Permanent Fall of Traditional Lease Spaces:

Linking Business Formation Trends to New Commercial Lease Dynamics

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Since the COVID-19 pandemic, there has been a decline in traditional office space usage in the U.S. due to the rise of hybrid work models. At the same time, there has been an increase in demand for flexible coworking spaces (e.g., WeWork, Regus), driven by a rise in startups and new business formations.

This study examines whether spikes in new business-formation filings can predict upcoming leasing demand and investigates the growing shift toward flexible and coworking spaces in U.S. markets—driven both by a wave of pandemic-era entrepreneurship and as larger firms' move to hybrid work models.

Commercial real estate (CRE) has historically been driven by small business creation: when entrepreneurs launch brick-and-mortar ventures, they lease space; when formation slows, leasing follows suit. However, the COVID-19 pandemic upended both entrepreneurship and workspace preferences simultaneously. We observe that:

1. **Unemployment rate** increase resulted in decrease of number of leases
2. **Business formations** spiked post-2020
3. **Traditional lease volumes** plunged in 2020 and have yet to return to pre-pandemic levels
4. **Occupancy rates** recovered only partially, suggesting lasting hybrid-work adoption

These dynamics raise a key question: *Can today's business-formation data forecast the supply needs of tomorrow's CRE, particularly the rise of flexible and coworking spaces?*

Key Findings

1. **Business formations** rose from ~3,500 monthly applications in 2020 to ~5,600 by 2024, a 60 % increase.
2. **Traditional lease volumes** remain ~25 % below 2019 levels, despite partial occupancy recovery (only 90 % of pre-pandemic averages).
3. **Hybrid-Work Persistence**
   ➢ Major-market occupancy rates recovered to only 60-70% of 2020 levels by Q3 2024, suggesting remote/hybrid norms may permanently cap traditional leasing demand.

Implications for Investors & Clients

❖ **Market Selection**: Texas and Florida, with strong formation growth but varying lease-quality uptake, present differentiated investment profiles—Texas (TX) for balanced growth; Florida (FL) for cost-sensitive startups. California (CA) and New York (NY) continue to stand out as premier business hubs, notably for specific industries like Technology.

❖ **Flexible-Workspace Strategy**: Companies should rethink multi-year leases in prime central business district locations, opting instead for shorter-term, amenity-driven flexible agreements that accommodate hybrid work models and capitalize on the recent surge in startup activity.

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