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National Office Report

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Office Sector Faces Myriad Challenges

- More than two years after the start of the COVID-19 pandemic, the future of the office is still murky. While vaccines and treatments have moved the disease from pandemic to endemic, many workers and firms have become accustomed to remote and hybrid work setups. A Pew Research survey earlier this year revealed that 60% of office workers with jobs that can be done from home say that given a choice, they would work from home most or all of the time. Kastle Systems, an office security company that has published weekly data on office entry swipes of badges, has noted that occupancy rates have plateaued at 43% for nearly two months, suggesting that level may be the new normal.
- The ongoing nature of the disease as well as employee pushback against some corporate announcements has led to a year of stop-and-start return-to-office plans. Tech giants like Google, Amazon and Apple have announced and altered return-to-office policies multiple times over the past year but seem set to adopt permanent hybrid work strategies. Many other companies, aware of a historically tight labor market, are taking a similar tack and resisting issuing forceful demands when trying to bring workers back. Starbucks CEO Howard Schultz has publicly pleaded with his office workers to return to the office but has stopped short of mandating them to do so. Not all companies are using a light touch, however. In a much publicized recent email, Tesla CEO Elon Musk demanded that office staff return to the office or leave the company, and followed up with a tweet that said people who think the office is antiquated should “pretend to work somewhere else.”
- Beyond a preference for working from home, a new challenge in enticing workers back into the office has emerged: inflation. Inflation is at levels not seen in 40 years, and the national average price of a gallon of gas recently hit \$5 for the first time ever. Not only will getting to the office be more expensive than ever for workers but so will ancillary expenses such as coffee and lunch. Employees that are required to return to the office will need to feel like the time and money spent on a trip is worthwhile.
- While inflation is having a micro impact on employees' RTO decision, it is having a macro effect on the transaction market. In the near term, deal flow may increase as investors look to lock in today's interest rates due to strong indications that the Federal Reserve will raise rates multiple times in the next year. However, inflation and anticipated rate hikes represent another headwind in a market full of uncertainty, which could depress investor enthusiasm.

