



The office is no longer the center of business - by Ron Koenigsberg

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The first thing that comes to mind when you think of a place of business, you might think of an array of cubicles in an office building, or a large conference table where team members discuss their strategies. But the unprecedented times that we are living in right now have proven that the efficiency of business may not necessarily rely on the physical building they are residing in. The transition from physical office spaces to remote work and other alternatives seem to be inevitable, and the increase in technological advancements in communication has shown just how inefficient the traditional office can be. In this article, I want to give you an overview on what happened to the office market in 2020, and my prediction to what the future for the office market entails.

Women, young people and people with disabilities have for years been among those on the forefront of pushing for more freedom in where work gets done. 1 in 5 workers said they wanted to go back to the office full-time. Which really says that 80% of workers want to or are totally comfortable with working full time at home over commuting to the office. We find that 37% of jobs in the United States can be performed entirely at home, with significant variation across cities and industries, which means that for many industries, the COVID-19 Pandemic has revealed that they can operate at the same level of efficiency while saving money on the cost of maintaining an office. But this is not new. Vacancy rates were already rising in 2019 pre-pandemic as suburban office department declined in demand. The amount that vacancies will rise is largely dependent on how many companies begin shredding space or completely go out of business. Decline in rental growth in sales value, Over the next 12 months, as rising vacancies continue, may cause landlords to reduce rents to compensate for the fact that demand is not where it used to be. This decision will deter investors from pursuing any actions in the future. Rent gains in general are projected to be minimal in the near term due to the lack of new construction and the decelerating growth trends in recent years as well.

The shelter in place enacted in New York in March 2020 and a cautious re-opening plan largely slowed real estate activities in 2020. This has resulted in halting of lease negotiations, building tours and other in-person meetings. In turn, future absorption totals will be negatively affected from this. To put things into perspective, nearly three Empire State Buildings' worth of Manhattan's most expensive floors have yet to be claimed during the worst leasing crisis in the city's history. Leasing demand in New York City has shifted towards trophy and class a office space and away from class b properties post-COVID-19.

Sales of offices are declining fast and the big tech giants are leading the way. Facebook expects up to half its workers to be remote as soon as 2025. The chief executive of Shopify, a Canadian e-commerce company that employs 5,000 people, tweeted in May that most of them “will permanently work remotely. Office centrality is over.” Walmart’s tech chief told his workers that “working virtually will be the new normal.” In the world of commercial real estate, the vast majority of people looking to buy property—83% of respondents—said that they would prefer to take a virtual tour before doing a physical walkthrough of an office space, a significant shift for the historically hands-on real estate industry. Demand in the Long Island commercial office market has continued to soften during the fourth quarter of 2020 with negative 395,800 s/f of quarterly absorption, bringing 2020 annual net absorption to negative 1.46 million s/f. The New York City office demand continues to experience a pronounced flight to quality with tours in premium office spaces taking up a significantly larger share of demand than pre-crisis, according to the VTS Office Demand Index.

These are my thoughts, what are yours? I would absolutely love to hear. My email is ron@aiprops.com and on Instagram you can find me as @RealEstateRon. Feel free to tell me exactly how you feel. I’m from New York – I can handle it! Besides, I’m a Mets and Jets fan – If I had any feelings, they were already destroyed this season as my New York Jets finished with a 2-14 record.

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