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REPORT ON BUSINESS

Suburbs lose out to the bright lights of downtown

Banks, insurance companies and tech firms will increasingly pay more to appeal to the brightest workers

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The recession of the early 1990s devastated office markets in major Canadian cities. Back then, real estate watchers noted a marked increase in companies fleeing downtown cores for the fast-growing suburbs.

Companies, nursing their battered bottom lines, found cheaper rents and in some cases lower taxes in suburban industrial parks. In many cases, their employees, many of whom had long since settled in the outlying areas, were only too happy to make the move.

But during the recession of 2008, the same industry watchers noticed a near 180-degree shift. Companies in Toronto, Calgary, Montreal and Vancouver started migrating back downtown, led by financial firms and business-services providers.

The result? According to a recent report by real estate consultancy CB Richard Ellis Canada, vacancy rates in the fourth quarter of 2010 stood at 8 per cent nationwide for downtown office space, compared with 11.2 per cent out in the suburbs. The same report found that average downtown Class A rents were $6.50 per square foot higher than those in the suburbs, where rents have failed to bounce back as quickly.

Why have downtown markets seemingly bucked recessionary pressures at the expense of their once-resilient suburban competitors?

According to John O'Toole, CBRE's Toronto-based executive vice-president, Canada's office market isn't necessarily seeing a full-fledged flight from the suburbs into the city core. Instead, financially sound companies in knowledge-driven sectors, who already occupy urban offices, are gobbling up more downtown space.

Adding to this, suburban office markets in major cities – many of which host major U.S. multinationals – have been beaten down by economic circumstances south of the border. “Take the Greater Toronto Area as an example,” Mr. O'Toole explains. “Part of the reason we haven't seen the absorption of space in the suburbs is largely because of the number of Canadian head offices of large U.S. corporations that have facilities there.”

The story is different for major Canadian firms.

Telus, Royal Bank and CI Investments have occupied hundreds of thousands of additional square feet in Toronto's core over the past two years. Major factors were the chance to embrace strong branding opportunities – namely, the signage on the top of the building and the naming rights that major corporations so highly covet – and attract well-educated, sophisticated workers.

“Tenants and their employees are really looking for more of the amenities that downtowns have to offer,” Mr. O'Toole says.

“What's really important when you look at some of the users who have expanded or made a

The new Telus Tower in downtown Toronto is a showpiece of environmental design and energy efficiency, one of the traits in a workplace sought by younger workers.

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President of Toronto-based Real Facilities. Inc.

commitment downtown – like Royal Bank with their new building and Telus with theirs – is that it's all about retention and attraction of employees.”

And if that means shrinking the size of cubicles to cut costs and maintain that downtown presence, so be it. Ten to 15 years ago, Mr. O'Toole points out, the average employee might occupy 250 square feet of space. Today it's as little as 125 square feet.

Some firms, however, will maintain their suburban presence, among them pharmaceutical and engineering companies as well as big consumer brands, predicts Stan Krawitz, president of Toronto-based real estate brokerage Real Facilities Inc.

But firms looking to gain an employee recruitment or retention advantage by clustering downtown – say, big banks, insurance companies and some tech firms – will gladly pay more in rent.

“If your employee base is the knowledge worker who is between 20 and 30 years old, it doesn't matter what you offer them – if you relocate to the suburbs, they're not going,” Mr. Krawitz says.

“That's why you see the escalation in demand for brick-and-beam space, that's why you see the ad agencies clustering together.”

In the case of Edmonton-based architecture and engineering firm Stantec, a decision to consolidate its seven Toronto-area offices in 2008 was followed by an appeal from downtown-based employees after a possible suburban relocation was floated.

The firm eventually decided to not only maintain – but soon expand – that urban presence despite having to pay an extra $10 a square foot for downtown space.

“Our architectural group was in the downtown core, and they felt that staying there was important to attracting and retaining the young people they wanted to be part of their future,” says Stantec's vice-president, Brian Sirbovan.

The rise in demand for LEED-certified space and availability of public transportation are significant for driving or keeping some firms downtown, says Jan Sucharda, president and chief operating officer, Canadian commercial operations, for property-management firm Brookfield Properties.

Many major tenants, he says, insist on being in either newly built or retrofitted buildings that carry LEED certification. “Then when you add the fact that people can take transit, walk or ride a bike to work, it reduces the carbon footprint for the entire organization rather than seeing a parking lot full of cars in the suburbs,” he adds.

It's a trend he sees continuing as cities and provinces upgrade their infrastructures and transportation to bring people downtown.

“I can only imagine it getting stronger.”

WHAT WORKERS WANT

– It's no secret that downtown corporate digs are a draw for Generation Y employees who love working, living and playing in a busy metropolis. In fact, those same young people will even shop for employers that have funky, functional and fully stocked offices. Here are five items on their wish list, according to Richard Yerema, the Toronto-based managing editor of the annual Canada's Top 100 Employers ranking:

– ***Well-designed spaces:*** To those in their early 20s to mid-30s, a civilized office includes Wi-Fi, natural light, an open-plan seating arrangement and an outdoor patio. Ideally, it will be in a converted brick-and-beam factory space with great views for everyone. The days of the corner office window view being reserved for the boss are considered antiquated.

– ***Fitness facilities:*** Gen Y doesn't want to leave the building to work out. Staying fit for company volleyball games or an after-work run are crucial.

– ***Employee lounges:*** The dot-com cliche of the beanbag-strewn office lounge with fully stocked beer fridge, 50-inch flat screen TV and foosball table didn't die in the early 2000s. In fact, Mr. Yerema has even seen companies offer rehearsal space for employee bands. For those about to work, we salute you!

– ***Prime location:*** Young workers aren't just satisfied to work downtown. They want a prime location with easy access to transit, bicycle lockups (and onsite shower facilities) and nearby restaurants and services.

– ***Eco-credibility:*** Environmentally conscious workers are increasingly seeking out employers that pay attention to green issues and occupy LEED-certified offices, Mr. Yerema says. Roof-mounted solar panels or a green roof are an added bonus.