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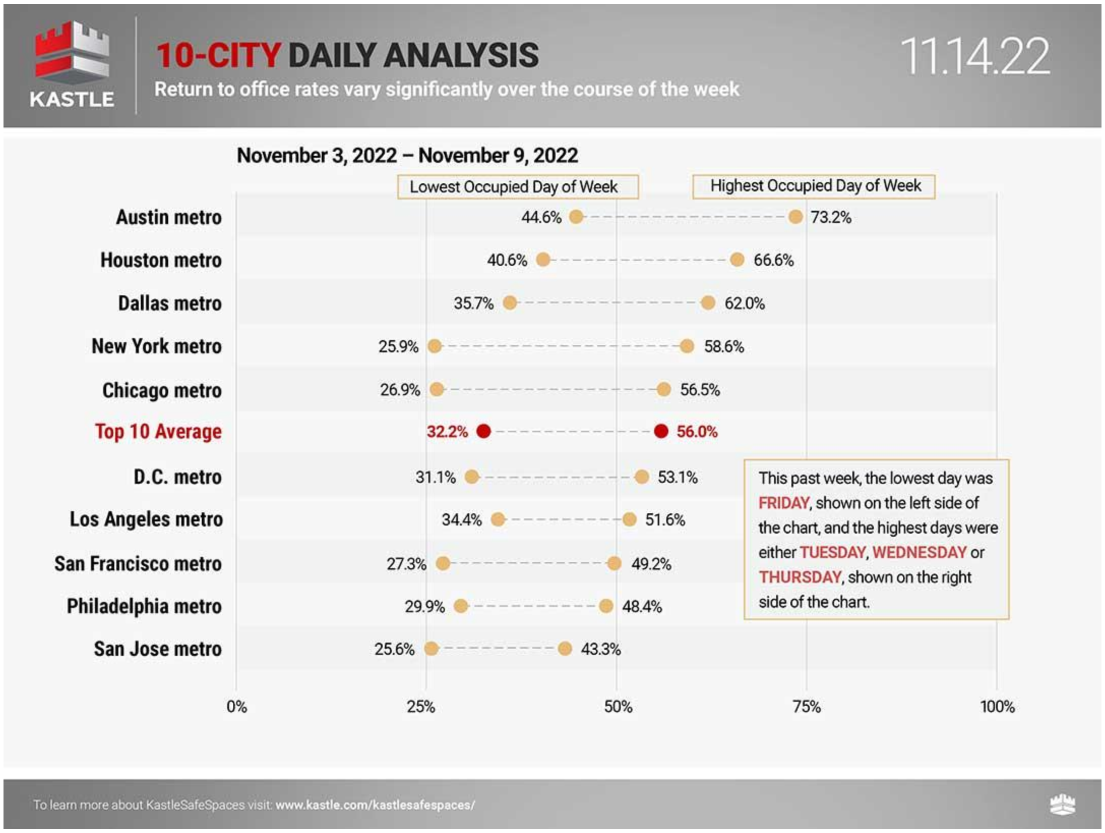
RESEARCH AND ECONOMICS

Chart of the Week – November 18, 2022



Source: Kastle Systems

Thanks to a very tight labor market and technological advances, hybrid work reigns two and a half years after the onset of the COVID-19 pandemic, with employees at many companies coming into the office a few days a week. The extent to which this trend will continue – and what it means for the office market – will depend on employees' and employers' costs and benefits of being in the office versus remote and whether a transition to a looser labor market tilts the bargaining table to employers and their preference for more in-person collaboration.

This week's Chart of the Week highlights data from [Kastle Systems] for November 3rd to November 9th, 2022, showing the range of daily occupancy rates for 10 major metros. For these 10 metros, the lowest average occupancy rate for a particular day of the week was 32.2 percent, and the highest was 56.0 percent, compared to essentially 100 percent occupancy pre-pandemic for most days.

A recent MBA white paper – A Framework for Considering Office Demand in a Post-Pandemic World – looks at the relative benefits and costs of remote and in-person work to employees and employers. It finds that in the near term, remote work can be just as, if not more, effective than office work in terms of "getting the job done," while also providing a range of tangible short-term benefits. The findings also reveal that companies and employees rely heavily on in-person interactions to develop workplace capital – helping them thrive in the long-term. The pandemic has elevated the weight of the near-term benefits of remote work while reducing the pull of developing workplace capital.

The white paper presents two scenarios – a base case where hybrid work trends remain and an alternative case where a looser labor market and "a fear of missing out" lead to a greater return to in-office work – to analyze the outlook for the office sector and potential impacts to commercial mortgage loan volume and property values.

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A fundamental tug-of-war is going on about whether office work remains a “need to have” or if it becomes more of a “get to have.” The more employees and employers “need” to be in the office, the greater the overall demand – and the lesser the differentiation – there will be for space. The more we “get” to be in the office with hybrid trends sticking, the more users will pay up for properties that maximize that time while also deciding to shed space in properties that do not meet these preferences.

The likely outcome is a mix of the white paper’s two scenarios, with geography, labor market conditions, industries, and company and employer preferences all playing a role in future leasing structures, property values, financing terms, and space requirements. Ultimately, in either scenario, it is unlikely that the office market will ever return to its pre-pandemic shape, size, and dimensions.

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