August 2023

Intent to decision making in office real estate

Vacancy Prediction

Lease Renewals

ESG Premiums

... and more.

Prepared by Colliers Real Estate Management Services

Accelerating success.

After about a year of observing the effectiveness of their hybrid work policies, companies are looking beyond "wait and see." They are making decisions to either enhance, maintain, or disregard the changes ushered in during the hybrid era.

15%

National office vacancy prediction by the end of 2024

10 percentage points

Tenants are 10 percentage points more likely to renew a lease for each additional day employees work at the office

8%

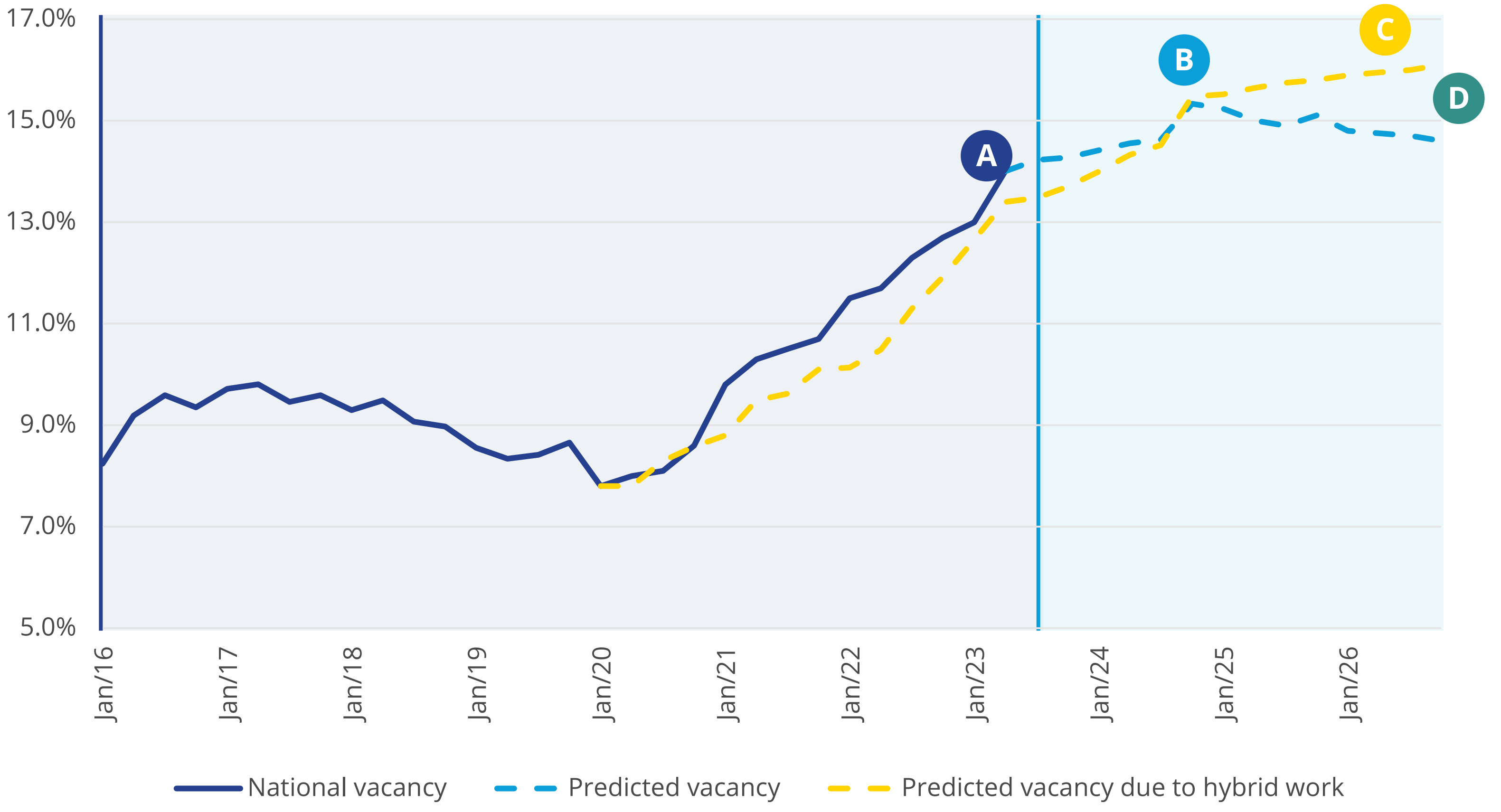
Tenants willing to pay a premium to lease space in a building with high ESG standards will pay a premium of up to 8%

4

Companies are most likely to keep their current square footage of space should employees work at the office four days per week

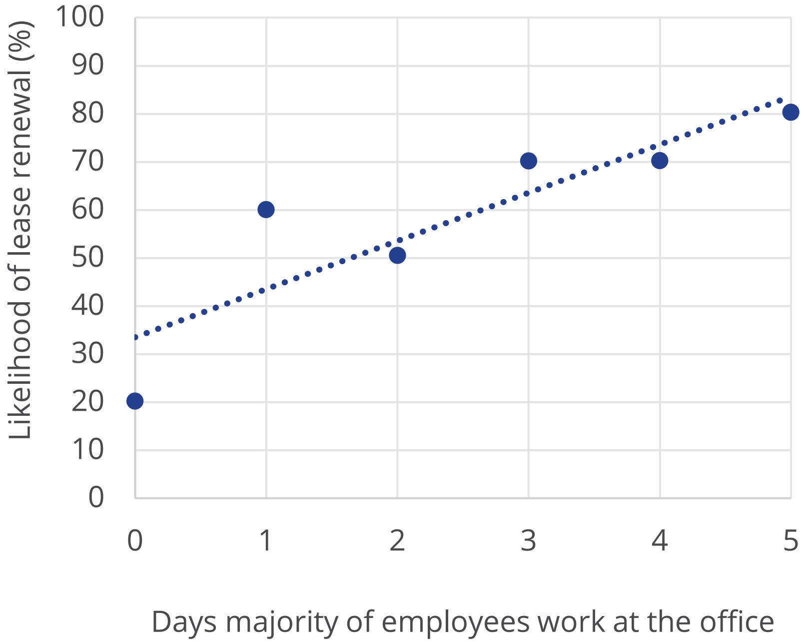
National office vacancy is on track to peak at approximately 15% by the end of 2024, before we see signs of a recovery

- **A** National office vacancy has risen from approximately 8% to 14% since 2020 and the rise of hybrid work.
- **B** Vacancy rates are expected to climb an additional 1% to peak at approximately 15% by the end of 2024.
- **C** Hybrid work, as an isolated factor, is predicted to drive up vacancy.
- **D** Economic growth, attributable to business expansions and new entrants to the market, are tempering rises in vacancy due to the impact of hybrid work. Barring a major economic downturn over the next 18 months, we expect to see signs of recovery in early 2025.

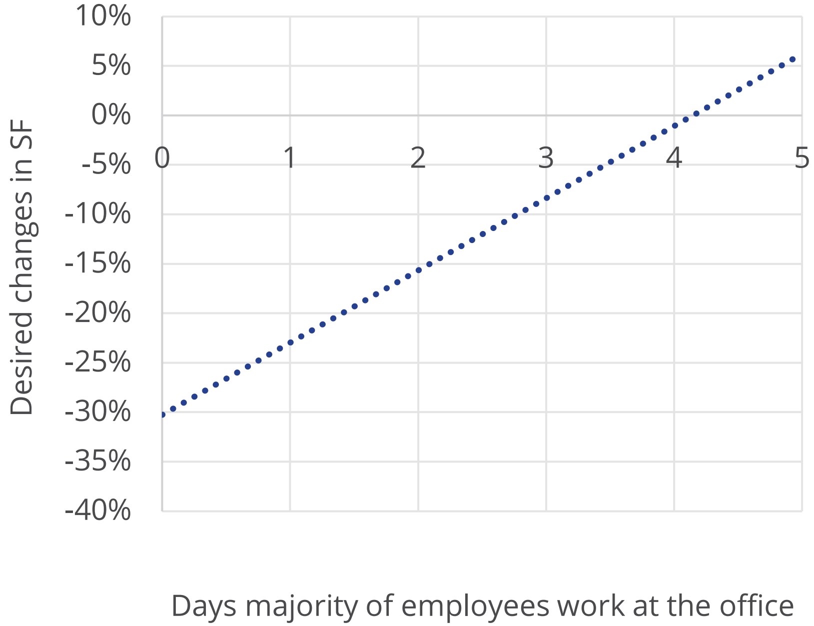


Employee office attendance is a key predictor in lease renewals

Companies are 10-percentage points more likely to renew their lease for every additional day a majority of employees work at the office



Companies are most likely to keep their current square footage (SF) of space should employees work at the office four days per week.



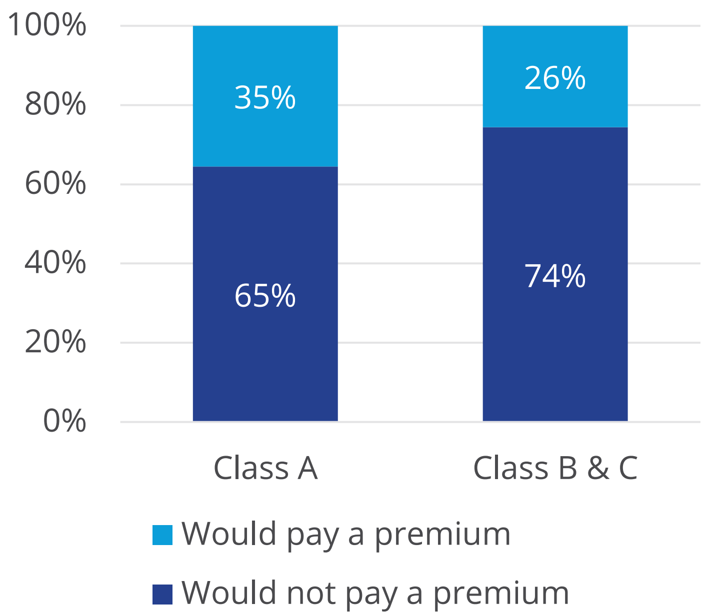
Tenants willing to pay a premium to lease space in a building with high ESG standards will pay a premium of up to 8%

Tenants were asked their willingness to pay a premium to lease space in a building with high ESG standards, including but not limited to, energy efficiency, green space, waste management practices, and social impact programs. 29% of tenants would pay a premium, while 71% would not. Tenants who responded affirmatively are willing to pay an ESG premium of up to 8%.

Would pay a premium
29%

Would not pay a premium
71%

Notably, tenants in class A offices were 34% more likely to pay this premium compared to tenants in class B or class C offices.



Companies with the highest office attendance had the highest percentage of private offices

Access to private workspace is a critical determinant of an employee's willingness to work at the office. As we reported in *The Hybrid Equation,* employees with a private office tend to spend an average of four additional hours in the office each week.

Tenants surveyed for this report affirmed this correlation, as companies where private offices encompass close to 40% of their overall space had most employees working at the office one day per week, whereas those with close to 50% private offices had employees working at the office five days per week.

Report Findings

The average in-office mandate has risen from 2.5 to 3 days per week

A growing number of companies (55%) have finalized their plan for how they will approach the balance between in-office and remote work. As more plans are finalized, there has been an increase in the number of days companies are mandating employees work at the office. The average is three days per week, varying by geography.

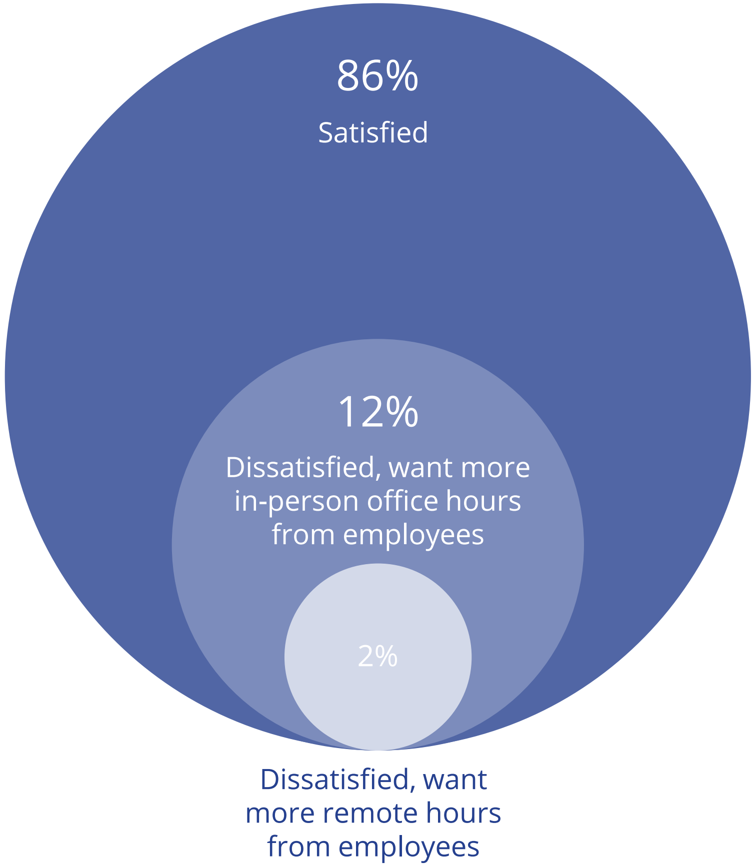
	Q4 2022	Q2 2023
Companies with a finalized plan	49%	55%
Mandated days in office	2.5 days	3 days

Tenants are largely satisfied with the current state of hybrid work

In our [Q4 2022 office report,] we outlined how 62% of companies intend to operate under a hybrid model and that it is the preferred method of work for both employees and management.

In our most recent survey, we asked tenants to indicate their level of satisfaction with the current balance of in-office and remote work among employees at their office.

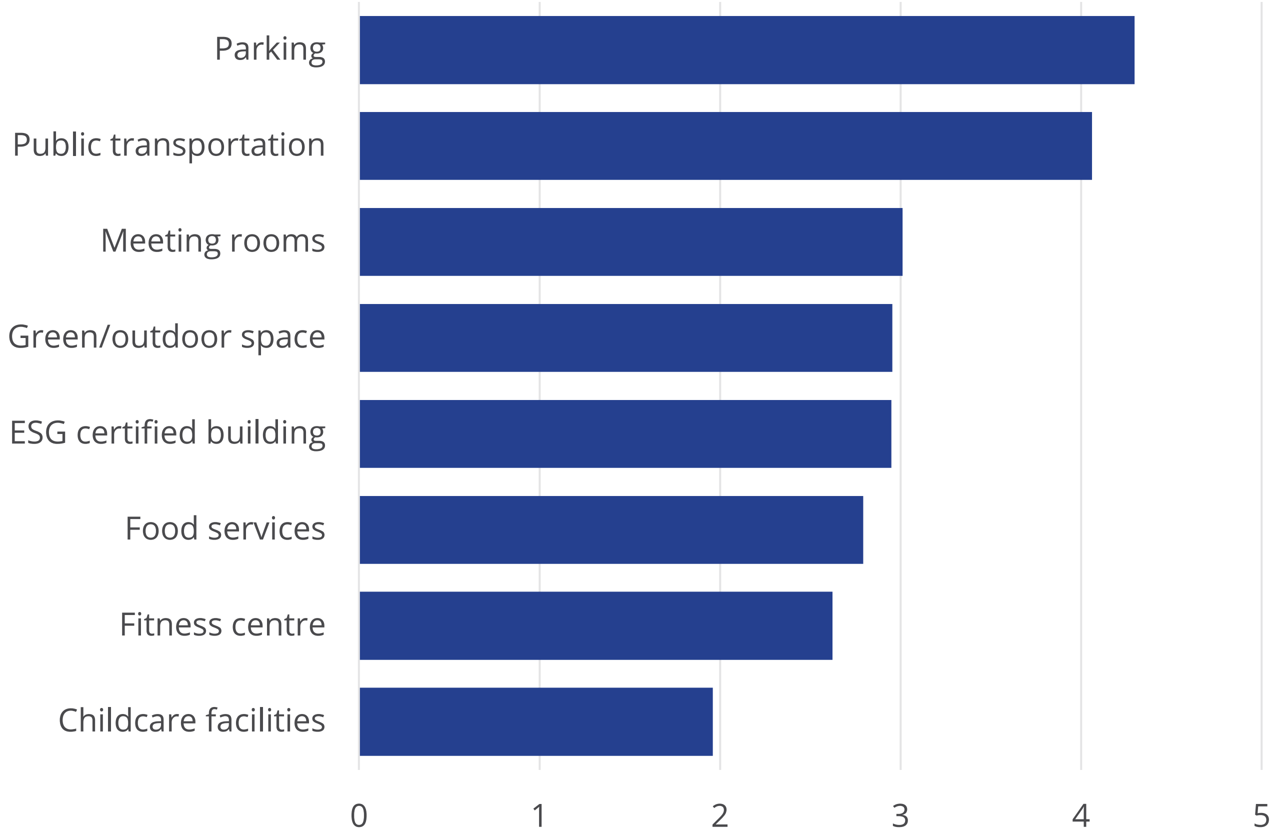
Of the small, medium, and large tenants surveyed, 86% are satisfied, yet there is evidence of a growing divide between employees and management.



Importance of building amenities

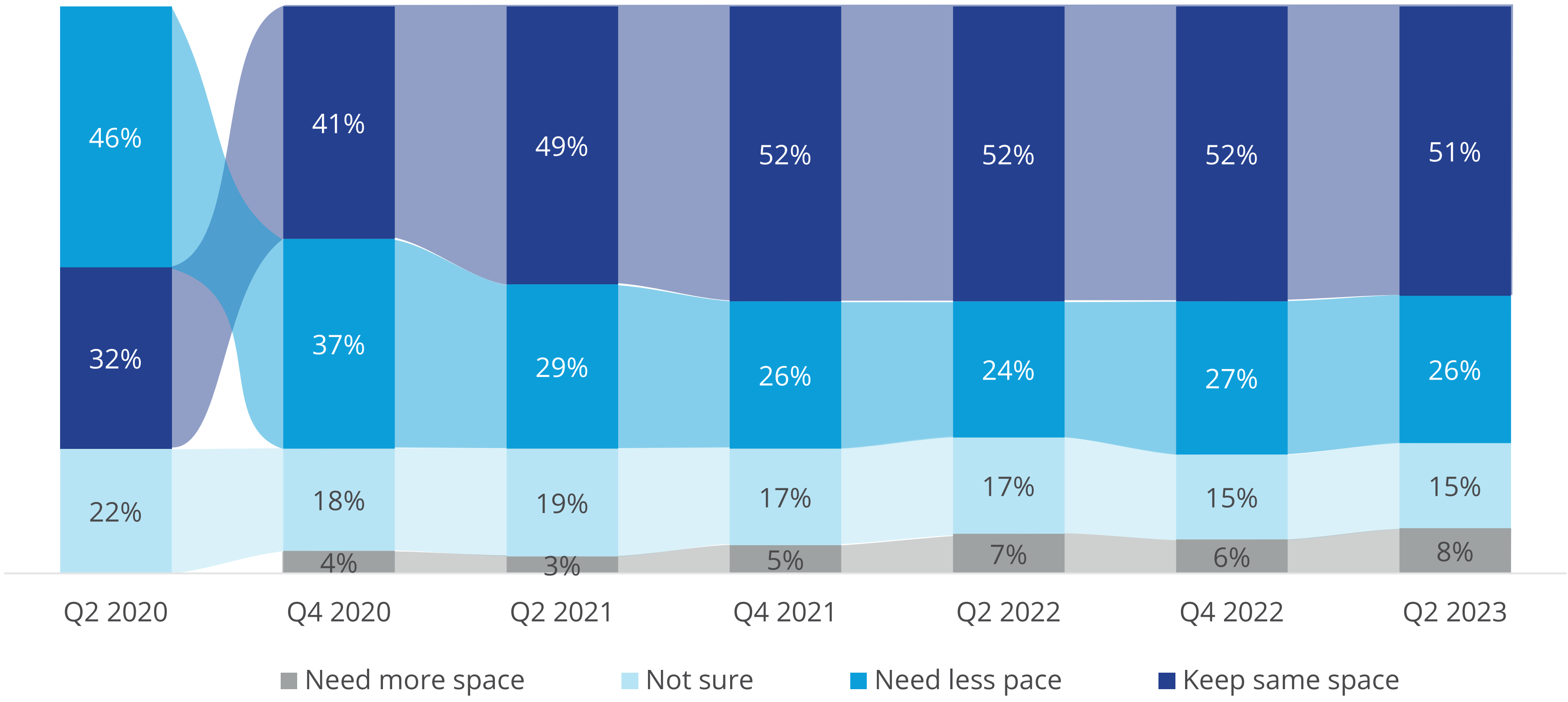
Parking and access to public transit are the most significant factors companies will consider when evaluating a new office space

Tenants were asked to rank the importance of various building amenities when evaluating a new office space. Upon taking the average of all responses, parking facilities and access to public transportation were clearly the top considerations. This is in line with what we reported in *The Hybrid Equation,* where employees ranked the time and cost of the commute as among the top factors influencing their decision to work at the office.



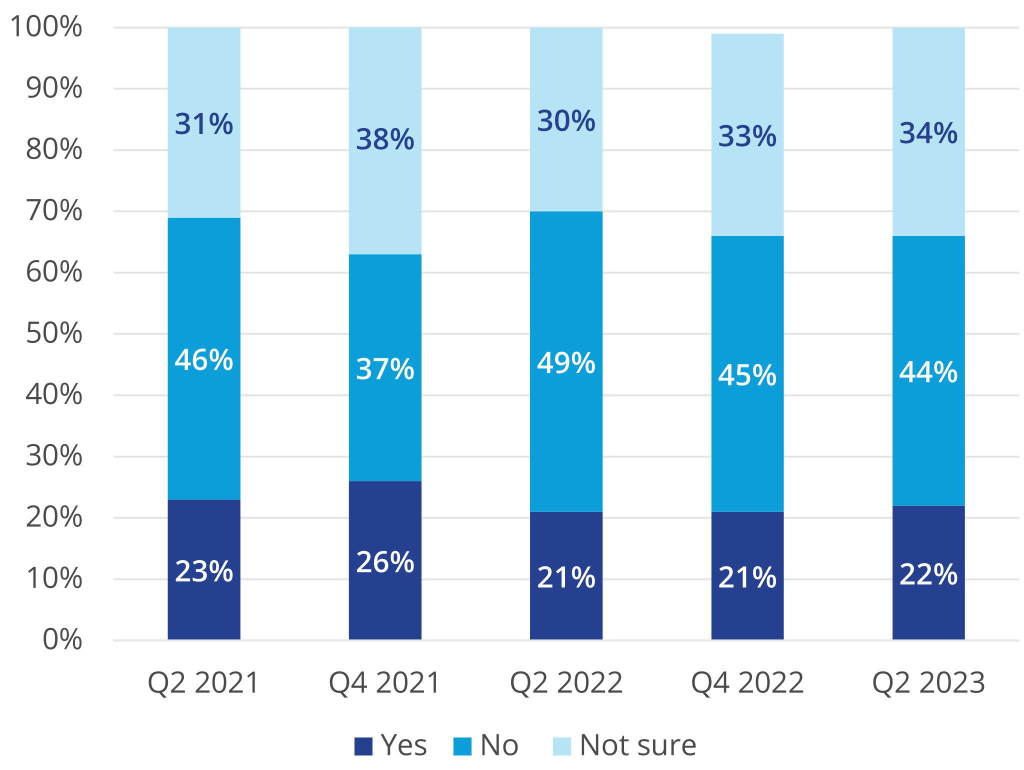
Hybrid work and demand for office space

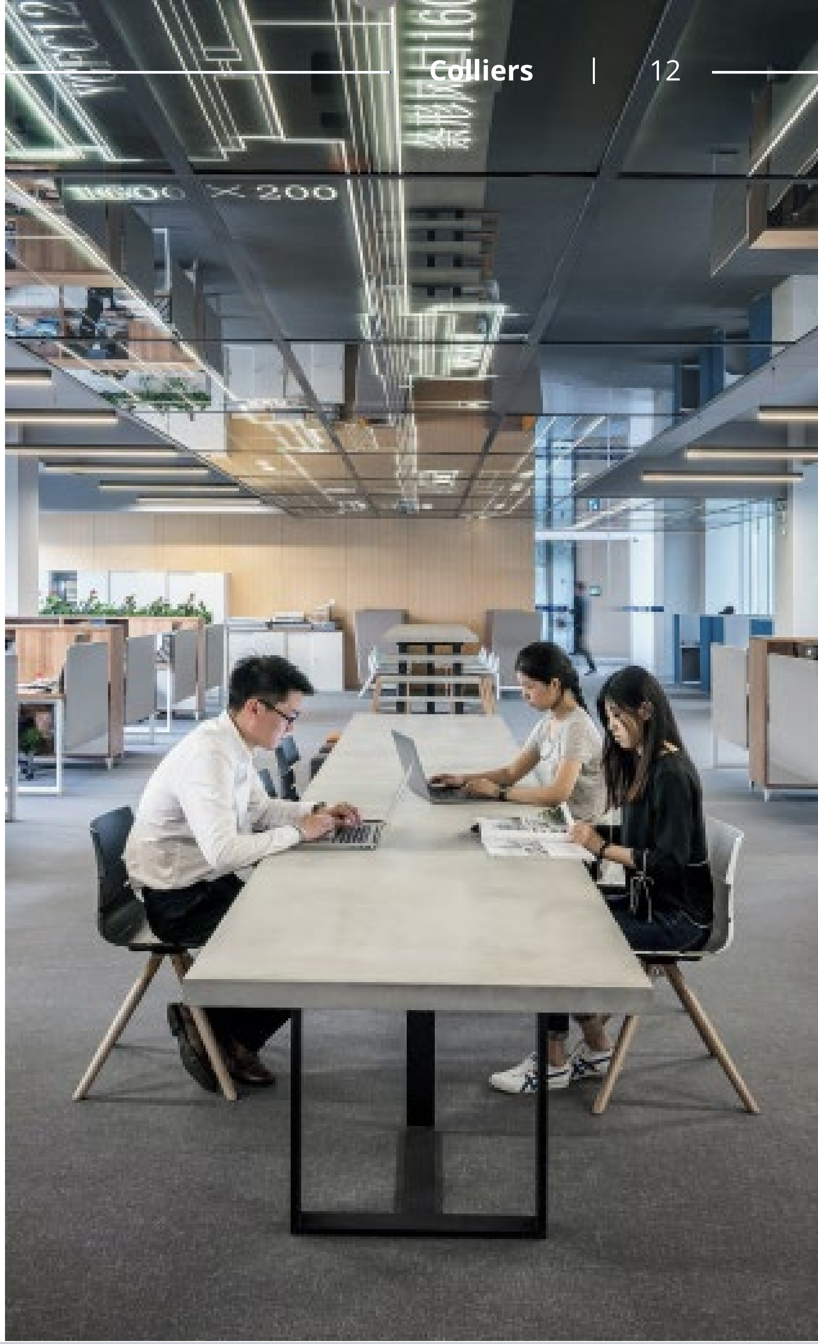
The majority of tenants intend to keep the same amount of office space, which is consistent with survey results over the past two years.



Flex space is predicted to encompass 8% of total office space in the market

When asked if they would consider flex space as part of their future space strategy, 22% of tenants said yes, 44% said no, and 34% were unsure, which is consistent with survey results over the past two years.



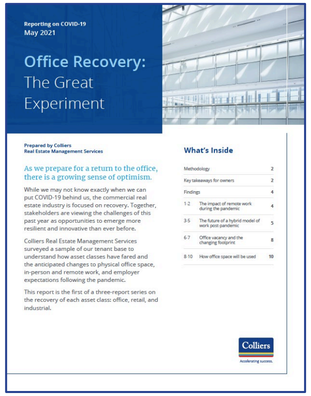


To analyze our portfolio, we surveyed a stratified sample of tenants out of our 35 million square foot national office portfolio based on geography, business size, and industry. The survey contains responses from 289 companies, with a 95% confidence level.

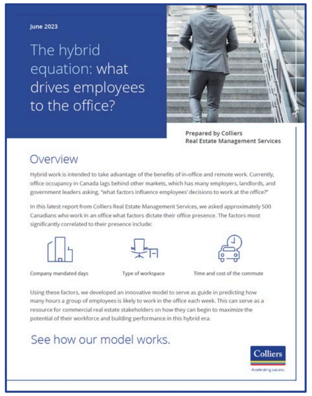
This is the seventh survey that has been issued to office tenants in this series, in addition to a special issue looking at employee sentiment.

[Q2 2020]

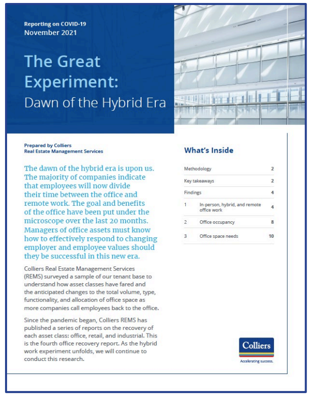
[Q4 2020]



[Q2 2021]



[Employee Pulse Report]



[Q4 2021]

[Q2 2022]

[Q4 2022]

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