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RISE OF THE OUTPOST ECONOMY

HOW YOUNG PROFESSIONALS SEARCHING FOR SOMETHING NEW ARE SHAPING WORK

In search of a better life

Millions of Americans made a move this year. That in and of itself is not uncommon — more than 30 million people pick up and move on an annual basis.

What is unusual about this year is the increased flexibility millions of professionals have realized because of a changing economy and a months-long pandemic. Remote work is no longer an exception to the rule — it has become a new norm for people around the country. Companies from Twitter to Nielsen to Facebook to Nationwide Insurance have announced indefinite plans for remote work. Countless others are giving employees months to continue to work remotely.

This has provided people who have been thinking about moving from major metropolitan areas the opportunity of a lifetime — they can pack up and move elsewhere and, in many cases, keep their current position. Whether it's more affordable housing, easy access to outdoor activities, attractive amenities or just for a change of pace, some people with the ability to do so are picking up and moving from primary markets. They are not moving to a place specifically because a job is bringing them to that region. Rather, they are making conscious decisions about where they want to live — and their work follows.
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Outpost economy defined:

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The new American economic frontier

The **outpost economy** is the rise of a more dispersed economy and employment base away from major cities to smaller cities with high quality of life that draws workers who have become untethered from their physical place of work in major cities. The result is smaller regional hubs that form a major campus or offices for a larger business rather than one major centralized location where a majority of employees work. Typically, these regions are more affordable places to live that still offer amenities for younger professionals (i.e., an appealing entertainment and dining scene, easy access to the outdoors, great scenery, and some cultural amenities).

Outposts, expansion, and discovery are built into America's DNA. Meriwether Lewis and William Clark are famous for traversing the Western Frontier of the United States in the early 19th century. Lewis famously remarked, "As we passed on, it seemed those scenes of visionary enchantment would never have an end."

In the 1800s, Californian emerged as one of America's earliest outpost economies as businesses along the east coast established offices in San Francisco and propelled America's gold rush. The economies we envision outposting are—in part—extensions of HQ economies (such as Silicon Valley or Wall Street) but ultimately will continue to grow as a result of more people being able to work remotely or freely where they choose. Like these early American expeditioners, employees working from home are forging the way of the new American Economic Frontier.

A growing trend that gained steam out of necessity

Work-from-home and online office spaces have shifted the modern workplace and put the normal formula of a company's structure and orderliness on its head. This is not necessarily a new phenomenon — it's just that COVID has accelerated and brought remote work to the forefront of the conversation. According to Global Workplace Analytics, remote work in the United States has risen by 173% between 2005 and 2018. Industrial work saw a rise during the mid to late 19th century that was unprecedented at the time: as a vast number of Americans were farmers, small business owners, artisans, or craftsmen of some sort. However, the Industrial Revolution changed that.

The Age of Digitization will have a memorable chapter that is unfolding currently: the ability for workers to perform their labor duties from their computers at home. This work-from-home environment has opened new possibilities of actually relocating to the place where a person wants to live, rather than the place where they are employed. The displacement, or untethering, of employees is happening en masse now.

From displacement to outpost

The current work-from-home culture that has gained traction during the pandemic is a story of displacement. Tech companies are almost all working from home: higher-educated, more affluent professionals who once lived in bigger cities have decided to take a “gap year” and move to places like Alaska, Santa Cruz, Lake Tahoe or even back to their hometown.

With the freedom to work from virtually anywhere and spend less time in long commutes to and from the campus, these professionals have more time to enjoy life. They have more opportunities to save money, spend time with family and live in their desired location. And they are buying homes at a breakneck pace. The proportion of total households in the U.S. that own homes hit a 12-year high in the second quarter of 2020. While the trend started several years ago, it has markedly accelerated during the pandemic. Millennials in particular are rushing to buy homes. And Gen Z is joining in the trend — homeownership for people under 25 is up from 24 to 29 percent over a matter of months, according to United States Census data.

With the untethering of employees comes opportunities in the cities that attract these workers. Those who have the freedom to relocate and work remotely are, generally, the highly educated. Consequently, these communities are seeing an influx of well-educated, employed professionals who bring with them consumer spending and a preference for the experiential economy. As they become entrenched in the communities where they move, they will need work environments that are most conducive — which in many cases does not mean a home office.

The work-life pendulum swing

Pre-pandemic, the pendulum of work-life balance swung toward “work” for the younger generations who built their lives around the cities where they were employed. Now, millennial tech workers are finally nesting. They’re focusing on life and some are finding their forever homes in smaller cities or more suburban locations; Gen Z will soon follow suit.

The pandemic has allowed them to do this because they’re no longer bound to a specific city for job opportunities. They’re exploring, considering new places and settling down, able to afford homes in secondary markets because the cost of living is cheaper. For instance, Sacramento is courting Bay Area professionals, and Lake Tahoe is becoming a hotspot for the tech crowd. And take average home prices in Colorado Springs, one of the hottest markets in the U.S.: The median home sales price is $380k, up more than 15 percent compared to last year.

As millions of professionals have become displaced from their physical office by COVID, so too have tech companies in primary markets. Employers have realized they don’t need to spend all this overhead on big-city offices if they allow their teams to work remotely long-term.

During this shift, they’ve learned their teams can be just as productive at home as they were in the office, if not more so. It’s a win-win: Companies save on office expenses and still get high-quality work, while employees enjoy the freedom to work from the comfort and safety of home.

As a result, there’s been a boom in homeownership, primarily driven to these secondary markets. This shift will convert to new innovation and entrepreneurship in those areas, spreading seeds from primary markets. Those relocating from New York, the Bay Area, Los Angeles, and other major markets are creating the outpost economies of the future.

Still, office space isn’t dead

While remote work has worked as a temporary solution for millions during the pandemic, a growing number of executives are understanding that this isn’t a forever solution for their business. The sentiment is summed up in this quote from Canon’s CEO Peter P. Kowalczuk in the Wall Street Journal from earlier this year: “We’re really a face-to-face business,” he said. “I don’t think offices are dead.”

Offices are not heading for the tomb, but the future of work is surely evolving. What had started pre-pandemic — employees granted greater flexibility from their employers because of technological advancements (i.e., better video calls, faster internet) — is now barreling down the highway. And many companies will follow. Organizations that understand the need to collaborate in physical space will lease new, smaller spaces in secondary markets and invite employees in the region to work in those spaces. It’s a natural extension of an untethered economy: While these smaller hubs may not be spaces that employees are required to work in daily, they can serve as useful centers of innovation, collaboration, and company culture/ camaraderie.

Decentralized approach to HQs

Historically, companies and employees have been located in primary markets due to talent density. Workers live where they work and go into their place of work Monday through Friday during a set period of time. Wake up, commute, work, commute, relax and repeat. In primary markets with folks living in suburbs and commuting to big cities, that commute block could be several hours per day. With the dispersion of workers seeking a higher quality of life in other communities in the wake of COVID, company infrastructure is also dispersing — companies are embracing a more cost-effective model.

Yes, companies still have headquarters and will always continue to do so. But we envision smaller regional offices that comprise a larger network of people within an organization. An “outpost” in this model could be a key employee who lives 100 miles out and commutes in one day per week. Or a network of people working several hours from a headquarters who form a smaller network and work in an office space there.

Companies extending their resources or creating smaller regional hubs are making a smart decision based on diversification of resources and of markets available. The saying “don’t put all your eggs in one basket” really rings true in corporate decision making. The economic situation of today suggests that it’s a better investment to operate out of multiple markets. It is the same kind of model that Ray Dalio, founder of Bridgestone Associates, uses when he picks stocks. Multiple locations reduce employer talent pool risk. Employers are working to create the optimal team — much in the same way you would choose an optimal portfolio. Diversity in employment — diversity in people, in locations, in backgrounds, etc. — leads to original ideas and approaches and an environment for innovation. There is more talent to go around when you’re not just centered in one place; not to mention, employees in smaller markets won’t demand the same compensation as employees in primary markets.

A look at 3 popular outposts

Data showing people moving in and out of cities already points to the fact that there are hundreds of thousands of professionals leaving expensive primary markets and heading to more affordable secondary markets. Here, we explore three markets leading the way in the outpost economy.

Austin

In many ways, Austin has set the bar for smaller secondary markets rising in popularity. The city's population has doubled from less than half a million to nearly a million in a 30-year period since 1990, while the region has swelled to a population of more than two million. Even non-Austinians know it to be an eclectic city with a thriving live music scene that mixes blues, country and rock and an unabashed acceptance of a non-conforming lifestyle — "Keep Austin Weird" is a slogan officially adopted by the Austin Independent Business Alliance.

So, it's no surprise that a city that embraces doing things differently would be home to the rise of an outpost economy. People have been moving to Austin well before the pandemic — and based on data from Bloomberg, the inflow of professionals moving to Austin is higher than in any other market.

As a result of the dot.com bust in the early 2000s, the Austin Chamber of Commerce launched its "Opportunity Austin" initiative, a regional economic development initiative aimed at fostering job-creating investment across the Austin region (which includes 20 cities across five counties in the greater Austin metropolitan area). For the past fifteen years, Austin has worked to develop the region, pointing to a 69 percent increase in jobs in the region since its 2004 launch and nearly $30 billion added in payroll.

"This year has been the best year ever in our history in terms of jobs announced from relocating and expanding companies," says Charisse Bodisch, senior vice president of economic development for the Austin Chamber. "Major household global brands are choosing Austin."

She's referring to the recent announcements from coastal California companies such as Oracle who selected Austin as their new headquarters and Tesla who is opening their Giga factory (GigaTexas) in eastern Travis. In Oracle's announcement, they pointed to the impact remote work has had. This is a Fortune 100 company that is acknowledging the inherent ability for many of their employees to work where they want. Interestingly enough, Oracle will maintain smaller offices across the country and Austin will become its new "hub."

Regarding Tesla, they will continue to have a physical presence in California, and the company will continue to expand operations in Austin. Elon Musk, the innovator behind the car company and SpaceX whose name is tied deeply with Silicon Valley, is reevaluating where he wants Tesla's principal foothold to be.

Bodisch, with the Austin Chamber, noted a recurring conversation she's had with CEOs and business leaders. "They'll share how they've combed through the U.S. for the best places to relocate businesses and see Austin as the top choice because of its talent base, favorable business climate in Texas, and Austin's attractive culture."

She added that Austin witnessed a surge in people coming to Austin during the pandemic. Young people with flexible schedules left primary markets on the coast. They would stay at an Airbnb for a few months and start nesting at some point. Given flexible work schedules and the option of indefinite remote work, some people are opting to purchase a home and stay in Austin for good. While Austin's Zillow Home Value Index—a seasonally adjusted value that only includes the middle price tier of homes—is $438k (home values increased by nearly 13 percent this year amid the pandemic), it is still relatively affordable when compared to the nearly $1.4 million Zillow home value index of San Francisco.

Charlotte

As one of the fastest-growing economic centers on the East Coast, Charlotte has seen a surge in activity as it makes more of a name for itself. It has a prime location--being equally distant from cities along the North Atlantic seaboard such as New York City and Boston and within striking distance of cities in Florida. You can reach nearly 53 percent of the American populace from Charlotte. Additionally, Charlotte offers many direct flights across the country and even nonstop to destinations in Europe, a perk that not all secondary markets in the United States can boast. Some of these factors are contributing to an increase in growth in the region — more than 40,000 jobs were added in the third quarter of 2020.

As workers embrace greater flexibility in an outpost economy, they're choosing to relocate to cities like Charlotte. A Bloomberg analysis of people changing their LinkedIn Zip codes (an indicator that they have moved) during the pandemic illustrates that Charlotte is one of the top 10 cities with the most inflow of new professionals this year.

Moreover, the Charlotte region is an affordable place to live in comparison to primary markets on the East Coast. The Zillow Home Value Index of Charlotte is just under $275k, making it a far more affordable option than the staple primary market on the east coast, New York City, where Zillow's Home Value Index is 660k. In spite of the pandemic, housing values spiked in Charlotte by 9.9 percent compared to New York City's 2 percent increase in 2020.

Major companies are taking note of Charlotte. Centene, a Fortune 42 Healthcare company that deals with insurance management, just relocated their headquarters from St. Louis to Charlotte, bringing with it over 3,000 jobs.

"This North Carolinian city has long been a magnet for companies originating in the Northeast and for individuals in the Midwest, particularly the Rust Belt," says Chuck McShane, the Senior VP of Economic Research with the Charlotte Regional Business Alliance. "Not only that, but Charlotte has also attracted around 200 mid-market German-based companies to gain a foothold in North America, pointing to the international interest in our " McShane went on to note that a large London-based company had also chosen Charlotte specifically for the same purpose.

iCharlotte has set up their region for success well before the pandemic. It is known as a very walkable city, which is a huge benefit to young professionals in their 20s and Europeans who aren't interested in dealing with a car or having to rely on public transit.

Sacramento

Sacramento has a unique advantage as a secondary market: It is about 90 minutes from the San Francisco Bay Area, arguably the tech hub of the world. So, for those who may need to be in a headquarters in San Francisco once a week, it is an appealing location.

That makes Sacramento a natural extension of the Bay Area, part of a hub-and-spoke model for tech firms in the region.

But make no mistake about it. Sacramento in and of itself is witnessing a surge in interest, particularly because of its affordability compared to larger cities nearby. In fact, the housing website Realtor.com anticipates Sacramento to be the top-growing housing market in the country in 2021. The site estimates the Sacramento area will see a 17.2 percent year-over-year increase in sales growth and a 7.4 percent increase in price.

“Sacramento has a housing advantage compared to other markets,” says Barry Broome, President and CEO of the Greater Sacramento Economic Council. “Our location in the most innovative corridor in the world coupled with a lower cost of living makes Sacramento an increasingly attractive place to live.”

Zillow’s Home Value Index for Sacramento is $387k (a number that increased by 11 percent during the pandemic), which is far lower than San Francisco’s Zillow Home Value Index of nearly $1.4 million.

Broome also notes the world-class education within a short drive of Sacramento. The University of California, Berkeley — a top public university in the country — is a 75-minute drive from the city. And, the University of California, Davis, another top university, is just outside of the city.

The pandemic has accelerated a trend already started: People are taking note of Sacramento and reconsidering it a viable place to relocate when they wouldn’t have in the past. It’s not just folks from the Bay Area looking to move, Broome said. People from across the country are evaluating Sacramento. Even global businesses — from India to Ireland to Brazil — are choosing Sacramento as a North American HQ.

The Greater Sacramento Economic Council has launched talent attraction campaigns to entice professionals to choose Sacramento. An example of the pull that workers now have in choosing where to work, the Council initiated a creative #NextOutWest marketing campaign to target young talent looking to relocate. In a news release announcing the campaign, the Council writes: “Since COVID-19, companies have been allowing employees, especially in the tech industry to work remotely. 42% of the U.S. labor force is now working from home full-time, according to recent research done from Stanford University. This campaign will specifically target tech workers in the Bay Area who are working remotely and looking to move.”

Highlighting its amenities — Sacramento is home to three professional sports teams, a thriving arts scene and family-friendly activities (not to mention 75 craft breweries) — the Council sees an opportunity to promote Sacramento at a time when outpost economies are thriving.

“Our region has a robust talent pool and Sacramento continues to rank No. 1 in the nation in net inflow migration with 50.6 percent of users searching for homes originating outside the metro. Bay Area residents make up the largest portion of migrants outside the region looking to Sacramento with 72.4 percent of out-of-town searches originating in the San Francisco area,” Broome adds. “We want our region to focus on capturing young talent as we continue to attract companies to the Sacramento region, especially as they consider moving to a hub-and-spoke model.”

The impact on primary markets from the outpost economy

There's an obvious reason why people have migrated to larger cities in the modern era, and these primary markets will not see a sudden receding effect in the near future due to their solidified historic importance. Primary markets like New York, San Francisco and Los Angeles have been economic hubs for major industries for the past century and beyond.

"After 9/11 and those horrifying pictures of planes hitting the World Trade Center, a lot of people predicted the death of high-rise office buildings," said John Sullivan, chairman of DLA Piper's U.S. real estate practice, in a recent USA Today article. That was an understandable sentiment, but it obviously proved false in the long term." While the nearsighted impulse might be to say that primary markets will be dead on arrival in the next five years, this is a misconstrued correlation and causation of the natural ebb and flow of the economies at play.

However, cities like Boston and Philadelphia—both still influential today in American commerce—have lost some of their economic superiority over the decades to cities further west that were not even in the picture in the 1790s, like Chicago or Los Angeles. It would be inaccurate to say that historic cities like Boston and Philadelphia have lost their influence, but the transition of economic power has shifted. The same standard holds true for economies in today's primary markets — particularly in commercial real estate as demand will rebound when pricing naturally decreases.

Once we see the rebound that comes in 2021 after a majority of Americans are vaccinated, we'll be able to sift through the short-term consequences of the pandemic and the long-term changes in regional economies. One such long term change seems to be unfolding as we speak. Los Angeles was home to five of the Fortune 500 companies but in recent past has slid to only having one call L.A. their home. Cost of living and real estate pricing were both high in Los Angeles and other cities that led to an incentivized reaction by companies—both large and small—to reevaluate the location of their geographical headquarters. These primary markets will get a little more affordable. Dipping commercial real estate and fewer tenants will actually release some of the pressure on the pressure valve, creating opportunities for new real estate investors.

Again, it is important to note that primary markets have an economic and cultural ecosystem that won't go away overnight. People who dispersed out did it for quality of life — for most, it was not a spur of the moment decision. Even COVID isn't radically reshaping people's opinions on relocation. Individuals were already frustrated by the dense urban environment, and the virus combined with the lockdown regulations put them over the top.

What does the outpost economy mean for real estate?

We've discussed the impact of the outpost economy on primary markets and the positive effect within several highlighted secondary markets that are forming these outposts. But what does the outpost economy mean for real estate?

Here are several key takeaways from what we're witnessing during this growth of the outpost economy.

1

Office demand will not decrease — in some markets, it will go up

A geographical shift is going to take place where office demand will be higher in certain secondary markets and slightly lower or stagnating in large primary markets. Secondary markets with offices with easy access for workers may become increasingly attractive — and we'll likely see commercial real estate investment in a number of secondary markets post-pandemic and for the foreseeable future. People will still need places where they can come together to connect, build relationships, collaborate and develop professionally. In markets that are growing, we will likely see more offices, whether firms relocating or larger companies setting up satellite "outpost" offices in an area. Furthermore, for existing businesses in these markets, where commute times are shorter, developments are less dense and real estate costs are lower, a permanent work-from-home environment is less compelling versus the value of the office work environment.

2

The value of downtown high rises will decline by 10 to 15 percent

We see this happening because there is post-COVID apprehension surrounding high-rise office buildings and companies will need a smaller footprint as relocated employee clusters create outposts. With the outpost economy comes less of a need for the singular, centralized HQ in a big city. The high status associated with being in a downtown high rise will recede as more affordable alternatives emerge in secondary markets. These smaller economies will give many businesses a better alternative versus being tied down with a long lease in an expensive, large space in the heart of a metropolis. A primary market contraction will temporarily reduce rental rates and value, which will lead to backfill of desirable high rise locations. Ultimately, the business ecosystem that makes primary markets compelling will lead to a recovery of values.

3

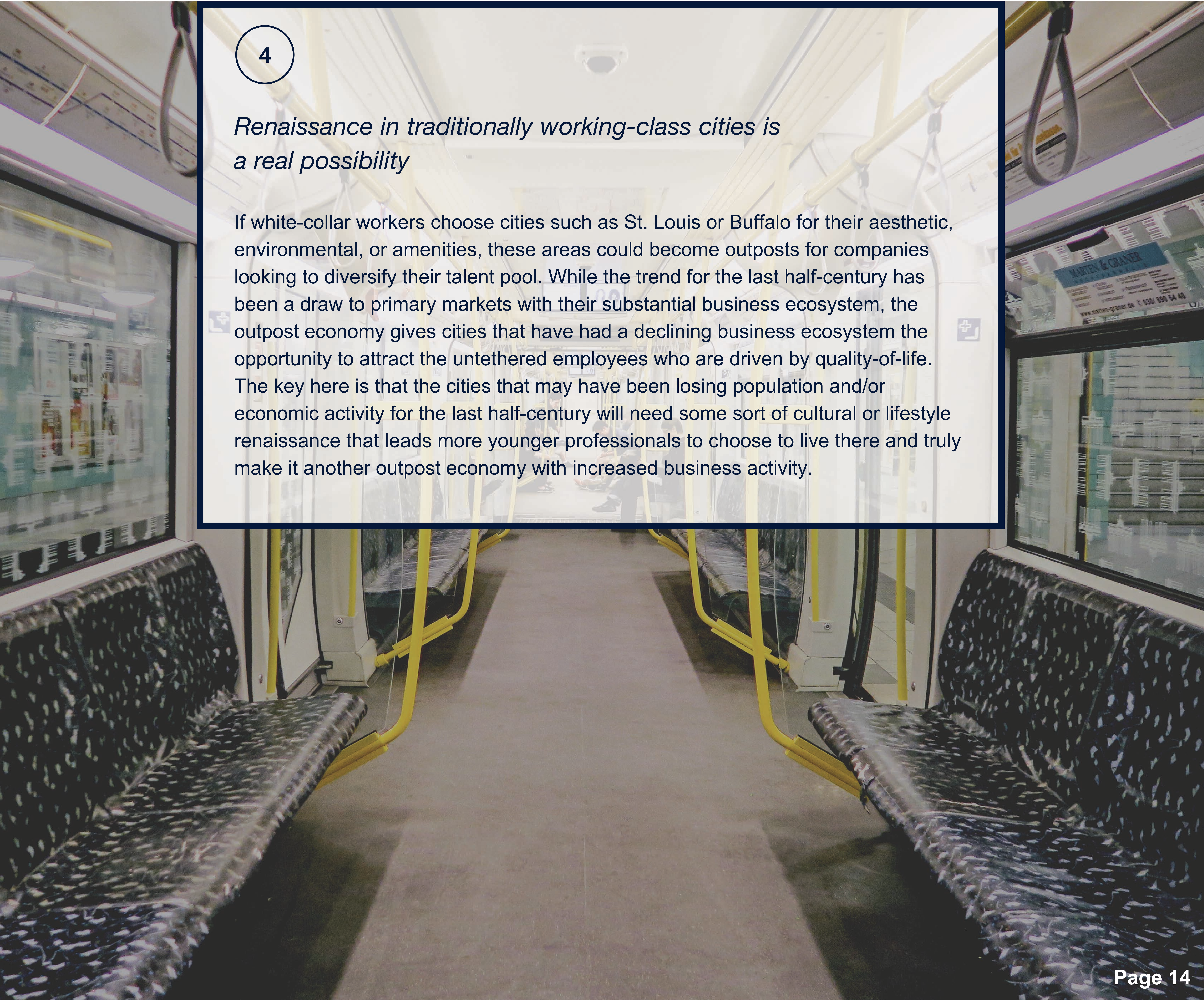
Outpost economy is centered on where people want to live

COVID-19 caused the work-from-home shift, but quality-of-life is causing the outpost economy relocation. Untethered workers are moving to their cities of choice, drawn by quality-of-life rather than work opportunities. Commercial real estate investment will follow people as markets are made by and driven by the movement of people. So, if there’s a realignment of where white-collar workers are migrating, then industries — both the ones they work in and others — will follow. Essentially, commercial real estate investment (and other industries) will follow the demographic trends before the migration reaches an equilibrium.

4

Renaissance in traditionally working-class cities is a real possibility

If white-collar workers choose cities such as St. Louis or Buffalo for their aesthetic, environmental, or amenities, these areas could become outposts for companies looking to diversify their talent pool. While the trend for the last half-century has been a draw to primary markets with their substantial business ecosystem, the outpost economy gives cities that have had a declining business ecosystem the opportunity to attract the untethered employees who are driven by quality-of-life. The key here is that the cities that may have been losing population and/or economic activity for the last half-century will need some sort of cultural or lifestyle renaissance that leads more younger professionals to choose to live there and truly make it another outpost economy with increased business activity.



5

Employer costs (including real estate costs) will go down with the growth of the outpost economy

As companies embrace a more remote work force — and, in turn, embrace outpost economies — they will find that they have vastly more options for attracting employees and locating office spaces. In many ways, the pandemic has provided established companies the opportunity to reduce overhead expenses associated with large office spaces and employee wages in high-cost-of-living primary markets. In the outpost economy, employers have the ability to choose employees located in these lower cost of living cities, to pay their relocating employees less, and to obtain office space that is much more cost effective. At the very least, it is a major conversation among executives and in virtual board rooms.

The outpost economy: hyperlocal, hyperglobal

Major companies like Oracle are taking the leap and shifting their "headquarters" to a secondary market. Other powerhouse tech companies like Amazon, Apple and Google plan to further a hub and spoke model with offices across the U.S. They plan to embrace a "remote-first" work schedule and commute to an outpost office as needed.

In 2020, we saw an untethering of employees and their place of work unlike any other time in history. This shift has flattened the labor market and added tailwinds to quality-of-life focused smaller cities as employees vote for a shift in work-life balance by picking up and moving.

The outpost economy is at once hyperlocal and hyperglobal. It is decentralized and constantly connected. It is in many ways the future of how we organize work and life.

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