Demand For Commercial Office Space Is Changing But Offices Are Not Obsolete

Chelsy M. Jantsch
Moss & Barnett Advocate (Winter 2021 edition)
02.25.2021

Nearly one year ago, the COVID-19 pandemic caused many employers to shutter their offices indefinitely. The abrupt shift to remote work changed the atmosphere and economic reality of downtown and metro areas. But with the rollout of multiple COVID-19 vaccines, there is reason to be optimistic about a comeback for these business districts, including in the Twin Cities.

Remote Work and Socially Distant Office Spaces

The shift to remote work has led many companies to reevaluate their office space needs, especially if remote work did not result in a reduction in productivity. At the same time, there are many employees who are expressing a preference for remote work or some hybrid-model. For these reasons, remote work is unlikely to end even after the pandemic does. Consider these statistics:

- According to a recent Gartner CFO Survey, 74% of chief financial officers and other finance executives expect they will move at least 5% of their onsite workforce to remote work after the pandemic.
- In the United States, the number of employees working from home is estimated to increase from 5%-6% of employees working from home prior to the pandemic to between 10%-11% after.

However, an increase in remote work does not necessarily mean a decrease in demand for commercial office space. Cushman and Wakefield, one of the world's largest real estate service firms, recently conducted a study about the future of the office real estate market. One of the findings from the study is that there may be a reversal of the pre-pandemic trend to designate less office space to each employee. This trend was the product of the open office concept — a design aesthetic focused on large common areas and eliminating individual offices. But in a post-pandemic world, more space will be needed per employee to adequately socially distance, which could actually result in an increased demand for commercial office space.

A Promising Prediction

According to the Cushman and Wakefield study referenced above, the office real estate market will recover, albeit gradually. The firm predicted that global office vacancies will likely return to pre-COVID levels by the year 2025. This prediction is supported by the fact that large companies like Facebook and Amazon have continued to acquire and grow their office space during the pandemic.

A Local Perspective

The Twin Cities office real estate market was certainly not immune to the effects of the pandemic. The vacancy rate for the Minneapolis-St. Paul Market for 2020 was 14% for all properties, which is a four-year high. While asking rates from landlords generally held steady in the Twin Cities area in 2020, more tenant-friendly concession packages were also offered.

Yet, there are signs the market will bounce back. The fact that a number of development projects in downtown Minneapolis moved forward despite the pandemic suggests continued business confidence in the downtown area. One such project is the construction of what will be one of the tallest buildings in downtown Minneapolis, which will offer commercial office space and be home to a five-star luxury hotel.

In the past few months, there has been a noticeable increase in foot traffic in the downtown Minneapolis skyways as well as more people frequenting coffee shops and lunch spots — signaling that many offices are reopening and employees are heading back to the office for work. If COVID-19 cases continue to trend downward in Minnesota as they have during the beginning of 2021, it is likely downtown and metro areas will continue to see a resurgence in economic activity.

Conclusion

While the full impact of COVID-19 on the commercial office real estate market and downtown economies will be unknown for some time, the data and anecdotal evidence available provide hope for an eventual return to pre-pandemic life.

Moss and Barnett offices remain open in Minneapolis and St. Cloud to meet client needs and provide high quality legal services.

Practice Areas

Business Law

Construction Law

Real Estate

Real Estate Finance