



CommercialEdge

National Office Report

January 2021



After Tumultuous Year, Murky Future Awaits

- The national average full-service equivalent listing rate fell 24 cents in December from the previous month to \$37.76 per square foot, a decrease of 1.0% year-over-year. The national vacancy rate increased 40 basis points to 14.2%.
- Employment in office-using sectors has largely followed the trend of overall employment during the course of the protracted recovery, with a decent rebound in the summer and early fall before the most recent wave of the virus halted any significant job gains. Office-using employment is down 3.4% year-over-year in December, and metro data, which trails the national release, shows 104 of the 120 markets covered by CommercialEdge have been negative since last November. Austin is the exception, with a remarkable 6.4% increase in office-using employment in the last 12 months.
- Rollout of the COVID-19 vaccine is progressing more slowly than initially hoped, signaling that any return to normalcy won't occur until well into the second half of the year. Even though the vaccine provides optimism that companies can eventually return to the office in large numbers, many firms have spent the last 10 months reevaluating exactly how much office space they need and if they can continue with most workers in a remote setup ad infinitum.
- As the companies continue to reevaluate their office footprints in a post-pandemic world, one trend worth watching is office conversions into multifamily. While nothing has happened on this front as of yet, the concept is picking up momentum. New York Gov. Andrew Cuomo mentioned these conversions in his State of the State Address, saying that vacant commercial buildings should become affordable and supportive housing. Although he listed no specifics, the governor has said that he would "propose legislation to create a five-year period during which property owners may convert office buildings and hotels in New York City to residential use." Housing affordability and availability has been a major problem of late, especially in dense urban locations. If governments can properly align the incentives for office owners to undertake conversions, then this solution could solve two problems at once by giving office owners holding onto vacant space a viable exit while increasing the stock of affordable housing.

