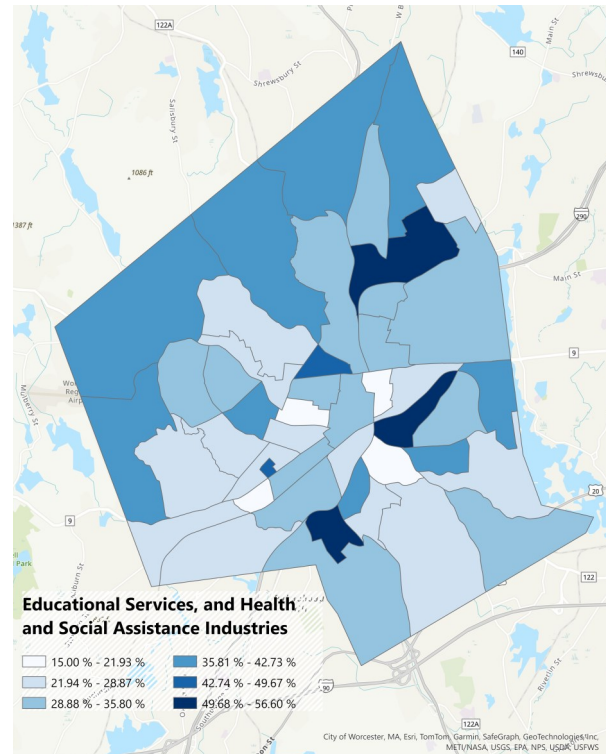
Occupation	City of Worcester	Worcester Metropolitan Area (Worcester MA-CT Metro)
Management, Business, Science, and Arts Occupations	42.33%	45.62%
Service Occupations	20.09%	15.01%
Sales and Office Occupations	17.44%	18.29%
Production, Transportation, and Material Moving Occupations	13.07%	12.19%
Natural Resources, Construction, and Maintenance Occupations	7.08%	8.89%
Industry	City of Worcester	Worcester Metropolitan Area (Worcester MA-CT Metro)
Educational Services, and Health Care and Social Assistance	35.24%	27.45%
Retail Trade	10.47%	10.45%
Professional, Scientific, and Management, and Administrative and Waste Management Services	10.14%	12.14%
Manufacturing	9.73%	11.69%
Arts, Entertainment, and Recreation, and Accommodation and Food Services	8.52%	7.19%
Transportation and Warehousing, and Utilities	6.03%	5.34%
Construction	5.55%	6.98%
Other Services, Except Public Administration	5.11%	4.45%
Finance and Insurance, and Real Estate and Rental and Leasing	3.20%	6.12%
Public Administration	2.72%	3.69%
Wholesale Trade	2.50%	2.31%
Information	0.71%	1.47%
Agriculture, Forestry, Fishing and Hunting, and Mining	0.08%	0.71%
Total Civilians in Labor Force	106,178	505,016

Source: U.S. Census Bureau, American Community Survey 2022 1-Year Estimates (Table DP03)

Map 1 & 2: Percentage of Census Tract Residents Employed in MBSA Occupations (LEFT) and “Educational Services, and Health and Social Assistance” Industries (RIGHT)



Source: U.S. Census Bureau, American Community Survey 2022 5-Year Estimates (Table DP03)



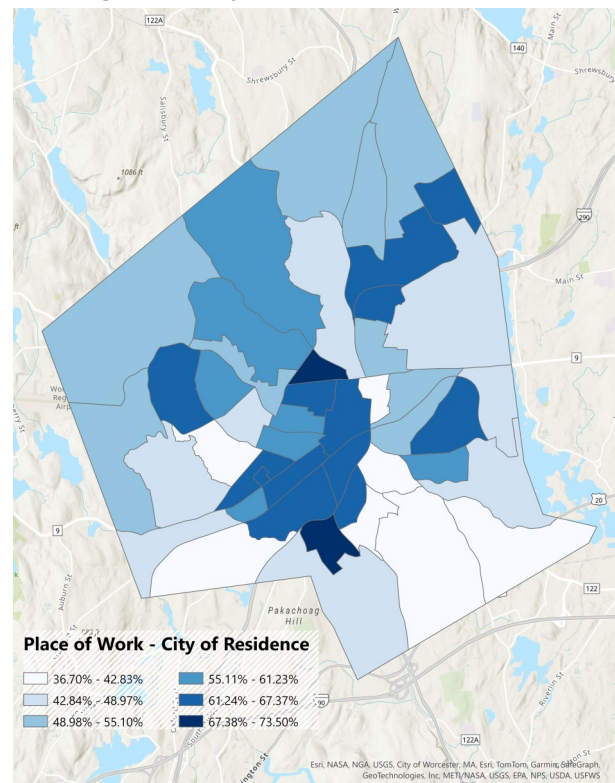
reported working from home) and Lowell (11.8%), but higher than Springfield (8.8%). Indeed, the change in percentage of residents living in and working remotely in Boston increased significantly over the same time period—from 4.1% in 2019 to 20.9% in 2022—indicating that Boston may have a different set of problems regarding CRE in coming years with more people working remotely (including those who live outside of the city and who may no longer be commuting in at all).

Finally, Map 3 shows the percentage of people in each census tract in Worcester that work in the city itself (as opposed to commuting outside of the city for work). The percentages range from 36.7% to 73.5%, with the highest percentages of workers living downtown and through Main Street. **Overall, 52.9% of Worcester workers live and work in the city.**

ASSESSOR DATA

In the FY23 assessing data about commercial properties provided to the Bureau, **312 parcels in Worcester were classified as “Office”** (some parcels have more than one building on them). This included 221 parcels classified as “general office buildings,” 33 parcels are “bank buildings,” and 58 are “medical office buildings.” **This, of course, does not mean that there are only 312 parcels in Worcester with office space**—but rather that those 312

Map 3: Percentage of Census Tract Residents Working in the City



Source: U.S. Census Bureau, American Community Survey 2022 5-Year Estimates (Table S0801)



are focused largely on office space use, in accordance with Massachusetts' assessing guidelines. Other commercial spaces—such as mixed use, primarily commercial space—may also include office space for sale or lease. In general, mixed use space, whether primarily residential or primarily commercial may have some office space whether at ground level or above ground-level retail. In the three year period of data available to use, FY21-FY23, nominal assessed values of office space has been increasing.

Map 4 on the next page shows parcels (not buildings—some parcels have multiple buildings on them) in the Central Business District (defined here as Census Tract 7317) that are classified in some way or form as an office building. **This data is as of FY23; parcels are always subject to change, especially if building owners sell or redevelop space into something else.** Map 5 shows downtown parcels classified in some way as retail (including mixed use parcels, which are defined as having retail at ground level, which could include eating or drinking). These retail parcels downtown included:

- ▶ 27 mixed use, primarily residential parcels (retail at ground level, and residential space above)
- ▶ 12 small retail parcels less than 10,000 square feet
- ▶ 11 mixed use, primarily commercial parcels (retail at ground level, other kinds of commercial space, such as office space, above. Sometimes residential uses)
- ▶ 9 exclusively eating and drinking parcels

The maps include a legend with the property codes utilized in making the map, and includes the number of parcels in parentheses that correspond to those codes.

This is not the total extent of commercial property downtown, but simply a selection of properties—office and retail parcels—that would, as seen earlier, generally interact (i.e., workers in offices utilizing retail opportunities near their place of business). These are compounding spaces, in which demand for one may drive demand for the other.

Map 6 and Map 7 show the same information, office space and retail, for the Canal District and Green Island (defined as Census Tract 7325). While office space in the Canal District is nowhere near as widespread as in downtown, there are more retail spaces than there are in the Central Business District.

The Research Bureau chose to include the Canal District here because of its importance as a growing neighborhood and business district for the City, as well as

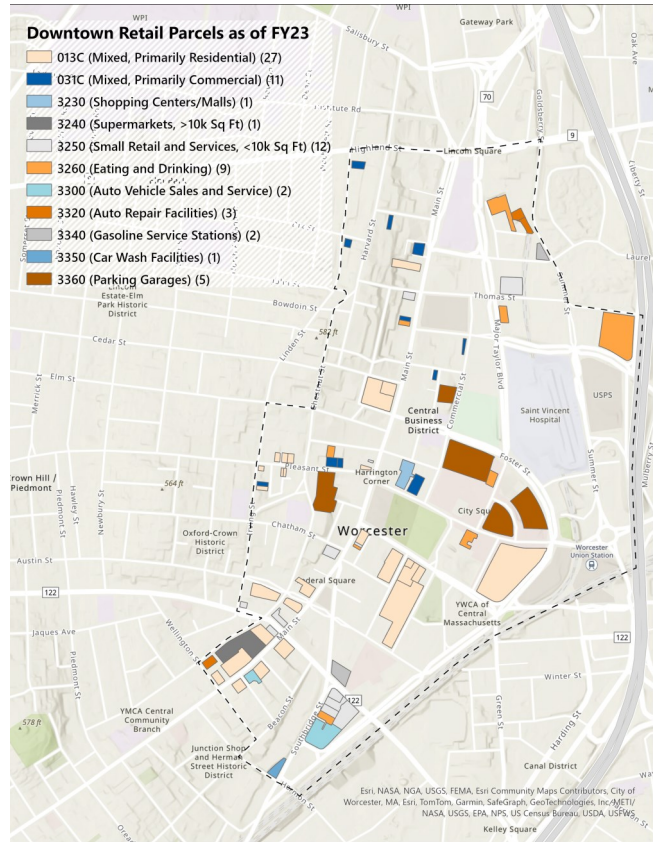
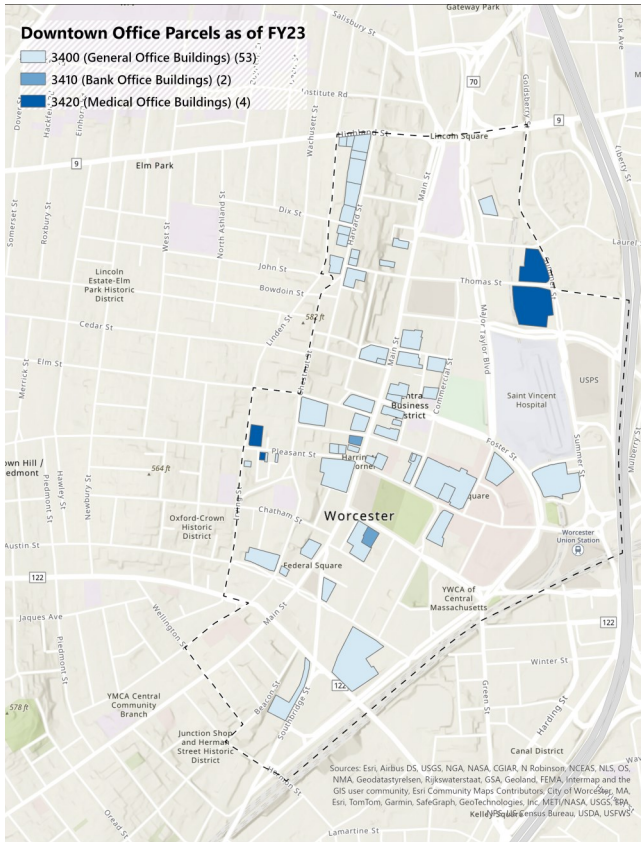
its frequent appearance in the news as new residential properties take shape and retail opens and closes throughout the neighborhood. Some of the retail parcel highlights, as of FY23, included:

- ▶ 33 mixed use, primarily residential parcels (again, retail at ground level, and residential space above)
- ▶ 27 small retail parcels less than 10,000 square feet
- ▶ 15 exclusively eating and drinking parcels
- ▶ 13 auto repair facilities
- ▶ 12 mixed use, primarily commercial parcels (retail at ground level, other kinds of commercial space, such as office space, above. Sometimes residential uses).

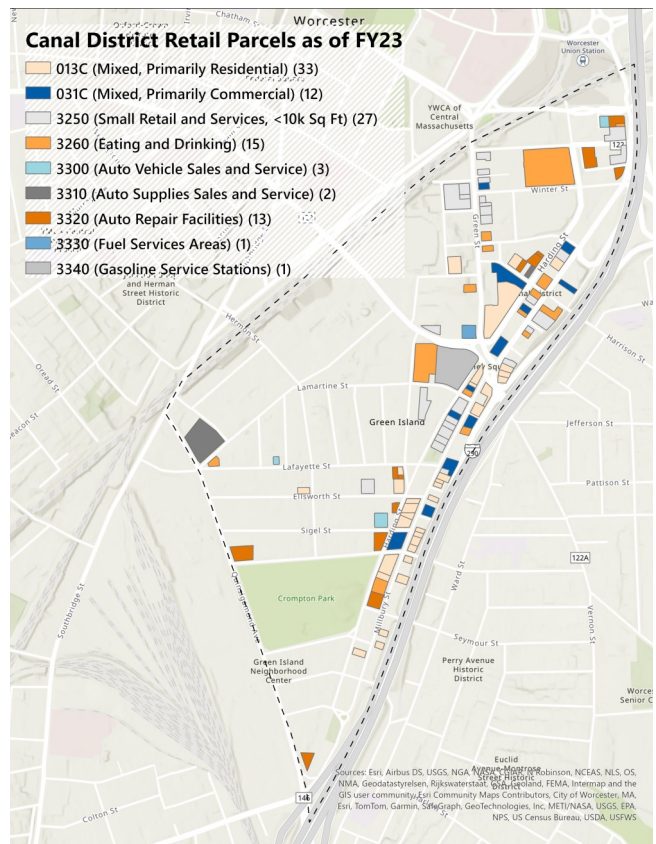
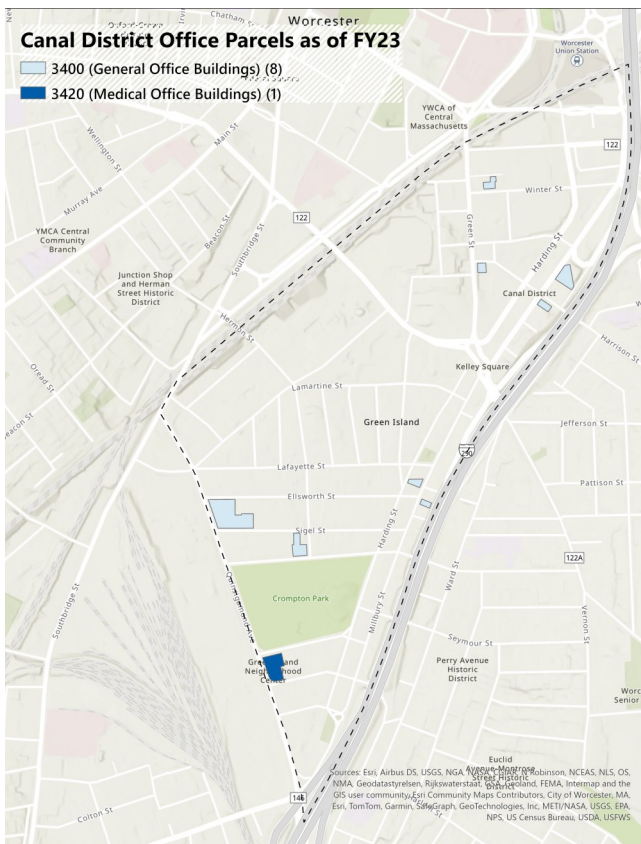
The Research Bureau has also developed an interactive dashboard that allows users to explore commercial parcels citywide, not just in the downtown or in the Canal District, using FY21, FY22, and FY23 data. That can be found [here](#). The dashboard allows users to explore commercial and industrial parcels of all types, to see the fiscal assessment data from FY21, FY22, and FY23, and to explore other information about the parcels, including the types of buildings that might be on the parcels as well. **Again, the parcel classifications and locations are from FY23, and may have changed since the data was first collected, as buildings change hand and use frequently.**



Maps 4 & 5: FY23 Downtown Office Parcels (Left); FY23 Downtown Retail and Mixed Use Parcels (Right)



Maps 6 & 7: FY23 Canal District Office Parcels (Left); FY23 Canal District Retail and Mixed Use Parcels (Right)



Source: City of Worcester, City Assessor Office; City of Worcester GIS, Department of Innovation and Technology

OTHER INDICATORS: COMMERCIAL SPACE BUILDING PERMITS

Another potential indicator of healthy commercial space is the number of building permits (which includes new construction, renovation, alterations, additions, and the like) issued for commercial space in the city. As the following charts demonstrate, building permits for commercial space have made up between 10 and 20% of all issued permits, and total project costs (in nominal dollars) have accounted for between 25 and 84% of total project costs for all issued building permits.

Finally, chart 10 shows the year-over-year percent change in issued commercial building permits, compared to all other permits (including residential, educational, municipal, and unspecified). Each bar represents the percent that issued permits differed from the year before—as we can see, 2023 had many more issued compared to 2022, and 2022 had fewer issued than 2021.

Chart 8: Percentage of all General Building Permits that Were for Commercial Properties

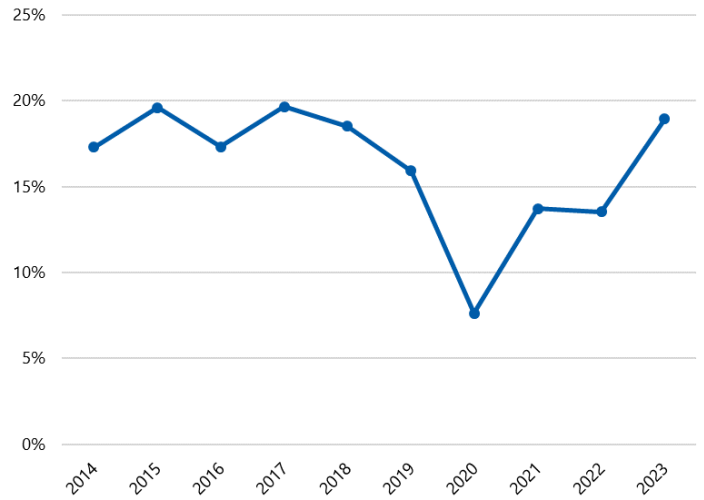


Chart 9: Percentage of all General Building Permit Construction Costs that Were for Commercial Properties

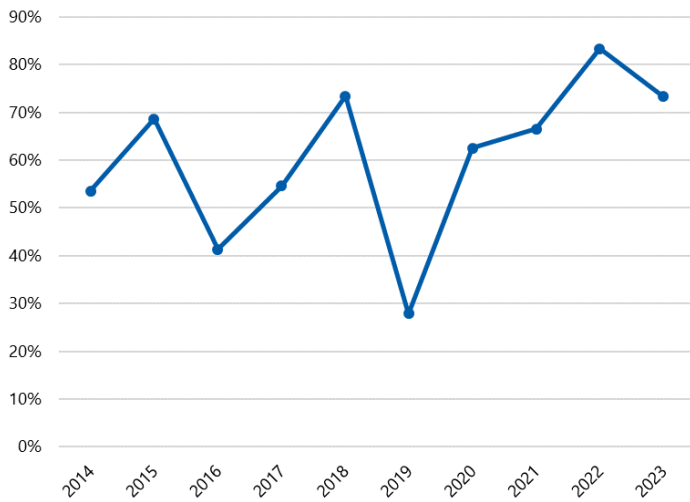
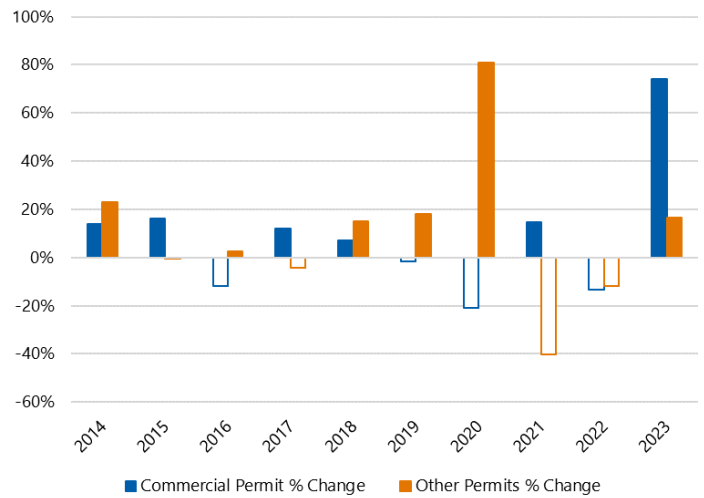


Chart 10: Year-Over-Year Percent Change of Issued Building Permits, Commercial vs. All Other Project Types



Source: City of Worcester, Inspectional Services. Note: 2020 should be considered an outlier year, as a large number of permits were issued as "unspecified."

CONCLUSION

Thriving commercial real estate is vital to the health of a city. It is vital to the revenues of the city and to the fiscal health of a city's finances; it is vital to the spread of all kinds of knowledge; it is vital to the economic health of a city's residents. While data regarding the use of commercial space is not generally publicly available the proxy data trends that we do have for Worcester writ large are generally positive. If looking at net absorption data for office space, for example, the past five of eight quarters have been stable to positive. If looking at American Community Survey data regarding types of occupations and industries, the number of Worcester

residents in "Management, Business, Science, and Arts" occupations has seen greater percentage change in the last ten years than the United States as a whole (46.77% vs. 31.03%); the same is true of the number of Worcester residents working in "Educational Services, Health Care and Social Assistance," which has grown by 39.39% since 2013, compared to 12.08% nationally and 9.06% in the Worcester MSA. Additionally, Worcester has had a lower incidence of remote work than Boston, though more people commute to work outside Worcester than Boston (75.5% of Boston workers report working in the city, compared to Worcester's 52.9%).



Still, there are a few important things to note and to watch for in coming years that were not touched on in this report—and that would require more data. One is to watch that commercial space, especially office space, continues to be used. Although remote work in Worcester is lower than in Boston, the growth of remote work could affect commercial values. The use of space plays a role in assessments, so if space is not being used, assessments, and therefore tax revenues, will decline, necessitating cuts in other areas. Indeed, this is already a concern in Boston, [as noted in a recent Boston Policy Institute and Center for State Policy Analysis at Tufts University report](#). Worcester does not rely on commercial, industrial, and personal property tax revenues in the same way that Boston does, but declining commercial tax revenue would be a concern nonetheless. Worcester's strong educational and healthcare related industries should help Worcester weather any such storm caused by vacant office spaces.

If, ultimately, there are fewer workers going into office spaces, there may be fewer workers buying from local retail. One way to ameliorate this problem, though not completely solve it, is to build more mixed-use housing that would allow residents to interact with retail—indeed, this is a major part of the zoning overhaul called for in the [Worcester Now | Next citywide comprehensive plan](#). Still, healthy commercial space, especially offices, is something that should be desired by all.

Those concerned with a vibrant city should also keep a wary eye on retail closings. There have been several headlined closings in recent years, and interested

policymakers and residents should note the conditions in which those closings occurred (including the national inflation rate) and their domino effects. The pandemic affected cities, economies, and lifestyles everywhere. It is worth considering how the pandemic might have affected commercial space, in Worcester and beyond, from national changes in remote work and commuting to the inflationary challenges that were driven by it.

Initiatives and organizations like the Downtown Worcester Business Improvement District have been important in keeping an eye on and improving downtown business conditions. The City has also had three Transformative Development Initiative (TDI) Districts, a designation by MassDevelopment that provides technical assistance, small business grants, and other help to economic visions within those districts. The first was around the Hanover Theater; the second, which ended in September 2022 was in the Main South neighborhood; the third, and current, TDI is along the Pleasant Street corridor. These districts have the potential for transformational change in the economic outlook of a particular neighborhood, and could drive the opening of new commercial space and the revitalization of existing commercial space.

Afterall, a vibrant city requires vibrant commercial space. Cities require commercial space to be built and utilized in order to continue to provide key public services to the people who live within them. Residential and commercial space needs to grow and thrive if a city is to remain resilient through the remainder of the 21st century and beyond.

ENDNOTES

¹ An arms length sale is a sale that does not involve any compulsion to buy or sell on the part of the buyer or seller. Each side enters into the transaction of its own accord, for its own self-interest, and with little or no previous relationship with the other (i.e., buying a home from a stranger is an arms-length sale, provided the sale utilizes fair market value prices).

² The Worcester MA-CT Metropolitan Statistical Area is a metropolitan division used by the U.S. Census Bureau and the Federal Bureau of Labor Statistics, based on commuting patterns, which includes all of Worcester County and part of the micropolitan area around Putnam, CT.

³ At this point, in order to limit confusion, we have chosen not to also include data from the U.S. Bureau of Labor Statistics, which currently amasses data for Worcester using a division similar to the MSA called a "NECTA" or, New England City and Town Area. The Worcester MA-CT NECTA is similar to the MSA but only includes about half of Worcester County.

⁴ Again, we have elected to use Census Bureau ACS estimates here for comparability across all other data sets. Additionally, ACS surveys households all year, which may affect the total employment numbers as individuals may have different answers to questions about employment or labor force participation at different points in the year. See the following two links for a better understanding of [U.S. Census Bureau ACS Methods](#) and [Bureau of Labor Statistics Methods](#).

⁵ The U.S. Census Bureau uses the North American Industry Classification System (NAICS) to classify industries, and these occupation and industry listings here represent "super categories." There are 569 different occupations and 270 industries listed within the U.S. Census. Occupations describes the work that people do; industries are where they do that work. There are five "super categories" of occupation listed in the ACS, and thirteen "super categories" of industry.



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