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Office-demand indices continue to tumble at close of summer

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VTS Inc.'s monthly tracker of office space demand, the VTS Office Demand Index, found demand for office space fell 11.5% in August, from 52 to 46. A measure of 100 is a baseline measurement of where office demand was in 2018 and 2019.

The VODI tracks unique tenant requirements surfaced by touring activity in a given month relative to total square footage observed in buildings that use VTS' leasing, marketing and asset-management software.

Eli Gilbert, head of market research at VTS, said office demand slipping so much last month isn't necessarily a big surprise, given the broader economic events of the past few months.

"A number of different tributaries are coming together in a single river, and all of those are leading to a downward trend in office demand," Gilbert said.

Companies are still trying to figure out how much space they'll need permanently in a post-pandemic world, he continued, a process that'll play out over years, given the long-term nature of office leases. The turbulent financial and global markets are also creating uncertainty, which means companies are looking at their balance sheets more carefully — and real estate costs could be on the chopping block or paused.

In particular, Gilbert said, volatile markets are causing traditional heavy users of office space — groups in the finance, insurance and real estate, or FIRE, sectors, for example — to take a hard look at their costs, and potentially pause or delay office decisions.

Since Labor Day, several major companies have pushed for a more meaningful return-to-office, after more than two years of predominant remote work for many white-collar workers.

There tends to be a correlation between physical office-space occupancy and tenant demand, Gilbert said, as most companies are waiting to see how their employees use the space — or are surveying them for their preferences — before making decisions.

Rebecca Humphrey, executive vice president at Savills PLC and workplace practice group leader for Savills North America, said the resounding opinion among companies and their real estate decisions since the pandemic has been to wait and see.

"It’s still a fact today," she continued. "This is an opportunity to not wait and see, and to be transparent to your company and say 'we're working through this together, let’s push the ball forward a little bit.'"

Gilbert said it's still think it's too early to see what the net effect of the post-Labor Day push will be. But, he added, there are virtually no companies that've re-instituted a five-day workweek — and more data, reflecting the new paradigm of one to three days in the office, is needed.

The VODI isn't the only tracker of office-space demand seeing a continued trend downward.

CBRE Group Inc.'s (NYSE: CBRE) monthly pulse of U.S. office demand tracks three indices — space requirements of active tenants in the market, leasing activity and sublease availability — for 11 major U.S. office markets.

CBRE's leasing activity index fell to 72 in August, the lowest level since May 2021, while its TIM activity fell six points, to 79, in August — the lowest level since March 2021. A measurement of 100 is also a baseline of 2018 and 2019 demand and sublease levels.

TRACKING OFFICE DEMAND SINCE THE PANDEMIC

Source: CBRE Group Inc.

Share

Its sublease availability index, meanwhile, increased by six points, to a pandemic-era high of 225. CBRE noted several medium and large sublease spaces were listed by technology companies, a sector that has, in years up to and since the pandemic, accounted for the biggest share of office leasing activity nationally.

That means, according to CBRE's indices, demand is falling across 11 major office markets while sublease space is hitting a pandemic high in those same markets. It's a combination that, if continues, will spell trouble for some office landlords and business districts.

Among the 11 markets analyzed by CBRE, leasing activity increased in three markets: Manhattan, Denver and Washington, D.C. Manhattan and Atlanta were the only markets that saw a reduction in sublease space, while Philadelphia was unchanged.

According to the VODI, new office demand declined 22.8% in New York and 14.1% in Los Angeles — the largest among major office markets tracked by VTS.

Gilbert said August's data suggest markets with a high percentage of finance and related industries downsizing and not able to keep up with the kind of growth that had been seen before the current financial reality.

Those FIRE-heavy real estate markets will be ones to keep an eye on, he added.

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