

Office Development and Occupier Demands Post-COVID

By Janet Wheeler, CREW CT

Office space across the globe is waiting to adapt to new working conditions, hybrid, or flex work schedules, and COVID protocols. Tenants, property owners and developers are watching what others are doing, making decisions based on immediate needs and employee wants. This is creating a new look for office spaces in the global commercial real estate (CRE) market with the only common denominator being change.

Canadian office markets have seen both a shift to higher-end office spaces, as well as a sit-back-and-wait approach. The Colliers Montreal Office Market Report Q1 says that office leasing activity is on the rise in downtown Montreal. While some continue to downsize their space to fit new workplace methods, others are taking advantage of the opportunity to “lease-up” to higher-end spaces. Montreal Class A downtown offices saw an uptick of net rent averages during the first quarter of 2022. Suburban Montreal markets have also seen an increase in rental costs up by over 9%. The report looked to finding new strategies for landlords to contain overhead costs and reposition underutilized spaces.

Toronto is a bit slower to pull out of more recent COVID lockdowns. According to Lisa Chan of QuadReal in Toronto, there is less of a transitional shift to different or higher quality office spaces. The Office market in Toronto seems to be still in the unknown phase and companies are in a “pause mode.” While still in a slow market, there has been a large uptick in WELL building certification and a high demand for seamless technology to accommodate hybrid and flexible work practices.

In other parts of the world, the outlook for office space is also changing. Sanjeet Narain of the Narains Corp. said there is now a positive demand for office spaces in India and it is expected to rise in the near future. Flexible workspaces and hybrid working have led to several different approaches to office space in India.

Narain said, “One size doesn’t fit all, which applies accurately to the numerous global and Indian organizations with respect to their workspace requirements, with hybrid adopted by most sectors. The Indian Banking and Financial Services Industry (BFSI), for instance, focuses on operational optimization along with a strong inclination for digitization. They have a hybrid workforce with a flexible work policy for their employees.

“On the other hand, the Information Technology (IT) sector is more inclined to space and operation optimization in their workspace. Where the consulting sector’s priorities lie towards strengthening their brand, building a community and a liberal flexible work policy must be considered when choosing a workspace.”

U.S. office markets are trending toward shifts generated by tenant demands. Michael Guidicelli, Regions Commercial LLC, indicated that his experiences recently in the Northeast U.S. has been of tenants “trading up” to high-end leasing spaces when lease terms are coming due. Companies seem to be listening to what their employees are asking for and attempting to give them a better in-office experience.

Felix Charney of Summit Development LLC sees similar things in the office development and leasing market. Charney explained that “leasing levels seem to be steady with a possible slight increase in the high-end leasing spaces. Tenant requirements and demands are shifting to amenities found in high-end lease space.”

Charney also noted that the leasing shift to higher-end office space is creating risk for mid- and low-level office buildings, which would prompt reuse for those property types. An example of this is unfolding now in Calgary, Alberta, Canada. Starting in 2015, the downtown areas of Calgary have seen a devaluation of office buildings. In 2022, the Calgary Board of Real Estate instituted a program to repurpose these buildings with incentives to partner with the city to develop the buildings into residential use. There is an initial \$45 million in funding available, and applications were taken over the summer 2022. By adding these programs, the intent is to reduce the risk involved for developers for these types of building reuse projects.

While we all expected to see a return to the office as of Labor Day 2022, Bloomberg reported that the “grand migration back to offices after Labor Day... hasn’t materialized.” This is attributed to workers pushing for flexibility in work arrangements, which may be why companies continue to experiment with a variety of hybrid work arrangements.

It looks like 2023 will be a year of changes and it is unclear what is to come for office development, markets and building repurposing. As employees demand flexibility and amenities such as innovative hubs, green/outdoor spaces, fitness centers, quiet rooms and more, these needs will impact employers, leases, property owners, and future office development. These changes are expected to continue in some interesting and diverse directions for CRE.

Colliers – Montreal Office Market Report, Q1 2022 - <https://www.collierscanada.com/en-ca/research/montreal-office-market-report-2022-q1>

New downtown Calgary development program looks to incentivise investors to repurpose vacant office space - <https://calgary.ctvnews.ca/new-downtown-calgary-development-program-looks-to-incentivise-investors-to-repurpose-vacant-office-space-1.5551891>

Working from Home is Sticking in US as Office Occupancy Stalls, Bloomberg News - <https://www.bloomberg.com/news/articles/2022-10-04/working-from-home-is-sticking-as-return-to-office-stalls?leadSource=uverify%20wall>