

## U.S. Municipal Bond Market

# How Long Will We Work From Home?

### Summary

- There is evidence supporting the idea that employees may work from home on a larger scale after COVID-19 than before the pandemic. In the near-term, or in the next one to five years, this could be an impediment to some more established municipal credits, but we expect the remote work phase will largely end as health risks decline and the importance of face-to-face interactions and learning is reinforced and rediscovered.
- When asked, "What, if anything, about remote work at your organization has worked well?" over 40% are happy to rid themselves of their commute, are happy with the reduction of non-essential meetings, and report less distractions than in the office.
- Larry Fink, CEO of Blackrock, was quoted as saying last week that not only does he believe he was more productive by working from home, but that only 60-70% of Blackrock employees may be returning to offices.
- "COVID-19 may result in some additional dispersal, [but] it is unlikely to dramatically overturn this now well-established corporate locational pattern," writes Richard Florida about whether corporate relocation patterns are going to be upended.
- "To defeat the human need for face-to-face contact, our technological marvels would need to defeat millions of years of human evolution that has made us into machines for learning from the people next to us," wrote urban economist Edward Glaeser in [Triumph of the City](#).
- "The Internet and long-distancing calling [and Zoom] make it possible to perform basic tasks at home, but working alone makes it hard to accumulate the most valuable form of human capital," wrote Glaeser.

### Is Remote Work a Phase or Here to Stay?

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#### What, if anything, about remote work at your organization has worked well?

No commute	49.00%
Reduction of non-essential meetings	46.30%
Less distractions than the office	41.20%
Increased productivity	32.20%
Greater autonomy	28.40%
Nothing has worked well	1.90%

Source: Upwork and HilltopSecurities.

### The Work from Home Experiment

The way some employees have successfully worked remotely in recent months seems to be getting attention, considering the level of skepticism was high at the beginning

Please see disclosure starting on page 7.

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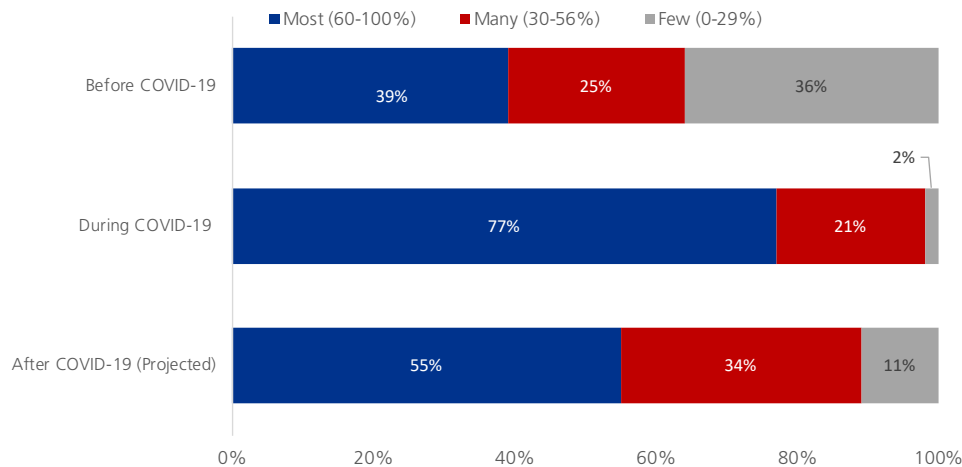
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of the remote work experiment. Most workers settled in and did not miss the daily grind of their pre-March 2020 workday. When asked, “what, if anything, about remote work at your organization has worked well?” over 40% are happy to rid themselves of their commute, are happy with the reduction of non-essential meetings, and report less distractions than in the office, according to an [Upwork survey](#).

In addition, we are beginning to see the results of survey after survey that are leading some to believe that the workplace could have a much different complexion after the pandemic. Supporters of the thesis seem to be arguing that this is evidence of a soon to be widespread shift in the workplace backdrop.

### What percent of your office employees do you anticipate will work remotely at least one day per week?



Source: PwC, U.S. Remote Work Survey, and HilltopSecurities.

### Memo from Management

Now, CEOs, business leaders, and other managers are debating what the day-to-day work dynamic could look like post-COVID-19. [Opinions vary as you can imagine](#).

Just last week we heard from JP Morgan CEO Jamie Dimon who stressed the importance of “creative combustion” when workers are side-by-side. Dimon is advocating the importance of getting his teams back into the banks’ physical locations. JP Morgan’s leader [believes productivity at his firm has declined, especially on Mondays and Fridays](#). He has been pushing to get his workers safely back into the office. Dimon went so far as to say that he sees prolonged remote work inflicting serious social and economic damage.

Blackrock CEO Larry Fink shares some of Dimon’s corporate concerns and [worries about culture, lack of productivity and collaboration](#). However, Fink’s opinion about the number of workers who return to the office after the pandemic should make us pause and think about what the workforce could look like post-COVID-19. The Blackrock CEO was quoted as saying last week that not only does [he believe he was more productive by working from home, but that only 60-70% of Blackrock employees may be returning to offices](#).

Other business leaders who seem to be in support of remote work are saying things such as (all quotes from WSJ article [What CEOs Really Think About Remote Work](#)):

- “We have adapted to work-from-home unbelievably well. I had a philosophy that I want to hire the best and the brightest even if they work from a different location, and now, ironically, we’re all working from another location. We’ve learned that we can work remote, and we can now hire and manage a company remotely,” said Heyward Donigan, CEO of Rite Aid.
- “I don’t believe that we’ll return to the way we were because we’ve found

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that there are some things that actually work really well virtually," said Tim Cook, CEO of Apple.

- "We're all grown-ups and we have adapted to these new work realities. That's going to produce permanent changes in how we all work. I'm getting my work done, and so are my colleagues. I don't have an issue with it," said Dana Canedy, publisher of Simon and Schuster.
- "I think we're going to be the most forward-leaning company on remote work at our scale, for sure, but we're going to do this in a way that is measured, and thoughtful and responsible, and in phases over time," said Mark Zuckerberg, CEO of Facebook.

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It is important to note that while [Facebook announced employees have the option to work remotely until summer 2021](#), there could be unforeseen ramifications for the social networking company. Facebook executives are potentially planning that [employees who do not relocate back to the Bay area after Jan. 1, 2021 could be compensated less](#).

### How Long Will We REALLY Work From Home?

The last six months have taken a significant physical and psychological toll on everyone. In most cases employers, when they can, have exhibited flexibility where their workforce is concerned. They will likely continue to be flexible considering the circumstances. And, just as we saw after September 2001, there could be an increase of support positions that relocate. We think that remote work is mostly a temporary phenomenon. There's no replacement for the benefits that can only be derived from face-to-face communication. This is true in terms of fostering a corporate culture and collaborative person-to-person relationships.

### Shift in Importance of Urban Corporate Headquarters Unlikely

There have already been structural shifts concerning corporate location strategy and relocations. For decades there has been a shift in corporate strategy on this topic. This movement occurred from cities such as Pittsburgh and Detroit to areas like San Francisco, Seattle, and Dallas, but movement is still likely to center on urban areas. While the makeup or dynamic may adjust slightly, the concept of urban corporate headquarters is not going away anytime soon, writes Richard Florida in [The Uncertain Future of Corporate HQs](#), in "Harvard Business Review." Florida indicates, "COVID-19 may result in some additional dispersal, [but] it is unlikely to dramatically overturn this now well-established corporate locational pattern."

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### Change in Number of Fortune 500 Corporate Headquarters, by select Metro Area

Metro Area	# of HQs		Change
	1955	2017	
Bay Area	13	52	400%
Denver	2	10	400%
Seattle	2	10	400%
San Antonio	1	5	400%
Wash DC	4	17	325%
Miami	2	6	200%
Dallas	13	22	69%
Houston	12	20	67%
New York	81	80	-1%
Los Angeles	18	15	-17%
Chicago	46	33	-28%

Source: Patrick Adler, Richard Florida, and HilltopSecurities.

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### Face-to-Face Communication is Just More Effective

Short-term shifts in where workers are located are inevitable and there may even be the acceleration of trends already in progress due to technology. But overall, we expect that business generally and workers specifically will continue to see the benefits of face-to-face communication. Business will be conducted in offices, and cities will remain important. The uncertainty is more about how long it will take for workers to feel comfortable riding mass transit, being around concentrations of other humans, and thus returning to the office paradigm.

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### **Reliance on Technology is a Liability, Easy Solution**

In 2005, Tom Friedman published the book The World is Flat, where he analyzed the process of globalization. Friedman focuses on the flatteners that helped shape globalization in his account. These flatteners included the fall of the Berlin Wall, Netscape's public offering, the rise of workflow software, and outsourcing and offshoring among other important shifts. These all contributed to globalization and many were dependent or came about because of technology.

Some of the flatteners were just another step in the change in technology. It is more likely that what we are experiencing now is a step along the pathway to a larger construct, and that larger dynamic is not likely going to result in a large percentage of workers toiling away in their basements, extra bedrooms, or home offices. If workers want to effectively participate in this next wave of business, they will need to get dressed and return to the office.

But what about those who say that they can VPN into the company server and operate just as they did prior to March 2020? Reliance on technology for technology-sake is a pathway to irrelevance. This is likely true on a corporate and individual basis. The best companies harness advances in technology and use them to their advantage as described by Jim Collins. In his 2001 book Good to Great, Collins wrote:

Thoughtless reliance on technology is a liability, not an asset. Yes, when used right—when linked to a simple, clear, and coherent concept rooted in deep understanding—technology is an essential driver in accelerating forward momentum. But when used wrong—when grasped as an easy solution, without a deep understanding of how it links to a clear and coherent concept—technology simply accelerated your own self-created demise.<sup>1</sup>

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An overreliance on remote working would be an “easy solution.” The best and most effective corporate leaders know this. They also know they may need to give workers some time to adapt, but when the time comes, the companies that can time this the best will be the most successful in the post-COVID-19 business world.

### **Importance of Face-to-Face Interaction, Cities**

Although the current thinking is that remote work is here to stay, we believe the reality is it's only a phase. It could last longer than what could be described as only a fad, but the phase is not likely to last more than a few years. Why is it seemingly catching on? This is most likely because of the health concerns, the fear, and the uncertainty many are experiencing. It is not catching on because it effectively factors into successful business from a corporate strategy perspective. On an individual basis, when the fear from COVID-19 subsides, workers will remember what decades of evidence have shown. And that is, as urban economist Edward Glaeser describes:

For over a century, pundits have been predicting that new forms of communication would make urban life irrelevant. One hundred years ago, the telephone was supposed to make cities unnecessary. That didn't happen. More recently faxes, e-mail, and videoconferencing were all supposed to eliminate the need for face-to-face meetings, yet business travel has soared over the last twenty years. To defeat the human need for face-to-face contact, our technological marvels would need to defeat millions of years of human evolution that has made us into machines for learning from the people next to us.<sup>2</sup>

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This also extends to the importance of cities. Glaeser wrote the above passage in 2011, before the jump in Zoom-like applications and COVID-19 shutdowns, but the essence of the passage appropriately applies to today. And while Glaeser [believes there could be some bumps in the road for cities in the near term](#) (and as we discuss below), we think the basics from his book *Triumph of the City* as it relates to the importance of face-to-face interaction and cities make a strong case for why in the medium- and long-term remote work will not likely continue to be used by successful companies to a large scale and will not likely account for an increasing number of successful workers.

Let's not forget that [in 2017 IBM abandoned its remote work experiment](#) and [Yahoo banned work from home back in 2013](#).

Technology is a tool. It can facilitate business, but it is not going to replace the importance of how important creating trust and personal connections while conducting business. Technology is not likely to replace how people most effectively learn in-person. Almost 10 years ago, Glaeser wrote the importance from face-to-face interactions builds over time and research has shown this to be true: "A wealth of research confirms the importance of face-to-face contact...this finding resonates well with many other experiments, which have shown that face-to-face contact leads to more trust, generosity, and cooperation than any other sort of interaction."<sup>3</sup>

### Importance of Human Capital

The most successful individuals (and company leaders) realize there is almost no replacement for in-person involvement. "The Internet and long-distancing calling [we should add Zoom to this now too] make it possible to perform basic tasks at home, but working alone makes it hard to accumulate the most valuable form of human capital."<sup>4</sup> Learning from the experts during day-to-day business interactions is also valuable, as Glaeser describes. "Fancy videoconferences will never give a young assistant the ability to learn by watching the day-to-day operations of a successful mentor."<sup>5</sup>

### Added Stress/Benefit/Transition to Municipal Finances

In the short-term the potential for shifts in residential and corporate behavior related to remote work complicate an already complicated landscape for state and local governments and other municipal bond issuers.

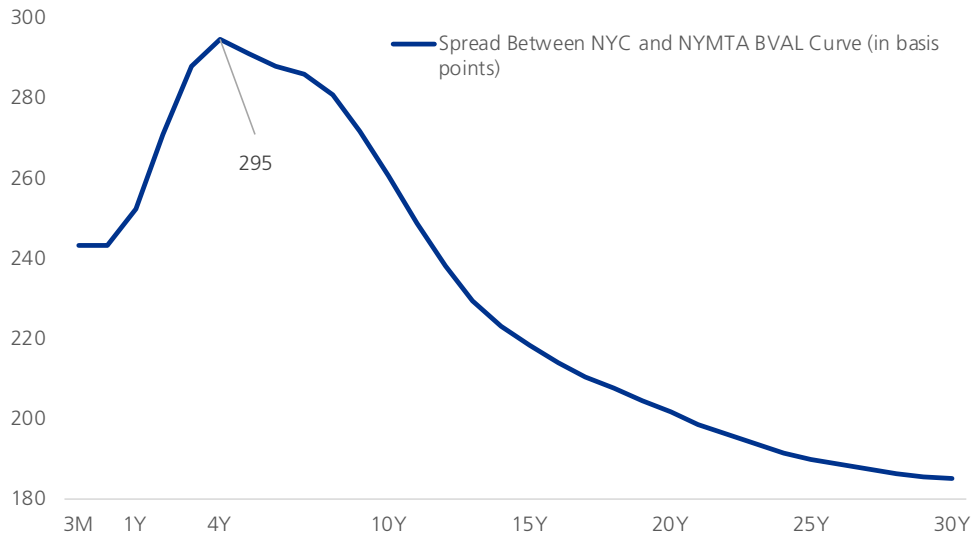
No place is likely to experience this uncertainty quite like New York City and its related entities. We are continuing to read stories and see evidence that could stress large metro areas in the near-term. Complicating this dynamic is that many large entities have leveraged themselves, in some cases pretty significantly, and it is still not known how long COVID-19 is likely to keep activity muted, and how long it will take for a more normal level of activity to return. It could take years.

In the meantime, we believe entities that built up cushions in the previous economic expansion will be able to more easily navigate the uncertainty that remote work could pose in the near-term. We do think that workers will return to offices, but we do not know exactly which urban locations those offices will be located, and when this is going to occur.

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## Uncertainty Exists, Even in the Market's Read of When Normal Returns



Source: Bloomberg and HilltopSecurities.

## Rating Agencies Read on Remote Work

Broadly, we have seen that Moody's began to downgrade more public finance credits in the second quarter of 2020 than they upgraded. The magnitude was not sizeable. We have already written that we expect that [Public Finance Downgrades to Outpace Upgrades, Probably for Years](#). We are seeing that the public finance groups at the rating agencies are closing following how remote work could factor into near- to medium-term ratings.

The topic is being tracked. "The pandemic has proven that working from home is feasible, at least in the short-term,"<sup>6</sup> wrote Fitch Ratings. Moody's public finance group wrote, "Remote work and workplace flexibility initiatives will have a modest impact on urban cores," but could have mixed results in other sectors.<sup>7</sup> S&P Global notes, "We expect that there could be longer term implications for the commercial and residential real estate market related to the recession... We will continue to analyze shifts in the property tax base as well as taxes generated by business and consumer demand."<sup>8</sup>

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<sup>1</sup> Collins, Jim; *Good to Great*; HarperCollins; 2001; page 159.

<sup>2</sup> Glaeser, Edward; *Triumph of the City*; Penguin Press; 2011; pages 36-37.

<sup>3</sup> Glaeser, Edward; *Triumph of the City*; Penguin Press; 2011; pages 34-35.

<sup>4</sup> Glaeser, Edward; *Triumph of the City*; Penguin Press; 2011; pages 35-36.

<sup>5</sup> Glaeser, Edward; *Triumph of the City*; Penguin Press; 2011; page 37.

<sup>6</sup> *Pandemic Accelerates Remote Working Trend, Raises US Office REIT Cash Flow Risk*; FitchRatings; Sept 1, 2020.

<sup>7</sup> *Coronavirus crisis to spur changes in workplace and consumer behavior*; Moody's Investor Service; Sept 16, 2020.

<sup>8</sup> *U.S. Local Government Mid-Year Sector View: Unprecedented and Unpredictable*; S&P Global; July 29, 2020

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