CREW NETWORK

CREW Network Industry Brief

Vol. 4 • Issue 2 • February 2022

The Commercial Real Estate Connection: Public Transit's Impact on Urban Real Estate

By Liz Berthelette, Director, Research, Newmark

Mass transit networks operate as sophisticated people movers in hundreds of cities across the world. Prior to the COVID-19 pandemic, these high-capacity urban rail systems carried billions of passengers each year. In the United States and Canada alone, the American Public Transportation Association reported more than 9.9 billion riders in 2019 across all modes of public transit.

What is public transit's connection to commercial real estate?

Transit plays a key role in commuting patterns within many dense, urban areas, including Boston, New York and Chicago. Accessibility to public transit can influence property values, development and investment trends and real estate demand within these regions. According to a study conducted by the American Public Transportation Association and the National Association of Realtors, both residential and commercial properties within a half-mile radius to public transit outperformed those located farther from public transit between 2012-2016.

Reonomy reported similar pricing trends in a 2018 report examining the impact of future transit development on commercial real estate, finding "...a 78% increase in median sale price within a half mile of the expected transit centers in the year of groundbreaking." Higher property values, in turn, have driven development near transit nodes as well. A resurgence in urban living and working following the Great Financial Crisis in 2008 also led to increased demand for housing and offices located near public transit stations.

Many of these trends were observed during pre-pandemic times, and the COVID-19 outbreak ground global public transit usage to a halt in early 2020. Based on research from a recent International Journal of Transportation Science and Technology survey ridership levels across all public transit modes decreased by 73% in the U.S. as of April 2020. Subway-specific usage in Boston, Chicago, New York, Washington D.C., Toronto and London was down 90-95% during the same time period. Given the interconnectivity between real estate, the lack of mobility created by the global pandemic adversely affected foot traffic in and around offices, shopping centers, restaurants, and entertainment venues, particularly within city centers and urban cores.

The nature of the ongoing pandemic has challenged the recovery in transit ridership globally, as many office employees maintained their work-from-home schemes and consumers shifted to online or hyper-local shopping during much of the last two years. Office occupancies fell to historic lows across all major markets in April 2020, with Kastle System's Back to Work Barometer failing to reach full-recovery nearly two years later.

Anita Lauricella, Senior Planner/Project Manager with the Downtown Boston Business Improvement District, also observed restaurant patronage shifting to those neighborhoods with larger residential bases. Lauricella noted counterparts at other large urban management associations across the U.S. were experiencing similar changes in consumer behavior as people frequented establishments closer to home. By the end of 2021, subway ridership was still 50-70% below pre-pandemic levels in many key metros while London Underground journeys were 35.5% lower than late-2019 totals. Looking ahead, most municipal transit authorities expect ridership to reach 85-90% of pre-COVID levels by 2024 as mobility steadily recovers these recent disruptions.

Do the previously assigned values placed on locations boasting public transit access still make sense in a post-COVID world?

Not necessarily. In the long run, public transit will remain vital to the fabric of the urban environment, and thus, maintain its interdependency with commerical real estate. As more workers return to the office, and the day-time populations support retail, tourism rebounds further and overall mobility improves, public transit usage will recover as well. That said, there be some permanent shifts in patterns or modes of transit used, as hybrid work schedules become more commonplace. The growing emphasis on ESG (Environmental, Social and Governance)—particularly within the commercial real estate space—will only keep public transit at the forefront of corporate decision-making. In fact, new urban office developments in markets like Boston continue to market their proximity to transit nodes to potential tenants. In one instance, Midwood Investment & Development's office tower in the Downtown Crossing neighborhood of Boston is being developed without onsite parking given the project's proximity to several MBTA stops.

Metro transit data sources: MBTA, MTA, CTA, WMATA, TTC, Transport for London