VTS Office Demand Index (VODI).

MONTHLY REPORT: JUNE 2021

KEY TAKEAWAYS FROM THIS REPORT:

- Cities with more remote-friendly jobs have seen a slower office market recovery to date
- Following a particularly sharp stretch of recovery from January to April, demand for office space takes a breather in May
- Most markets saw demand for office space recede in May with Seattle, where new demand tends to be more volatile, seeing the largest decline
- Chicago is now the closest to its pre-pandemic level of all markets and was the only market to see a rise in demand for office space in May

National VODI Results

Cities with more remote-friendly jobs have seen a slower office market recovery to date

As the pandemic recedes, it has stopped holding back the demand for office space, but it has left behind fundamentally altered perspectives on the balance between remote and on-site work. While the implications may take years to fully unfold, cities in which remote-friendly work is more common are already seeing a slower recovery of demand for office space.[1,2]

In Seattle, Boston, and San Francisco the share of jobs that are remote-friendly is among the highest in the nation, and non-coincidentally those markets have also recovered the least from their pre-pandemic level of demand, still down 39, 43, and 46 percent, respectively. In contrast, markets with a substantially lower share of remote-friendly jobs, Chicago, New York, and Los Angeles, are only down 14, 15, and 24 percent from their pre-pandemic values, respectively.

Cities with more remote-friendly jobs have had a slower recovery

Market by % of Remote-Friendly Jobs	Change in VODI (Trough to Current)	% VODI Recovered
1. Washington, D.C. - 42%	+51	73%
2. San Francisco - 42%	+51	53%
3. Seattle - 39%	+46	54%
4. Boston - 38%	+29	40%
5. New York City - 33%	+80	84%
6. Chicago - 32%	+73	84%
7. Los Angeles - 31%	+62	72%

1 The classification of jobs as remote-friendly and the corresponding statistics are drawn from a study by Apartment List, which in turn relies on a study by University of Chicago economists Dingel & Neiman (2020) that is often cited in academic circles for measuring remote-friendly work.

2 While VODI is observed at the city level, the share of remote-friendly jobs is observed for metropolitan areas.

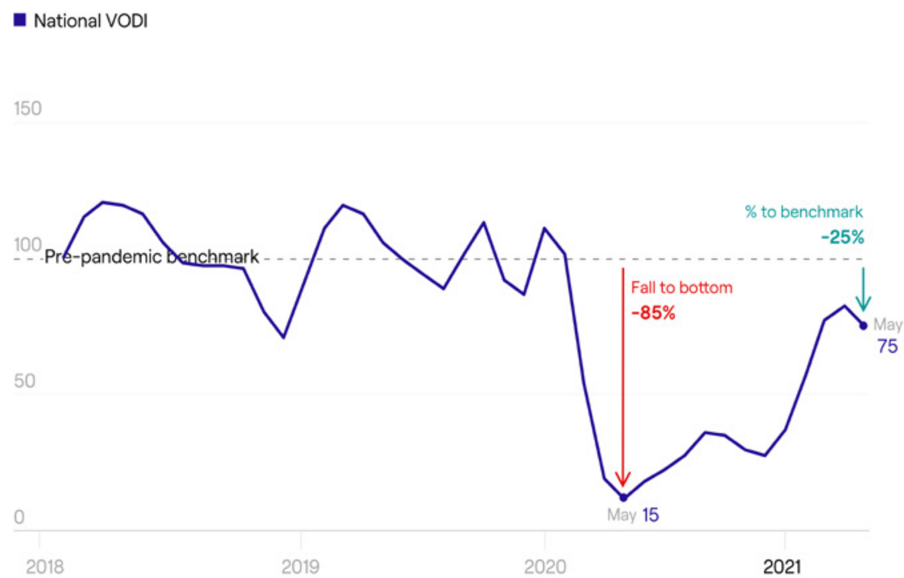
Although Washington, D.C. has a relatively high share of remote-friendly jobs (42%), office demand in the city has recovered 72.9 percent of its pre-pandemic benchmark level, in line with New York City. That could be explained by the prevalence of public and quasi-public sector employers in the city, who may be less willing to keep remote work arrangements than those in Boston, San Francisco, and Seattle. That said, the VODI for Washington, D.C. has risen only 51 points from its pandemic low, which is on par with San Francisco (51) and substantially less than New York City, Chicago, and Los Angeles (80, 73, and 62, respectively).

Now and over the coming years, the coordinated experiment in remote work that took place during the pandemic is likely to change the demand for office space in a multitude of ways, most of which probably have yet to play out. However, it already seems clear that some degree of remote work above and beyond that which was common before the pandemic will persist. As employers with staff in remote-friendly occupations watch the trends in this uncertain space, they may delay making decisions and may ultimately make different choices than they would have before the pandemic. To the extent that the weaker recovery in office demand in Boston, San Francisco, and Seattle is driven by a more remote-friendly distribution of jobs, it may remain a longer-lasting--and perhaps structural--feature of the office market in those cities.

Following a particularly sharp stretch of recovery from January to April, demand for office space takes a breather in May

The demand for office space receded modestly in May. After leaping 173 percent from its pandemic state in the first four months of the year, the VODI took its first breather, receding 8.5 percent. Despite that, at a level of 75, the VODI remains 5 times higher than its May 2020 pandemic low of 15.

VTS Office Demand Index (VODI)



The decline, likely fueled by a seasonal lull and an easing of pent-up demand, marks a reversion to office demand's normal see-sawing behavior. The VODI's steep and unwavering upward trajectory in recent months stands in contrast to its typical pre-pandemic pattern of jagged short-term volatility, and the current pull back brings it back in line with that behavior.

While those most eager to update their office arrangements have rushed to do so in recent months as the pandemic has begun abating, other prospective tenants have been waiting on the sidelines, and many continue to do so. Rising activity levels in the market for office space may sooner or later begin to deter those who are on the margin. And a great deal of uncertainty that remains around long run work arrangements featuring varying degrees of remote work are likely acting as a damper on demand as well.

Whereas surges in COVID-19 cases inhibited the demand for office space in 2020, the pandemic is now diminishing in its importance as a factor dictating demand. New COVID-19 case rates are at their lowest since the late 2020 peaks in six of the seven cities covered by the VODI, and vaccination is sufficiently prevalent to temper most COVID-related fears and has begun to instill new confidence with respect to on-site office work.

Seasonal patterns, which supported the VODI's upward surge in recent months, now constitute a slight headwind. Demand for office space has decreased between April and May every year covered by VODI, averaging a 12.9 percent drop (in 2018-2019 the drop averaged 5.7%). That said, there is likely still a great deal of pent-up demand, composed of tenants who have been waiting out the pandemic before deciding and/or acting on their office needs.

Despite the recent decline, we cautiously anticipate continued growth in the demand for office space in the second half of the year, possibly even in excess of the 2018-2019 pre-pandemic benchmark, as the pandemic retreats and at least a partial return to on-site work continues to unfold.

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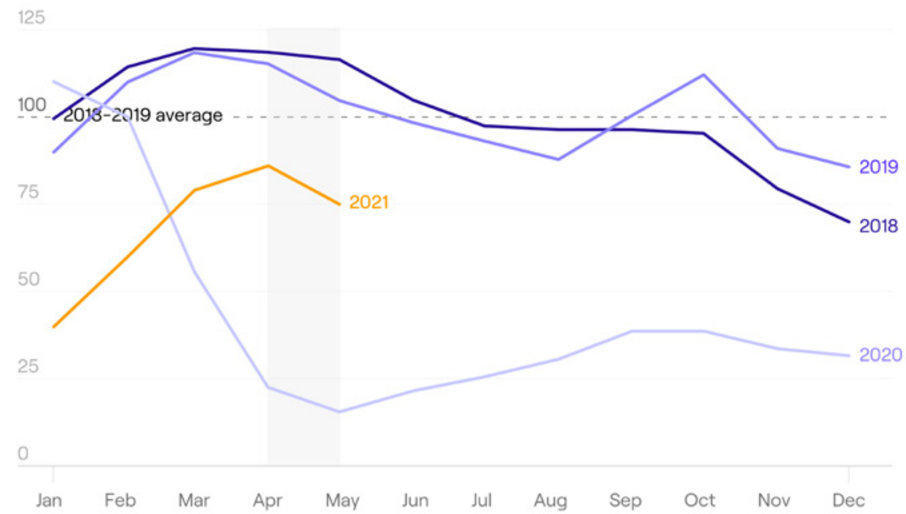

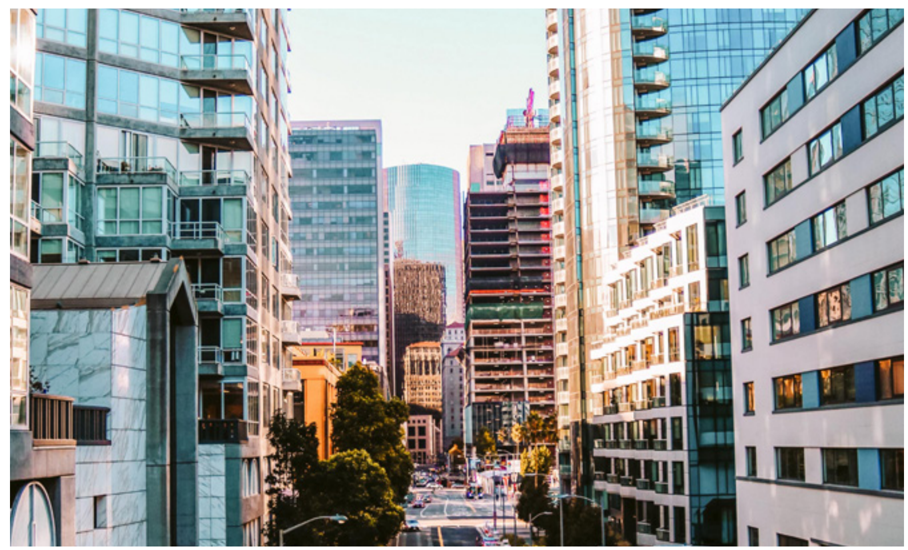

Local VODI Results

Most markets saw demand for office space recede in May with Seattle seeing the largest decline

As of May, more than half of the markets covered were within 25 percent of their pre-pandemic benchmark level--a level that more closely resembles normalcy pre-COVID-19. Nevertheless, all markets with the exception of Chicago and Los Angeles (which was flat) saw demand for office space dwindle in May, with Seattle losing the most ground--down 24 percent during the month. As noted, Seattle stands out for its relatively high share of remote-friendly jobs, and that may help explain why office demand recovery has been slower relative to that of other VODI cities.

VTS Office Demand Index by Market

In addition, Seattle was the only city among those covered by VODI whose office-using employment numbers fell in April (-3.9%), suggesting more than just office market dynamics are at play. This contrasts sharply with fellow tech-hub San Francisco, whose office-using employment increased 4.3 percent.

Despite that, Seattle's office demand fluctuations are not unprecedented, and the current decline is modest in comparison to the city's office demand fluctuations in the years immediately preceding the pandemic. Throughout the extent of the VODI time series, Seattle's office market has exhibited the greatest tendency among VODI cities towards short-term volatility.

Chicago is now the closest to its pre-pandemic level of all markets and was the only market to see a rise in demand for office space in May

Chicago, a market that has lagged behind all others on the march to recovery, is now the closest of all markets to its pre-pandemic level, with a VODI of 86. As recently as December 2020, Chicago's VODI was still 77 percent below its pre-pandemic benchmark level (compared to 70% nationally). Since December, demand for office space has increased 274 percent.

Chicago is also the only market to see an increase in demand for office space in May, though the monthly increase has tapered dramatically from previous months. Chicago's office demand increased 18.8 percent from March to April, but only 4.9 percent from April to May.

Unlike Seattle, demand for office space in Chicago is propped up by the need for physical space for a higher percentage of roles that are not classified as remote-friendly. In addition, the materialization of pent-up demand in Chicago may have been delayed a bit longer than elsewhere owing to the cold winter climate, providing some extra tailwind in May.

The breather is more pronounced for high-end space

Office demand's breather in New York City is more pronounced for Trophy and Class A space than it is for offices in Class B and C buildings. After peaking at 79.4 percent in April, the share of tenant tours corresponding to Trophy and Class A buildings receded to 75.4 percent in May. Both the Trophy and Class A category and the Class B and C category have risen very sharply since the beginning of the year, however after growing 273 percent in four months, Trophy and Class A tours declined by 11.4 percent in May. Class B and C tours increased 156 percent during the first four months of the year and have yet to retract, but their growth slowed to a mere 1.2 percent in May.

Methodology

VTS is the leading provider of leasing, marketing, and asset management software for commercial real estate landlords, with market share in excess of 65% for office buildings in every major market. The VTS platform captures, aggregates, and anonymizes supply and demand data across all office asset classes and age segments. Due to VTS' market share and the multiple spaces considered by tenants in a given search, VTS sees 99% of all newly created tenant requirements within the markets it serves. With this unprecedented view, VTS has developed a new index, the VTS Office Demand Index, published monthly, to provide landlords, brokers, tenants, and the business community with visibility into a previously opaque segment of the market–real-time tenant demand in the US office leasing market.

The VTS Office Demand Index (VODI) is the earliest look into the health of the office market. The VODI, as an index capturing actual market actions of potential tenants - promises to be a source of greater certainty and the first to actually capture the demand for office space as it evolves.

The VODI reflects the total square footage of unique tenant requirements surfaced by touring activity in a given month relative to the total square footage observed in VTS' expansive network of leasing, marketing, and asset management software. Accounting for the total square footage observed helps distinguish changes in the demand for office space from the growth of VTS' reach, as well as from changes in the supply of office space, e.g. due to fluctuation in vacancy rates or new construction.

To enhance its interpretation and its comparability across regions, VODI is reported as an indexed value using the 2018-2019 average level as a baseline valued at 100. The index is not seasonally adjusted, but it is smoothed. The smoothing procedure is a centered 3-month moving average where the given month's value is weighted twice as heavily as either of the adjacent months to better surface overall trends without losing too much of the month-to-month variability of interest to market analysts during this time. To compute the most recent month, VTS projects the index forward by one month using an equal mixture of momentum and the national seasonal trend before smoothing.

To ensure viability of VTS data for market insight, VTS suppresses monthly VODI data points informed by less than four customers, as well as all data aggregated prior to January 2018.

The markets referred to in this report correspond to the named cities, not metropolitan areas.

MEDIA CONTACTS

Alison Paoli
Kingston Marketing Group
alison@kingstonmarketing.group

Eric Johnson
VTS
eric.johnson@vts.com