

June 2021

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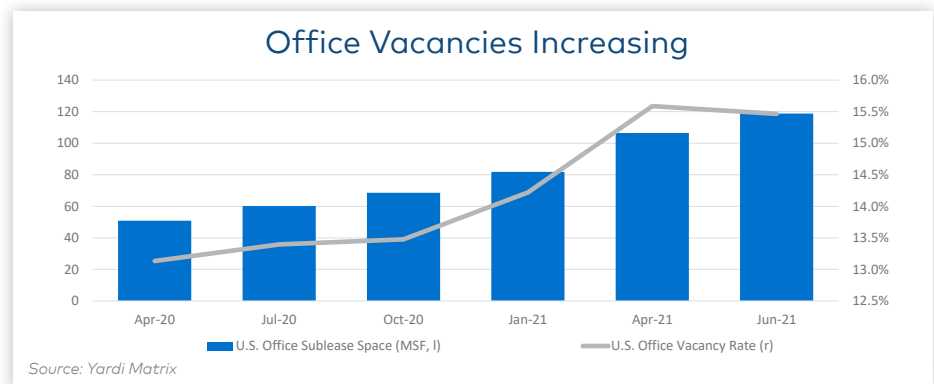
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# Office Vacancies Climb. How High Will They Go?

Of all the commercial property types, none faces more uncertainty about post-COVID-19 prospects than the office market. The discovery that office workers could be productive working from home while many employees are happy to avoid commuting has companies rethinking their space needs.

As office buildings emptied in the wake of shelter-in-place policies that started in March 2020, office sublease space shot up and vacancy rates increased. The total U.S. vacancy rate hit 15.5% in May 2021, up 240 basis points from where it started the pandemic, according to Yardi Matrix's office database. The amount of space available for sublease during that time more than doubled to 118.8 million square feet, per Yardi.



At the same time demand is increasingly ambiguous, 161 million square feet of office space is under construction and slated to add 2.5% to total stock over the next couple of years. The large amount of new supply was planned when corporate space needs were anticipated to be more robust—now new deliveries look like a drag on the market. The combination of companies downsizing space needs and the increase in supply is almost certain to push vacancy rates even higher.

Just how high? To come up with an estimate, we analyzed space per foot by office workers, occupancy rates, and the potential drop in demand. If office usage drops by 10%—a not unreasonable estimate given employer surveys—and companies reduce space needs by a corresponding amount, vacancy rates could rise by 7 to 9 percentage points, according to our analysis. If that happens, vacancy rates could rise to 25-30% in many metros.