

Yardi® Matrix

National Office Report

March 2020



COVID-19's Impact on Office Real Estate: February Was the Calm Before the Storm

- The rapid growth of COVID-19 has made it clear that February was the last month of the record long economic recovery, and the economy has quickly shifted into contraction mode as the nation reacts to an unprecedented pandemic. This is a rapidly changing situation with no clear timeframe or conclusion, and as of now it's unclear how long the shelter-in-place orders, social distancing and moratoriums on public gatherings will last or how deep the economic contraction may become.
- Suddenly, millions of office workers are now working from home. Many of these workers are forced into less-than-ideal situations—without a home office, working at the kitchen table or a makeshift workstation. Yet the pandemic may cause a fundamental shift in how employers view remote work, if their employees can maintain productivity while utilizing less physical office space. While many workers will be anxious to return to their office once the crisis is past, a massive national experiment is underway that could change attitudes about working from home in the years to come.
- Coworking could be in for a rough go. For a budding subsector of the office market that was already damaged by the very public decline of WeWork in recent months, the COVID-19 pandemic could deal a much larger blow. Owners may be hesitant to lease space to coworking firms that are themselves dependent on short-term leases. Further, remote workers that had utilized coworking space may find themselves making the home office a permanent one over the next couple of months. However, for owners and investors in markets with a high percentage of stock devoted to coworking, the situation may not be as dire as it seems on the surface. Yardi Matrix research has found a consistent relationship between low vacancy rates and the percent of the market dedicated to coworking leases, suggesting that once the crisis abates there may be enough demand for office space in those markets to cover any coworking failures.
- Transactions will likely come to a halt for the time being despite record low interest rates and widening cap rate spreads. However, if the crisis is over by the late third or early fourth quarter then there could be a big rebound in transactions. For the most part, the office market didn't enter this situation overbuilt or with loans that are overleveraged. This should help fuel activity once the crisis subsides.

