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Five Office Leasing Trends Following COVID-19

Mayer Brown, a leading global law firm for real estate firms and other financial institutions, recently released their outlook on trends that may shape the office market post COVID-19. The first trend is a reversal of office space densification. Whereas before COVID-19, tenants have been lowering their office space usage and adapting open floor policies. With outbreak of COVID-19, employers now are abiding by government health guidelines that require additional space for workers.

While large technology companies such as Facebook and Twitter have implemented more permanent work at home policies, other companies are preparing to bring their employees back to the office. As such, these firms will need to adapt and increase the space usage. Therefore, the fruition of the first trend will rely on the second trend that Mayer Brown noted. That is, companies opting to put in-place work from home policies. Of course, it is yet to be seen as to whether demand for office space will falter because of COVID-19; however, work from home policies will be crucial in understanding the future demand.

Third, the corporate culture will have to adjust to less worker density and fewer meetings and social get-togethers, and those meetings and social get-togethers that do happen will most likely be virtual meetings rather than in person. One of the challenges will be to design and modify existing office space to support a company’s established culture while following the new health protocols and yet still allowing social interaction and collaboration.

Fourth, Mayer Brown, believes that the US office market may experience a shift in demand from CBD office space to suburban office space. With office rents generally cheaper in suburban areas many employers had already begun moving from the CBD to the suburbs before COVID-19, and this pandemic only accelerated the process. The main reason is that it will be difficult to convince employees to commute via public transportation in the current environment. Additionally, employees with cars would need greater parking accessibility which can be found mainly in the suburbs.

Finally, a big question and trend that will emerge is what co-working look will like in the future. Over the past five-years, co-working has been a major contributor for growth in the office sector. That being said, in the future, it will be interesting to see whether individuals will want to share their office space with strangers, given underlying health risk that exist today from COVID-19.

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Will Demand For Less Density Offset The WFH Office Exodus?

As companies begin returning to work, many office landlords expect that more companies will require additional space. That additional demand is expected to offset reduced demand from companies implementing more permanent work from home policies. This would result in a dedensification of office space.

Additionally, the positive demand can help reverse a decade old trend in the office sector. With rising rents, many firms have reduced their occupancy. For example, between 2018 and last year alone, average rentable SF per employee in North America fell 14.3%, from 228.2 to 195.6, according to JLL.

“We haven’t had any inquiries from people wanting to downsize immediately, so we don’t really see that happening," Monday Properties Managing Partner Timothy Helmig told Bisnow. "With the densification momentum stunted for the moment, there’s actually some appetite for additional space.” Likewise, Shorenstein CEO Brandon Shorenstein told Bisnow last week that the company has already fielded calls from tenants looking for less density through more space.

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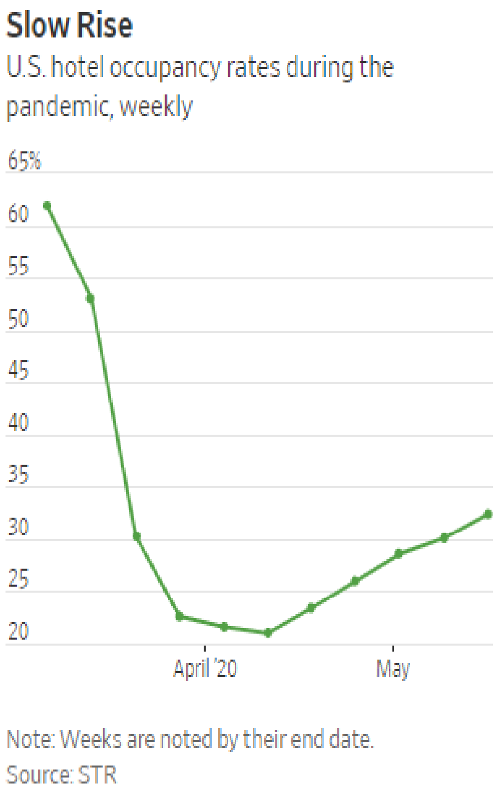
Hotel Occupancy Ticks Up as Weekend Trippers Hit the Road

As the US begins to reopen its economy, hotel occupancy rates across the country have begun to rise. By the middle of May, the national average occupancy rate rebounded to 32.4% and with nearly 11 million room nights sold, up from a low of 21% and a million room nights sold for the week ended April 11, according to data tracker STR. This far below where occupancy rates stood pre COVID-19. In March 2020, the national average was 61.8%. Revenue per available room, a key hotel-performance metric, was $25.12, up slightly from the prior week though down nearly 74% from the same period last year.



As the summer brings warmer weather and looser lockdown restrictions many analysts expect the rebound to continue and largely be driven by leisure traveling. That being said, the long-term picture still looks foreboding. Real-estate firm CBRE Group Inc. said in a recent report that it didn’t expect hotel revenue per available room to return to pre-crisis levels until 2023. The upscale hotels will be hardest hit since they rely on corporate travellers, which had virtually come to a halt.

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