



Yardi® Matrix

# National Office Report

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# 2023 Another Year of Transition for Office

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- Nearly three years after the COVID-19 pandemic upended the office sector, its future remains unsettled. Even as some firms become more forceful in bringing workers back into the office, many have fully committed to hybrid and remote work policies. This will be another year of uncertainty and change in the office sector as it moves toward a post-pandemic status quo.
- Higher interest rates will hamper the new-supply pipeline and transaction markets in 2023. Some buildings in attractive locations will break ground, but many projects will be paused or altogether canceled. Higher rates will lead to fewer office sales and lower prices for properties that do trade.
- The tenant flight-to-quality trend will persist in 2023. Businesses that want employees in the office more often but do not want to use a heavy-handed approach are looking to high-quality amenitized space to entice workers to go in, embracing smaller footprints in premium locations.
- Office-using employment growth will further decelerate as tech layoffs bleed into 2023 and a potential recession looms. Between January 2021 and July 2022, office sectors added an average of 117,000 jobs a month. In the last five months, they have averaged only 25,000 jobs per month.
- Interest in conversions of office buildings into residential and mixed-used properties will remain high in 2023 but projects may continue to struggle to gain traction. With offices vacant and housing in short supply nationwide, converting offices seems like a logical solution. However, many offices are ill-suited to conversion, and without tax incentives and other financial resources from state and local governments, many projects may not pencil out in a high interest rate environment. Chicago, promising such incentives, solicited bids for conversions of office buildings on the LaSalle Street Corridor, and got nine proposals totaling \$1.2 billion for a wide array of uses, from housing to an e-sports gaming arena.
- Demand for coworking will grow in 2023. Even with hybrid and remote work becoming prominent, most firms still want office space for face-to-face collaboration, training and team building. Flex space provides this without the long-term commitment of a traditional office lease. In 2023, demand will lead not only to growth for traditional coworking providers but also to further flex space offerings from brokerages and office owners looking to increase occupancy and cash flow.

