Office Space Demand: Labor Driven or Not?

By Amy Wolff Sorter

A recently released Mortgage Bankers Association white paper, "A Framework for Considering Office Demand in a Post-Pandemic World," theorizes that "the ongoing tug of war between employers and employees on the return to the office versus remote work will accelerate as pandemic-related impacts fade." The paper suggested that labor market conditions will continue to exert pressure on how much office space is needed, and how it will be used.

In preparing the paper, co-authors Mike Fratantoni (MBA Senior Vice President and Chief Economist) and Jamie Woodwell (MBA Vice President of Commercial Real Estate Research) presented two possible future scenarios for office space and workers.

The base case scenario, a negotiate balance of remote/hybrid work, could drive down office property values by up to 20%, depending on the property and location. Higher-quality spaces might receive a significant premium, while lower-quality would suffer a significant discount. Then there is the alternative scenario, a pre-pandemic return to normal. This might lead to a higher demand for office space, followed by an increase in property values and return to pre-pandemic prices.

But some commercial real estate experts don't buy this either-or scenario, telling Connect CRE that what's happening now – and likely to happen in the future – doesn't necessarily fit with the paper's theories.

For one thing, the suggested scenarios are too rigid, especially given "numerous variables, such as company size, location, workforce demographics, the need for complex skill transfer and ability to manage remotely," said Kevin Lott, Managing Director-National Leasing, Bridge Commercial Real Estate.

He explained that companies prioritizing cost savings over culture building will focus on remote work, at least in the short term. "Hybrid work is a necessity at the moment for many companies, given the current state of the labor market," he commented. "But what's true today may not necessarily be the case 12 to 24 months from now."

While the paper indicated the labor market's strength in determining remote versus in-office work, corporate leadership, perhaps unsurprisingly, doesn't view it the same way. "We talk to multiple CEOs in (Dallas-Fort Worth) every day, and I have yet to hear one say they love the hybrid model of work," said Tom Lynn, NAI Robert Lynn's Chairman and Office Division President. "There are a few exceptions, where a small percentage of isolated positions don't require human interaction, but it's rare."

Additionally, the further COVID-19 retreats (assuming no large recurrence), the more often employers are likely to return to the office. “Perhaps from this perspective, the analysis is not whether to predict what the future will bring, but instead, to predict when and at what rate the transition from ‘base case’ to ‘alternative scenario’ will occur over time,” said Trever Adler, a partner in Stroock & Stroock & Lavan LLP’s national real estate group.

Meanwhile, Lynn cautioned against confusing remote or hybrid work with sublease space increases or deals. “The big sublease announcements are more about specific business changing, rather than shifting to ‘hybrid’ work, he explained. “It’s too early to tell what the post-COVID effect will ultimately do to the amount of office space needed.” In the Dallas-Fort Worth area, for example, office needs haven’t changed all that much, he added.

Lott agreed, pointing out that smaller and mid-size companies, in general, are opting toward more office-centric models. “Larger companies are still in more of a wait-and-see mode, as they determine how to balance out planning for a workforce that desires more flexibility, with the ability to maintain and continue to develop the culture that has enabled those organizations to be highly successful.”