

Retailers need to adjust to the lasting changes in where people live and work

Article

The trend: The office occupancy rate in major US cities hit 50.4% in the last week of January, [per](#) Kastle Systems. That was the first time the office occupancy rate topped 50%

since the pandemic began in 2020.

- **However, a closer look shows that the figure has largely plateaued since September**, which suggests that a broad-based return to the office is unlikely to happen anytime soon.
- **That's making life tough for retailers and restaurants that cater to downtown office workers.** For example, fast-casual salad chain **Sweetgreen** noted in its November earnings call that hybrid work schedules in which few people venture to offices on Mondays and Fridays have hurt its sales.

Lasting changes: Where people live and work has undergone a dramatic transformation over the past three years.

- **The number of people who primarily work from home more than tripled between 2019 and 2021**, [per](#) the US Census Bureau.
- Commercial real estate companies such as RXR have resigned themselves to the reality that workers are unlikely to return en masse to many downtown office buildings, [per](#) The Financial Times.
- **Given their growing flexibility, many high-income residents have moved from downtown areas to suburbs or smaller, less expensive cities** such as those in the Sun Belt.
- **That has shifted demand to smaller cities and suburbs.** As a result, those growing areas have seen retail establishments open, while larger cities have seen closures, [per](#) a JPMorgan Chase Institute report. For example, San Francisco had 6.5% fewer retail establishments at the end of Q4 2021 than it had in Q4 2019, while Phoenix had 4.1% more establishments. Within metropolitan areas, close-rung suburbs have seen growth while downtown areas have seen declines.

Meeting demand: As retailers' leases come up, they may need to reassess their [store mixes](#).

- **The 10 fastest-growing areas for dining in the US are smaller cities or suburbs** such as New Haven, Connecticut, and Ontario, California, [per](#) restaurant reservation company OpenTable, which compared 2023 data this year with pre-pandemic, 2019 figures.
- That's why a **growing number of destination restaurants are opening locations in the suburbs.** For example, Chicago-based restaurant group **DineAmic Hospitality** restaurant group opened its first two suburban restaurants this year, [per](#) The Wall Street Journal.

- It is also why luxury brand **Prada** recently [opened](#) a store in Austin, Texas.

Distance US Shoppers Are Willing to Travel for a Free Return, Sep 2022

% of respondents



Note: n=2,002 who made an online return in the past 12 months
Source: Happy Returns, "Returns Happen 2022," Oct 30, 2022

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The big takeaway: It's becoming increasingly clear that a return to the pre-pandemic office-centric downtown is not going to happen anytime soon (or maybe ever).

- Retailers and restaurants need to adapt to serve consumers closer to their homes, which may mean more restaurants like Sweetgreen popping up in close-rung suburban locations.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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