Offices Probably Won't Shrink Much After The Pandemic, But Density Will

November 4, 2020 | Christie Moffat, Bisnow Houston (https://www.bisnow.com/author/christie-moffat-216170) (mailto:christie.moffat@bisnow.com)



People are starting to slowly trickle back to Houston's office buildings, but for many companies, the question of how much space they will need in the future is still under discussion.

Some industry players have theorized that corporate downsizing is inevitable now that remote work technologies have been widely adopted. Others say the need for office space

remains (https://www.bisnow.com/national/news/office/office-sector-banks-on-lowered-densities-more-demand-in-post-pandemic-rebound-104552), especially in the long term.

Companies that have done an office lease over the last 10 years, regardless of industry, have mostly opted to make their space denser and more efficient, Hicks Ventures (https://www.bisnow.com/tags/hicks-ventures) principal Patrick Hicks (https://www.bisnow.com/tags/patrick-hicks) said.

"That means less individual work area, more collaborative space, hoteling or whatever you want to call it. So with this new thing, I would say 90% of them even will have to make their footprint bigger," Hicks said during a *Bisnow* webinar Oct. 29.

Hicks said he would be shocked if office occupancies at his properties fell by even 5% from where they were prior to the coronavirus pandemic. Instead, he predicts space usage is more likely to stay the same as an eventual vaccine comes into play and more people return to the office.

Gensler (https://www.bisnow.com/tags/gensler) co-Managing Director Stephanie Burritt (https://www.bisnow.com/tags/stephanie-burritt) said she also thinks the overall square footage of most corporate offices will look very similar in the future. The main focus for companies will be reallocating the space and how it functions to provide more distancing.

"It feels like a breakeven right now, what my gut is also telling me," Burritt said.

CBRE (https://www.bisnow.com/tags/cbre) Executive Vice President Jon Lee (https://www.bisnow.com/tags/jon-lee) said that anecdotally, he doesn't have any clients of significant size that are expanding their footprint.

"Definitely trimming on the margin or reallocating, but I think it's going to be flat, is my guess," Lee said.

The economic uncertainty of the pandemic has forced many companies to hold off on deploying capital or making any major changes. But lease renewals (https://www.bisnow.com/tags/lease-renewals) are inevitably going to come up during 2021, and many firms will be forced to make a decision.

That has already begun to happen, according to Hicks. Now that office occupancy has returned to about 50% across his portfolio, tenants are more interested in planning for the future.

"Now they're finally sort of addressing it, as opposed to kicking the can to the last minute," Hicks said.

Transwestern (https://www.bisnow.com/tags/transwestern) Senior Managing Director Doug Little (https://www.bisnow.com/tags/doug-little) said that at the moment, the uncertainty is leading to shorter renewal lease terms in Houston.

"While they want to stay in the building, for the most part, we're not seeing the length of term go out as much as we have in the past. I've seen as much as five and 10 [years]. You see more of a shorter-term extension, but we're hopeful that will change," Little said.

As Houston-based companies continue to evaluate their office footprints, there could be one positive trend in 2021 and beyond: corporate relocations (https://www.bisnow.com/tags/corporate-relocations).

"I do believe in 2021 and going forward, I'm expecting to see a lot of real corporate relocations coming to Texas. Now it comes down to our city's leadership — how many of those corporate relocations come to Houston versus go to Austin or Dallas?" Nitya Capital (https://www.bisnow.com/tags/nitya-capital) CEO Swapnil Agarwal (https://www.bisnow.com/tags/swapnil-agarwal) said.

Companies that do relocate to Houston will have their choice of office space: The city had a direct office vacancy rate of 19% during the third quarter of 2020, according to Transwestern's most recent office market report (https://file-us.clickdimensions.com/transwesternnet-amos1/files/office_outlook_report20203q.pdf? 160346881356&_cldee=Y2hyaXN0aWUubW9mZmF0QGJpc25vdy5jb20%3d&recipier 2417fee40ad1ea11a812000d3a5b3f21-a787f99f99d0449ea49b8a85cfcc4e0d&esid=ba77ccad-4815-eb11-a813-00224805fd0a). Total availability, which includes office space that is not yet vacant, amounted to 25%.

Many of those buildings were built in the 1970s and 1980s, and landlords will need to perform significant renovations if they hope to be competitive.

"Half of our office market in Houston was built between 1979 and 1983. So as these buildings are approaching 40-year-old-plus vintage, it's just imperative for them to upgrade to add amenities and kind of keep up with the wellness trend, or, frankly, they're just obsolete," Lee said.

Hicks said most of the low-rise existing Class-B and Class-C office product will disappear over the next decade because the land in Houston will become far more valuable than the building itself.

"I'd say the low B and C market, unless you have just a really, really compelling location, you're going to be something else in the next 10 years via a land adaptive reuse to some other product," Hicks said.

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See Also: Rising Oil Prices Have Yet To Benefit Houston's Struggling Office Sector – And Footprints Could Actually Shrink (/houston/news/office/rising-oil-prices-have-yet-to-benefit-houston-struggling-office-sector-109702)

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