



# Economics Group

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## Office Market Update: Timetable for a Potential Recovery

***Demand for office space remains depressed despite economic conditions broadly improving. Considering remote-work has been a successful stop-gap, the office market recovery depends on fully defeating COVID-19.***

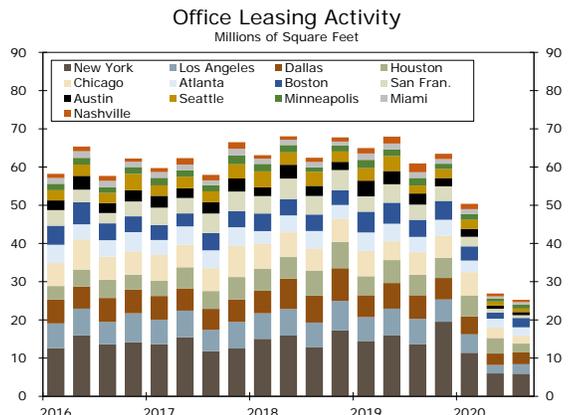
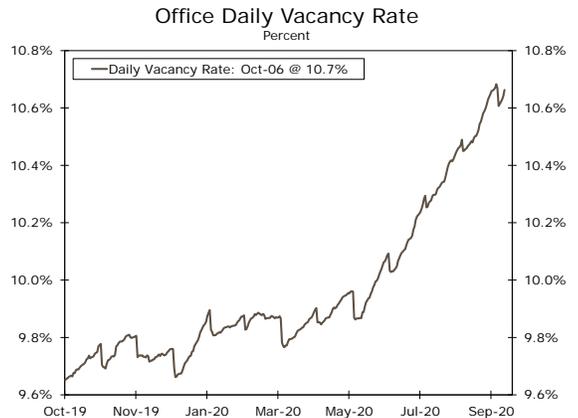
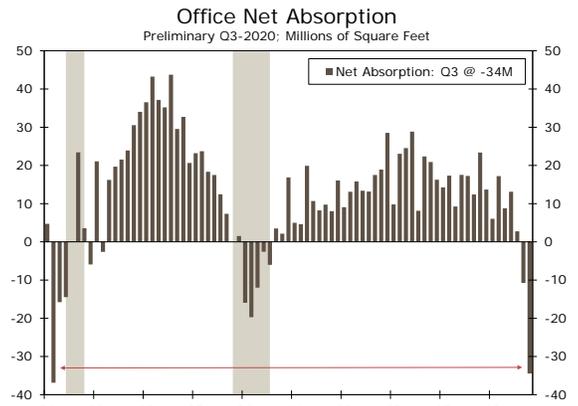
### Office Recovery Has Yet to Materialize

The U.S. economy appears to be losing a bit of momentum headed into the final months of 2020, yet conditions have vastly improved compared to earlier in the spring. Unfortunately, the same cannot be said of the office market. The general success of work-from-home policies, together with the prospect of lower occupancy costs amid mounting financial pressures, has led many businesses to reassess their longer-term space needs. Nationwide, leasing activity remains well off pre-pandemic levels and net absorption appears to have posted the sharpest decline in Q3 since the dot-com bust in 2001. Not surprisingly, vacancy rates have risen and rents have softened.

With the economy on the mend, many are likely wondering when firms will be able to resume more normal operations and fully bring back office workers. As with most other indoor and close-contact activities, the timetable for a return to the office is largely dependent on COVID-19 itself. According to a recent Conference Board survey of senior managers and executives, 39% of responding companies plan to bring workers back by the first quarter of 2021. The timing makes sense because multiple vaccines in development are expected to be cleared for distribution early next year. That said, 35% of responding companies have not yet set a date for re-opening, which is a reminder that the path of the virus and viability of a vaccine remains uncertain. Moreover, the timetable for full approval and an effective rollout of a vaccine appear to have been pushed out further since this survey. Rapid testing and a larger toolbox of therapies could help accelerate a return but firms will likely remain cautious in the absence of a vaccine, which most experts agree will not be widely available until next summer. Bearing this in mind, a meaningful turnaround in office market fundamentals may come later than previously thought.

There is also the question of how much space will businesses even need once the pandemic is fully behind us. We still see the office as providing the predominant workspace for office-using industries in a post-COVID environment. Office space plays a key role in fostering collaboration, innovation, culture and productivity—all of which are essential to creating and maintaining a comparative advantage to competitors.

The experience of the past few months has revealed that there are merits to having a certain mix of employees work remotely. Transitioning to a hybrid workforce, where some workers remain remote and still periodically meet in the office, might reduce occupancy costs without a significant drop-off in productivity. Even under this model, firms may need to maintain their current footprint to abide by social distancing requirements, which are likely to remain in place well after the pandemic has ended. The bottom line is that just as e-commerce transformed the retail landscape, we expect the integration of remote work to similarly reduce demand for office space over the long term, particularly as social distancing accommodations normalize.



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