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OFFICE TOUR ACTIVITY IS SURGING AND OTHER SIGNS OF GROWTH

CUSHMAN & WAKEFIELD SHARES THREE KEY INDICATORS THAT A FAST RECOVERY IS UNDERWAY.

By Paul Bergeron | August 24, 2021
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Anyone doubting that the US office sector would recover from the pandemic would be wise to review data from a Cushman & Wakefield's report issued this month, which identifies three green shoots responsible for a fast-paced, ongoing recovery.

It notes that office job creation continues at a steady pace and is recovering far faster than it did during the Great Financial Crisis. A healthy number of long-term leases are being signed. And lease activity as a whole is on the upswing.

During the past 16 months, the US office sector has been a two-sided tale told by lagging indicators on one side and leading indicators on the other. Lagging indicators confirm that the pandemic created the worst recession the office sector has ever faced.

The US has shed 171 million square feet of space (3.1% of total inventory) since the pandemic started. For perspective, during the GFC's entirety, the US shed 104 million square feet of space (2.2% of inventory)—so by this metric, the impact from the COVID-19 recession has already been more severe.

Contrarily, Cushman & Wakefield reports, the leading indicators are consistently lining up to suggest the worst of the impact is either over, or almost over, a sentiment opposite what others have taken.

Indeed, the country is now observing multiple positive indicators in the leading data, according to Cushman & Wakefield:

Office jobs. The US cut 2.9 million office-using jobs in March and April of 2020. Since then, the economy has recovered 76% of that loss (2.2 million jobs) through July 2021.1

At the current pace, the US will return to pre-pandemic peak levels of office employment sometime during Q1 2022—which means it will have taken a little more than two years to reach full recovery. For context, it took six years for office employment to fully recover from the GFC.

Longer-term leases. This can be interpreted as a sign of confidence in the long-term future of office, according to the report.

More than 75% of new leases signed in the first half of 2021 have been for more than four years, and one-fourth have been for 10+ years—percentages consistent with pre-pandemic norms.

Leasing activity. It has notably improved in Q2 2021. New leasing totals were up 18% from the first quarter of the year, and up 28 percent from Q2 2020.

Perhaps the most notable green shoot is space search activity. As of December 2020, office tour activity was 65% below pre-pandemic levels (i.e., February 2020). But 2021 has been a different story. After improving every month in Q1 2021, tour activity in March, April, May and June ranged between 80% and 90% of pre-pandemic levels.

Touring activity in four of the six gateway markets more than doubled from December 2020 to May 2021. These tours are leading to lease negotiations.

In Washington, D.C., for example, the number of lease proposals to occupy space in March, April and May of 2021 have already surged back to pre-pandemic levels of activity.