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# Remote Work Is Killing the Hidden Trillion-Dollar Office Economy

From airlines to Starbucks, a massive part of our economy hinges on white-collar workers returning to the office.

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Coronavirus Pandemic

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## Take-Aways

- An overlooked ecosystem of businesses is suffering: the service firms and people who tended the office workers – who are gone.
- Businesses will save on leasing space and employees on commuting, but at what cost to the rest of the economy?
- The losses for the travel and hotel sectors amount to a tsunami.
- Companies have shed workers, who are now abandoning cities for cheaper rents and more space.

## Recommendation

Steve LeVine, editor-at-large of *Medium*, reminds readers of the small businesses that catered to, fed, dressed, entertained and cleaned up after office workers and commuters. Hotels, airlines, dry cleaners, restaurants, upscale clothiers and janitorial firms served that workforce...until it was gone. Some offices may reopen, at half staff, but some firms have canceled their office leases and declared remote work permanent. LeVine finds that airlines, hotels, vendors and urban office centers must lower rents and fees, downsize and re-invent themselves, or die.

## Summary

### **An overlooked ecosystem of businesses is suffering: the service firms and people who tended the office workers – who are gone.**

In early 2020, COVID-19 forced a mass lockdown of US businesses, sending most office workers home to work remotely. The largely invisible foundation that supports bustling central business districts – the service economy catering to white-collar employees at work – has received little attention. These companies include the dry cleaners, cobblers, pharmacies, gyms, florists and food cart vendors who served the now nearly empty skyscrapers in the quiet city centers.

*“A result has been the paralysis of the rarely remarked-upon business ecosystem centering on white-collar workers, who, when you include the enterprises reliant on them, account for a pre-pandemic labor force approaching 100 million workers.”*

Businesses decimated by this retrenchment include the old and new and the rich and poor. Venerable Brooks Brothers and J. Crew filed for protection under the bankruptcy laws. Food delivery companies like Grubhub and UberEats find themselves unnecessary if workers walk from their dens to their kitchens for lunch.

Caffeine and the white-collar worker have been linked inextricably since coffee arrived in early 17th-century Europe. Within a few decades, hundreds of coffeehouses filled London to cater to businesspeople. But, to give one example, on Starbucks' quarterly earnings call in July, 2020, it blamed a \$2 billion loss on “deserted urban office corridors.”

The formerly thriving airline business sits grounded; business travel accounted for 60% to 70% of its revenues. Face-to-face Zoom business meetings bring workers and consultants worldwide together without anyone buying a ticket, checking into a hotel or renting a car. Analysts surmise that people may avoid such travel for the next two or three years, which would be very destructive for the travel industry.

## **Businesses will save on leasing space and employees on commuting, but at what cost to the rest of the economy?**

Large corporations are embracing COVID cost-cutting opportunities. Major companies including “JPMorgan Chase, Ford Motor, Twitter and REI,” have committed to a long-term remote workforce. Pinterest is making the change permanent and will pay an \$89.5 million contract penalty to withdraw from its lease on a planned office building in San Francisco.

Before office buildings and expressways, Roman scribes worked in public plazas surrounded by government offices and merchant stalls. The birth of the skyscraper followed “electrification of lighting, elevators and underground trains.” Bringing workers to the central city required the internal combustion engine and the underground train.

*“Tens of thousands of workers in the office support economy – those who ‘feed, transport, clothe, entertain and shelter people when they are not in their own homes’ – will lose their jobs.”*

Once white-collar workers arrived in the city, industry had to maintain the commute-to-office equation: machines needed operators to run them and mechanics to fix them; workers needed prepared food for lunch and better wardrobes, since they saw their colleagues and clients every day. They required transportation within the city and entertainment after work. Everything, from streets to buildings to clothes, required regular cleaning.

The pandemic brought this commuter culture to a halt, and some aspects of it may never return.

## **The losses for the travel and hotel sectors amount to a tsunami.**

Business travel in July 2020 declined 97% year over year. American Airlines now plans to cut 55% of its flights by eliminating service to 15 cities. Virgin Atlantic filed for bankruptcy in August 2020. MGM Resorts will lay off 18,000 employees, one-quarter of its normal staff. The Marriott Corporation reported the worst second quarter losses in its history. The American Hotel and Lodging Association, representing hundreds of hoteliers, asked Congress for forbearance on their mortgages.

*“This has been a 50-state natural disaster of sorts, where the buildings have been left standing and largely vacant.” (Mark Hamrick, chief economist at Bankrate)*

Xerox saw a 34.6% drop in quarterly revenue, because empty offices require no new equipment. Arenas and schools haven’t been hiring catering services, as evidenced by Aramark’s 45% drop in quarterly revenue.

## **Companies have shed workers, who are now abandoning cities for cheaper rents and more space.**

In August 2020, Goldman Sachs reported that large numbers of people are departing from New York City to live in the Carolinas, Georgia and Florida. San Francisco is losing tech and white-collar workers. Smaller city

centers, such as Columbus, Ohio, are experiencing a similar loss of office-based shoppers. A National League of Cities survey found that 90% of cities anticipate an average 13% revenue loss.

*“Regardless of the length of the recovery, it looks likely that airlines and hotels will have to shrink, die or reinvent. And, in a profound forced makeover, the cities will have to re-imagine themselves as well.”*

Notably, in spite of wars, natural disasters and pandemics, few major cities ever disappear. Most slowly regain their size and character after whatever disasters occur. But how long might such a recovery take in the slipstream of the coronavirus?

The bombing of Japanese cities during World War II destroyed Japan’s economy. Yet, within 15 years, most urban areas had recovered. However, 15 years is a lengthy stretch of time in the careers of corporate managers, office workers and the people who depend on them.

Not all the fallout from this mass displacement will be negative. Congestion will fall, along with commercial and residential rents. That reduction, as well as softer real estate values, will attract attract new tenants and buyers who once could not afford property. Some businesses will close, but new ones will pop up to address the needs of recently arrived, more down-to-earth neighbors. A new normal – not the end of the world – awaits.

## About the Author

**Steve LeVine** is editor-at-large for *Medium*, reporting on tech, science and demographic issues to interpret today’s turbulence.



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