

# The Greatly Exaggerated Death of Office Buildings, and Other Musings

MARKET PERSPECTIVE  
SEPTEMBER 2020

Surely this pandemic and the ability to meet and connect via Zoom will kill the traditional office building, right? That’s one of the most common questions we get these days, and there are a few data points that seem to back up that assumption.

Facebook recently announced that over the next decade, they intend to phase out of most if not all their office space around the country. Nationwide announced a permanent transition to a hybrid work-from-home plan in all but four of their major office locations in the US. WeWork, which had started to implode before the pandemic, has begun skipping rent payments in many of its office locations as work from home continues.

Over the last decade, three driving forces have had the biggest impact on reshaping office usage. The first is the densification of office – packing more people into the same amount of space. A second major trend has been the urbanization and amenitization of office. Office tenants simply crave the live-work-play environments with plentiful amenities found in 18- and 24-hour cities. Suburban office settings offering walkable amenities have thrived, while less amenitized suburban office has suffered.

Why is that? If we can talk, send emails, texts, open spreadsheets, create proposals, and do anything from home that we could do in the office with our phones and laptops, then why haven’t we all gone to a work-from-home model before? It’s probably because many have experienced lost productivity – working more hours at home to accomplish the same things. Netflix CEO Reed Hastings says of working from home, “I don’t see any positives. Not being able to get together in person . . . is a pure negative.”

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A third trend that has shaped office usage is technology, even before Zoom became popular during the pandemic. Our smartphones and laptops allow us to work anywhere – but it’s worth noting that they haven’t replaced our offices.



TORINGDON 7



VENABLE CENTER



PERIMETER 6

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There's a widely vocalized belief in our industry that we're going to see a de-densification of office space over the next five to ten years. The US workforce simply won't be willing to be packed shoulder to shoulder in open office environments and bench seating after experiencing this pandemic. One of our larger office tenants in Raleigh is one of the big five global technology companies; pre-pandemic their companywide standard was to plan for 150 square feet per person, which translates to about seven people per 1000 square feet. Recently, they've doubled their previous standard, changing it to 300 square feet per person.

On a recent conference call with real estate industry CEOs from around the country, one of the more popular topics was the pandemic-related accelerated flight of millennials out of larger cities to the suburbs. Over the last five to ten years, many in our industry have bet against suburban office because the opposite was happening: millennials were moving to denser areas and larger cities in record numbers. We've long known that millennials prefer to live in these dense settings, but only until they get married and have kids; and then they want a house and a yard. Perhaps these recent trends will breathe life back into our industry's perception of, and demand for, suburban office space.

In the office arena, while density, technology, and urbanization have been the driving forces that have reshaped office usage over the past decade, those changes haven't replaced it. The need to connect and collaborate in person, feeding off of the energy and relationships of peers, and the need to build and maintain company culture will continue to be the primary drivers of the need for office space going forward.

If the Zoom effect won't "kill the traditional office building," then will it hurt it? Surely that's a "yes," as our recent work-from-home experience could lead employers to keep some employees working remotely once we're past the pandemic. But at the same time, the de-densification that is surely to occur will have a very positive effect on office absorption. Further, the Southeastern US metropolitan markets where we invest boast both population and job growth that has outperformed the rest of the country for decades. At this point, it's impossible to know which might be the stronger influences – but what we do know is this: change always creates opportunity, especially in the investment arena!

Finally, office tenants overall seem to be in pretty good shape despite recent events. In the first six months of the pandemic, we collected 99% of our office tenant rents across our four-state portfolio. Most office tenants report that they're making it work from home, but there aren't many who don't want to get away from the barking dog, the kids in virtual school, and the leaf blowers running next door. Many, ourselves included, greatly miss the social interaction and relationships found in the office too. For those reasons and many more, our return to the office can't come soon enough.

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