# New Demand for Office Space Highest Since Pandemic Onset

New demand rose in August, indicating that the Delta variant did not dampen employers' searches for new office space in this evolving market.

By **Paul Bergeron** | September 30, 2021

The Delta variant has had nowhere near the negative effect on office space occupancy as COVID-19 initially did, according to the newly-released VTS Office Demand Index (VODI), with data through August.

Nationally, new demand for office space rose to a 15-month high in August and is now just 13 percent below pre-COVID-19 levels. This year, only July showed a negative trend for office demand.

"When the pandemic first hit and the world came to a halt, there was a clear correlation between rising COVID-19 cases and falling demand for office space—as cases went up, demand went down," said VTS CEO, Nick Romito, in prepared comments. "Now, even as cases have risen exponentially over the past few months due to the Delta variant, we're not seeing the same correlation.

"While it may be a bit premature to say that there will not ever be a material impact on new demand and office-using employment as of right now, we're not seeing it. **Companies, even if delayed, are making plans** (https://www.globest.com/2021/09/29/delta-variant-slowing-not-ending-office-recovery/) to get their employees back in the office and that bodes well for the office space market."

**Year-Over-Year Demand Up 235%**

New demand for office space is up 235 percent year-over-year, reflecting a strong recovery from last summer, according to VODI.

The VODI tracks unique tenant tours, both in-person and virtual, of office properties in core U.S. markets, and is the earliest available indicator of upcoming office leases, as well as the only commercial real estate index to explicitly track new tenant demand.

The VODI rose 3.6 percent from July to August—and with the exception of July when the VODI fell 1.2 percent —the national VODI has risen each month in 2021 since the most recent trough in December 2020.

Office-using employment saw a strong rebound in July, with a monthly annualized growth rate of 4.3 percent, up strongly from June when office-using employment recorded the slowest growth in 12 months.

Based on the July Bureau of Labor Statistics job report, the largest increase in office-using job growth came from an 11.8 percent annualized increase in information services and a six percent annualized increase in professional and business services, while employment in finance, insurance, and real estate fell by 5.2 percent.

### The Office is Not Collapsing, It's Evolving

Petra Durnin, head of Market Analytics for Raise, a company that provides brokerage, workplace strategy and project management, tells GlobeSt, "Though we're standing on shifting sand and it could be 24 to 36 months before it stops, the office is not collapsing, it's evolving.

"Companies are accessing better solutions to attract and retain high-quality talent. The shift from highly centralized offices near talent pools to a distributed workplace strategy means many companies are adopting not only a hybrid model but a hub/spoke/remote model and evaluating multiple locations across the U.S. with a heavy focus on sublease space or coworking. The whole shift in how and where people work is a rebalancing effort to meet talent where talent is."

**Coworking, or flex space, is growing** (https://www.globest.com/2021/08/02/whats-behind-the-mad-rush-for-flex-space/) as the preferred buffer between office-centric and remote-only options and that trend will carry over into 2022, Durnin said.

"These dynamic spaces now account for a larger percentage of occupiers' real estate portfolios; previously these occupiers either owned or leased their locations. Flex providers are meeting this growing need and many now offer the option to transfer unused membership balances to other locations. Companies are no longer locked into a single location and with the redistribution of talent, flex space allows them to test fit new locations instead of making massive lease commitments."

### Chicago and Seattle Now Above Pre-Pandemic Levels

Meanwhile, after 17 months of lower-than-normal demand for office space, both Seattle and Chicago saw new demand for office space rise above their pre-pandemic averages with VODI scores of 110 and 104, respectively. The pre-pandemic average for all cities in the report is 100 and reflects the average rate of demand in 2018 and 2019. While positive for both Seattle and Chicago, it is unknown if the cities can consistently maintain higher than average new demand for office space given their recent volatility.

Los Angeles and New York are also hovering near their pre-pandemic level at 97 and 96, respectively, but unlike Seattle and Chicago, both Los Angeles and New York City have spent the past three months around 100.

Washington, D.C., an outlier among the cities in the report, witnessed its third consecutive month of falling new demand for office space, down 40 percent during the period. The VODI in Washington, D.C. fell to 57 in August from 78 in July. The decline began in May when its VODI of 95 was close to its pre-pandemic average. The last slide of this magnitude in Washington, D.C., was between April and July of 2020.

"The health of individual office markets is hyperlocal. Local vaccination rates, government mandates, and local sentiment are just a few of the drivers of new demand for office space," said VTS Chief Strategy Officer Ryan Masiello, in prepared remarks. "That said, the wide-sweeping vaccine announcement made this month by President Biden—impacting up to 100 million U.S. workers employed with the federal government—could start to materially change the need for office space in the coming months across the nation, but especially in Washington, D.C. as institutions prepare for their employees' return to the workplace."

---