



# **Pandemic Disrupts Office Market As Investors, Owners, Occupants Reevaluate Space Utilization**

by Kerry Smith  
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EDWARDSVILLE - Commuting has taken on an entirely different meaning since March.

Commercial real estate brokers, investors and analysts are watching and waiting – along with much of the nation – to see what the future holds for the office market in the wake of the COVID-19 pandemic.

From lease terms to office layouts, touchless solutions and the need to balance social distancing with collaboration, the core identity of “the office” remains unclear. Gone – for now, at least – are the communal water coolers, coffee pots, populated conference spaces and waiting rooms. In their place is a continuing degree of uncertainty as to what the post-pandemic future holds for employers and employees whose job descriptions include face-to-face collaboration and client engagement.

One thing is sure: COVID-19 has altered the way the office looks. And at least for the time being, it looks dramatically different than what was depicted in the long-running Steve Carell sitcom, “The Office.”

“We don’t know the full impact yet,” said Wayne Barber, Jr., co-founding principal of Southern Illinois commercial real estate firm BARBERMURPHY. “There is already a change in the attitude of how employers and employees utilize space.”

Short of redesigning the space itself, something property owners (sellers and buyers) may be reluctant to do in the short term, scheduling employee rotation in and out of the office is afoot among many employers.

BARBERMURPHY Broker Associate Terry Johnson, whose commercial real estate career spans more than 40 years, agrees that where investors are concerned, it all leads back to the individual investment property and the length of its lease.

“Even before COVID-19 hit, long-term (office) leases were already hard to find,” said Johnson. “Once the dust settles, we’ll know the true impact. Corporate giants like Amazon have announced huge numbers of employees will be working from home, but those are mostly data-entry professionals. National organizations have been issued protocols that they’ll need to abide by. For the smaller regional or local companies, they’ll likely have more flexibility in how they approach this and whether it means a space redesign and/or an office rotational schedule to enable them to continue with the same amount of space but also maintain social distancing requirements. There are still a lot of unknowns,” he added.

Johnson is preparing to meet with a national mortgage company client whose office lease is up for renewal. “For organizations who have had coworking spaces with hoteling such as large, communal office tables with IT hookups, we may see those spaces remain but with plexiglass wall dividers. But even if you pull 10 percent or more people out of those office spaces, you’re still going to need bigger spaces for those who remain in office. We predict that this whole scenario is going to be a disruption of the office environment for probably the next 24 months. No doubt, the multiple-tenant office buildings are going to be the ones with the greatest impact post-COVID-19.”

Collin Fischer, a principal at BARBERMURPHY, says his conversations with office prospects reveal a definite demand for decreased office square footage.

“Many office users are looking at reduced spaces such as 2,000 square feet rather than 5,000 square feet, and they’re planning to rotate their people in and out of the office and allow them to continue working from home the rest of the time,” Fischer said. “The big impact now on office is the added cost it’s creating for the employer and the landlord due to the extra cleaning and disinfecting it’s requiring. With regard to office investment, I think the knee-jerk reaction will be that underwriting will, of course, be more conservative. But still, our market (Southern Illinois), there are active investors looking for office investment.”

Fischer advises office property owners to seek counsel from their real estate advisors. “If you’re an owner, don’t hesitate in talking with your commercial real estate professional about value,” he said. “You may be thinking it is a terrible time to sell, but you may be pleasantly surprised by our professional opinion of the value of what you have.”

Morningstar Senior Analyst Kurt Pollem said large employers whose companies are located in large urban cities are supporting a lengthy work-from-home culture among their workers. “Because of the density factor and because many major cities were shut down with so many COVID cases, people fled for months,” he said. “Finance, technology and legal professionals are all still working via Zoom. In urban centers, particularly those served by mass transit, the view and the dynamics of the traditional office landscape are shifting since working from home wasn’t a choice. We had to collaborate differently. It has proven that this works, but since office tenants are locked into longer-term leases, there’s not the immediate impact as we’re seeing with hotels, and to a lesser degree, with multifamily. There’s an equilibrium, but nobody knows yet what that is going to be.”

*Kerry Smith is a full-time business writer in Edwardsville.*