Nearing the path to recovery

OFFICE REAL ESTATE IN 2024

Accelerating success.

After four years of disruption, we are nearing the path to recovery in office real estate. With vacancy set to peak by Q2 2025 and transportation accessibility dominating the discourse, we once again spoke with tenants about the effect of hybrid work on their real estate space needs.

2

An average lower commute time of 10 minutes is correlated to a 2-percentage point lower market vacancy

15%

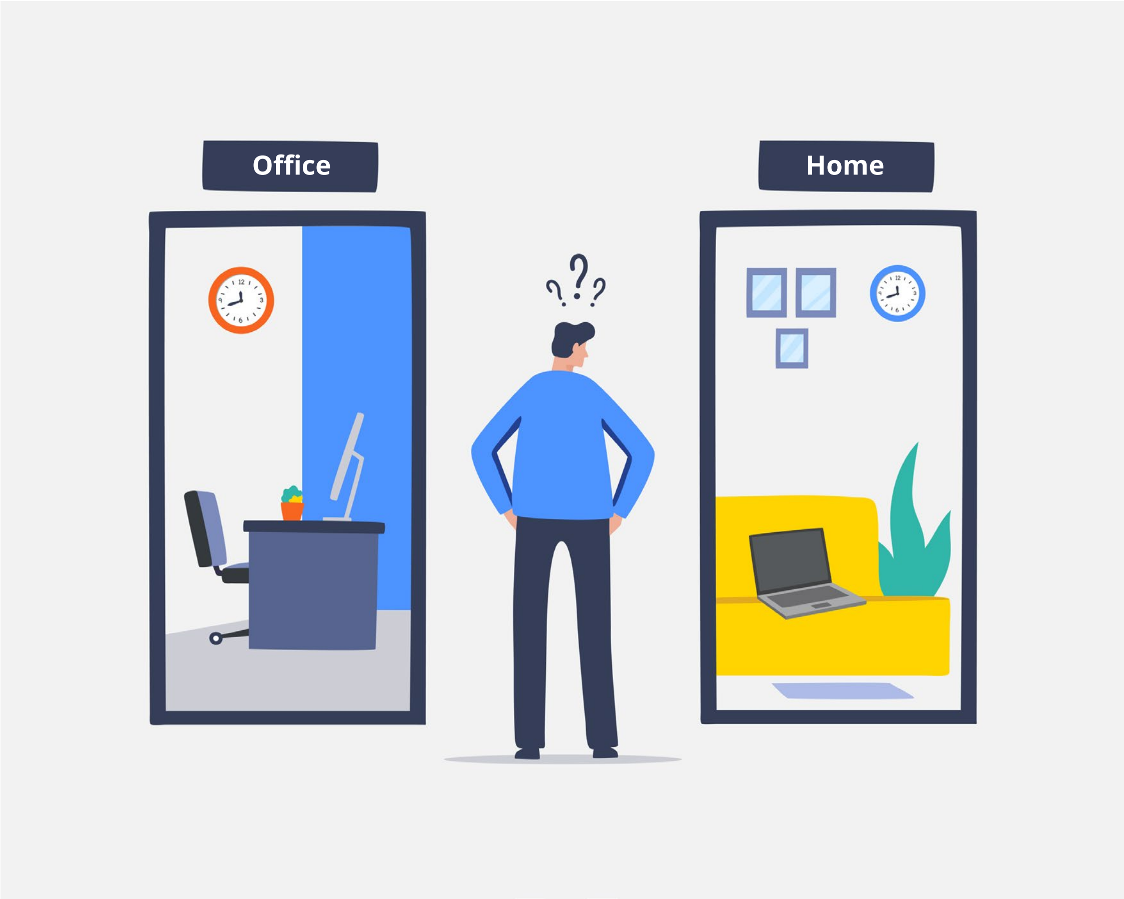
National office vacancy prediction by Q2 2025

3.3

The average in-office mandate has risen from 2.5 to 3.3 days per week since last year

#1

Suburban tenants say parking is a bigger priority than the cost of rent when leasing office space



An average lower commute time of 10 minutes is correlated to a 2-percentage point lower market vacancy.

The length of the commute is a significant predictor of the time employees spend in the office. As Colliers previously reported, for every additional minute an employee spends commuting, they tend to spend 0.2 fewer hours in the office. Furthermore, employee office attendance is a key predictor in lease renewals. In a subsequent report, we outlined that companies are 10-percentage points more likely to renew their lease for every additional day a majority of employees work at the office.

Building on these previous findings, we estimate that an average lower commute time of 10 minutes is correlated to an average 2-percentage point lower market vacancy. Office assets that are accessible – including ample and affordable parking and proximity to public transit – will fare better than those with sub-optimal accessibility.

National office vacancy is expected to peak at approximately 15% by the end of Q2 2025, before we see signs of a recovery.

National vacancy will rise another 1% in 2024 and is expected to peak at approximately 15% by the end of Q2 2025. This is a fiscal quarter later than predicted last year, owing to slower economic growth. The Canadian economy fell 2% short of the Conference Board of Canada's forecast for 2023.

While the impact of hybrid work – as an isolated variable – on vacancy is levelling off in most markets nationally, it is still placing upward pressure on vacancy in Toronto and the GTA, along with Vancouver and the GVA. This is mainly attributable to longer commute times leading to heightened employee resistance to work at the office, and in turn, heightened pressure for companies to re-evaluate their space needs.

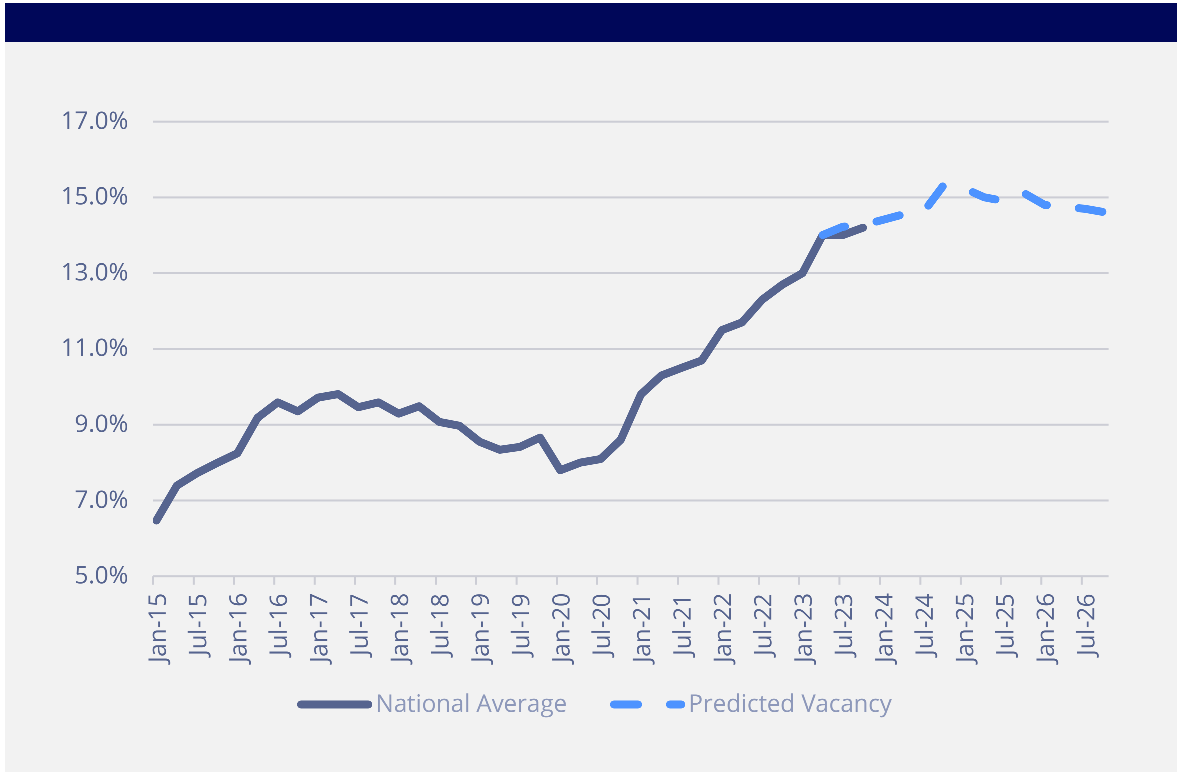


Figure 1: National office vacancy, actual and predicted.

Flexible enforcement of workplace mandates will have employees work in the office more frequently than strict enforcement.

Company mandates are a key predictor of employee presence in the office. When companies institute a mandate, the mandate and actual employee attendance are often aligned. However, employee attendance is influenced by the strength at which the mandate is enforced.

When mandates are flexibly or moderately enforced, employees, on average, are in the office more frequently than the mandate requires. When there is strict enforcement, employees do not spend any additional time in the office.

47% of companies have flexible enforcement	36% of companies have moderate enforcement	17% of companies have strict enforcement

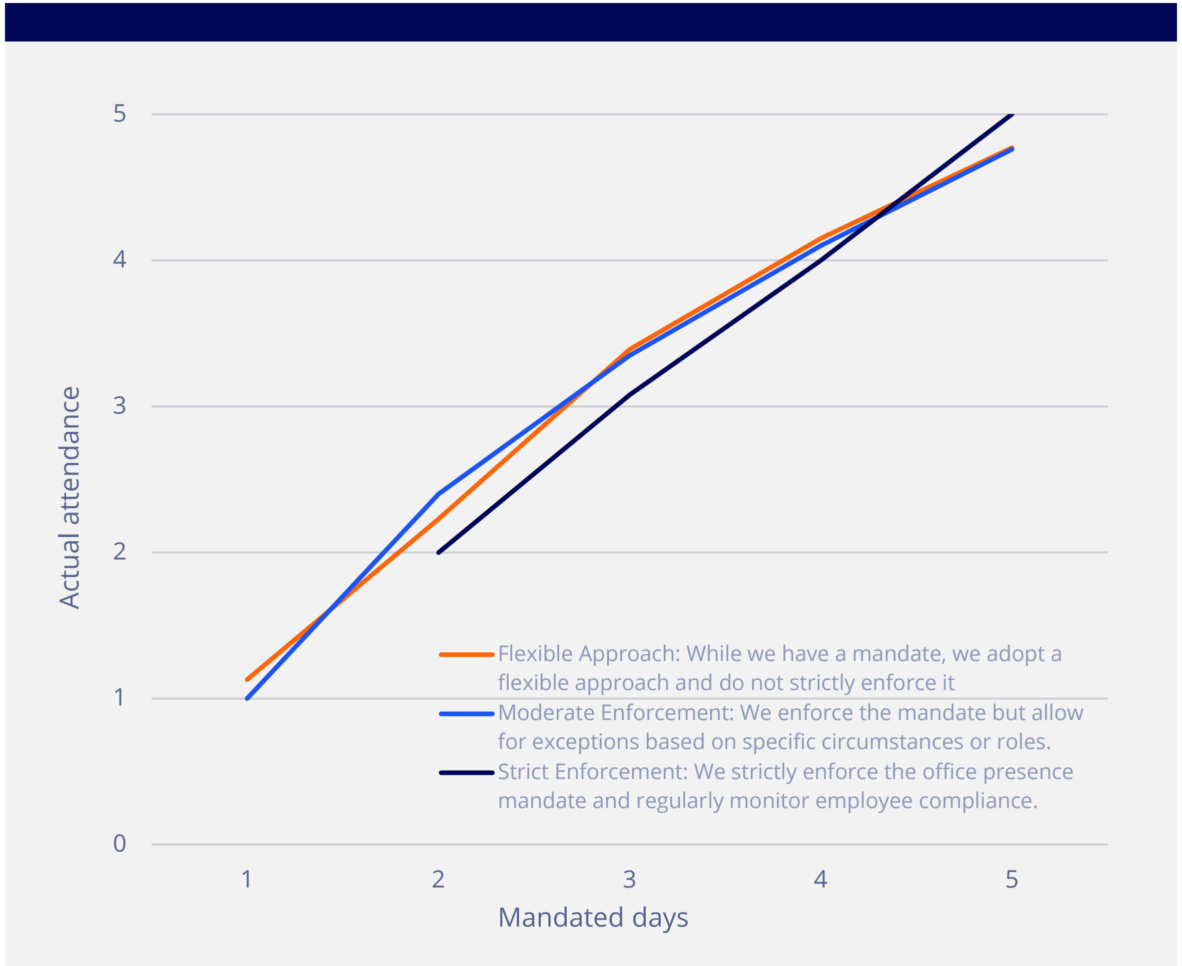


Figure 2: The impact of mandate enforcement on the number of days employees work at the office.

Flexible enforcement of workplace mandates are believed to be more advantageous than strict enforcement for talent acquisition and retention.

Tenants believe that flexible enforcement of workplace mandates has a positive impact on employee retention and talent acquisition, whereas strict enforcement has a negative impact.

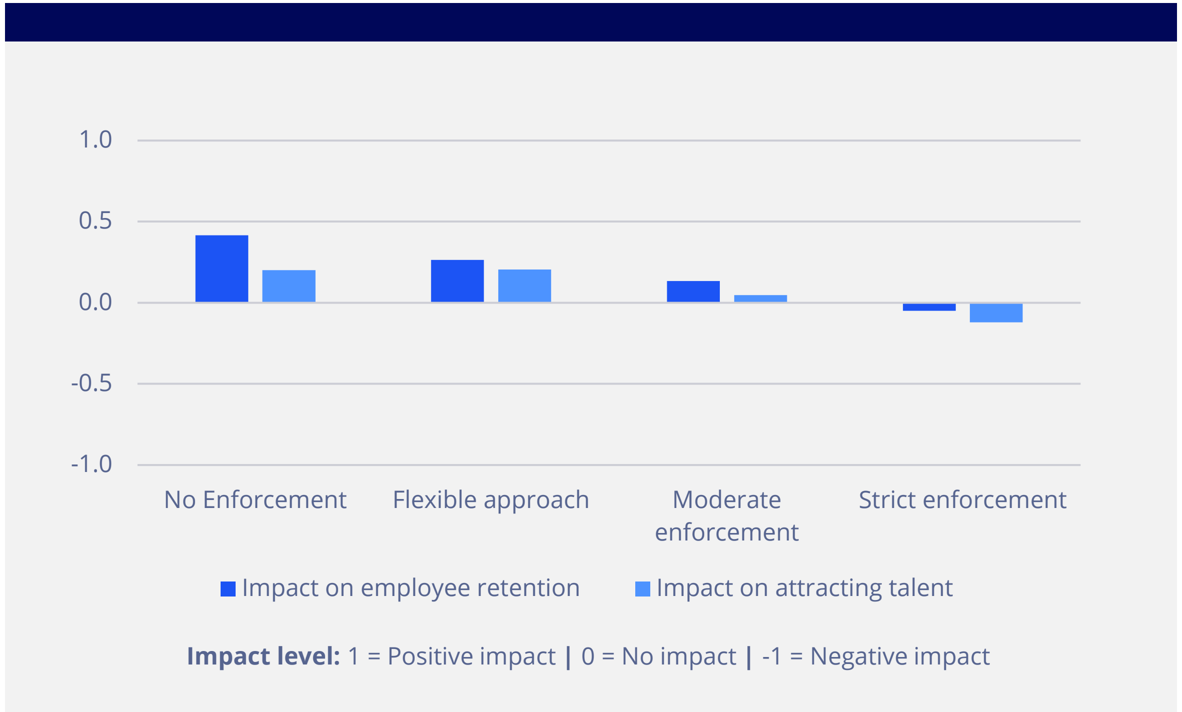
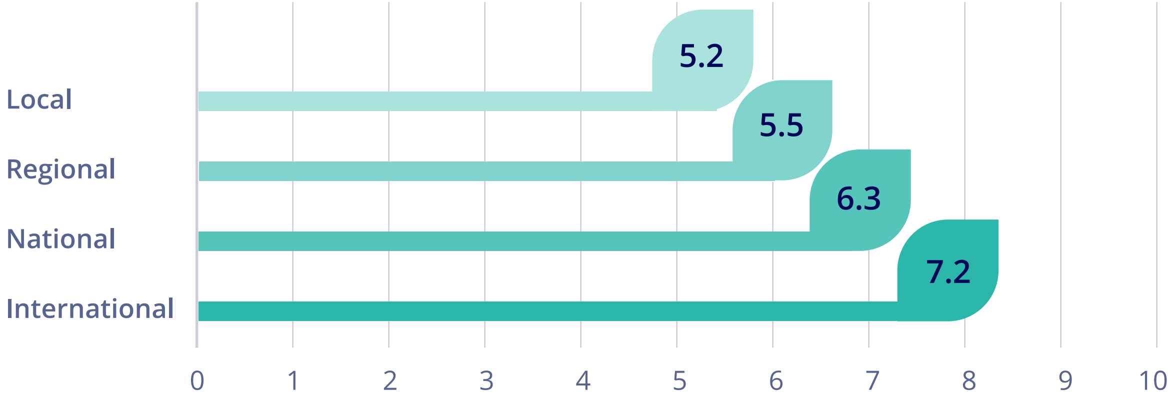


Figure 3: Tenant sentiment on the impact of mandate enforcement on employee retention and talent acquisition.

International tenants are most likely to prioritize high ESG standards when deciding where to lease or renew office space.

As they weigh the decision to lease or renew office space, international tenants prioritize ESG – including energy efficiency, green space, waste management practices, and social impact programs – higher than local, regional, or national tenants. Consistent with what we reported previously, tenants who are willing to pay a premium for an office space that meets high ESG standards are willing to pay a premium of up to 8% on net effective rent.

Figure 4: On a scale of 0-10, tenants rank the importance of high ESG standards when deciding to lease or renew office space.



The average in-office mandate has risen from 2.5 to 3.3 days per week.

62% of companies have finalized their plan for how they will approach the balance between in-office and remote work. This is up from 49% one year ago. The trend continues – as more plans are finalized, there has been an increase in the number of days companies are mandating employees work at the office.

	Q4 2022	Q2 2023	Q4 2023
Companies with a finalized plan	49%	55%	62%
Mandated days in office	2.5 days	3 days	3.3 days

54% of tenants cite that employee productivity has stayed the same with the adoption of hybrid work.

The study of employee productivity is garnering more interest since companies have begun providing greater flexibility in the hybrid era. While 54% of tenants cite that productivity is unchanged from pre-pandemic, the true impact of hybrid work on productivity has yet to be fully determined.

A recent report from McKinsey and Company states, “If research conclusively indicates either a negative or a positive relationship between hybrid work and productivity, that could push office attendance up or down, respectively. Studies conducted by companies and research institutions have so far shown no negative relationship between hybrid work and productivity."

30%

Productivity has declined.

54%

Productivity has stayed the same.

16%

Productivity has increased.

Cities with longer commutes are more likely to have a lower organic office presence.

Reinforcing the finding that commuting time is a significant predictor of employee presence in the office, when a company does not have a mandate, employees located in regions with longer commutes are less likely to work at the office.

This has an especially high impact in urban areas like the Greater Toronto Area (GTA) and the Greater Vancouver Area (GVA), as reinforced by a recent [TomTom study](#) that ranked the GTA and the GVA as #3 and #32, respectively, for worst traffic in the world.

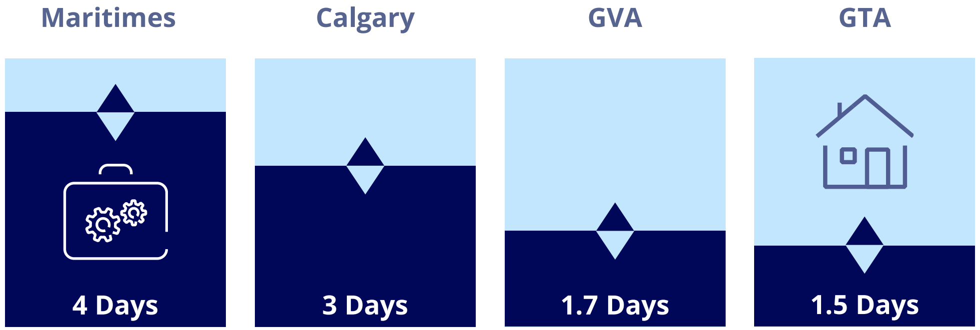


Figure 5 (left): The number of days per week employees work at the office when there are no company mandates.

The average square foot (SF) of space per employee declined an additional 8% in 2023.

Since the onset of the pandemic, the average square foot of space assigned to each employee has decreased from 280 SF to 230 SF.

Figure 6: The average square foot of space per employee.

Fewer tenants suggest they want to reduce their space.

When asked about the importance of physical office space to their company, the trend we have observed over the past 2.5 years has held steady: the majority of tenants intend to keep the same amount of office space. That said, the percentage of those suggesting they want to decrease their space fell from 27% to 22% compared to one year ago.

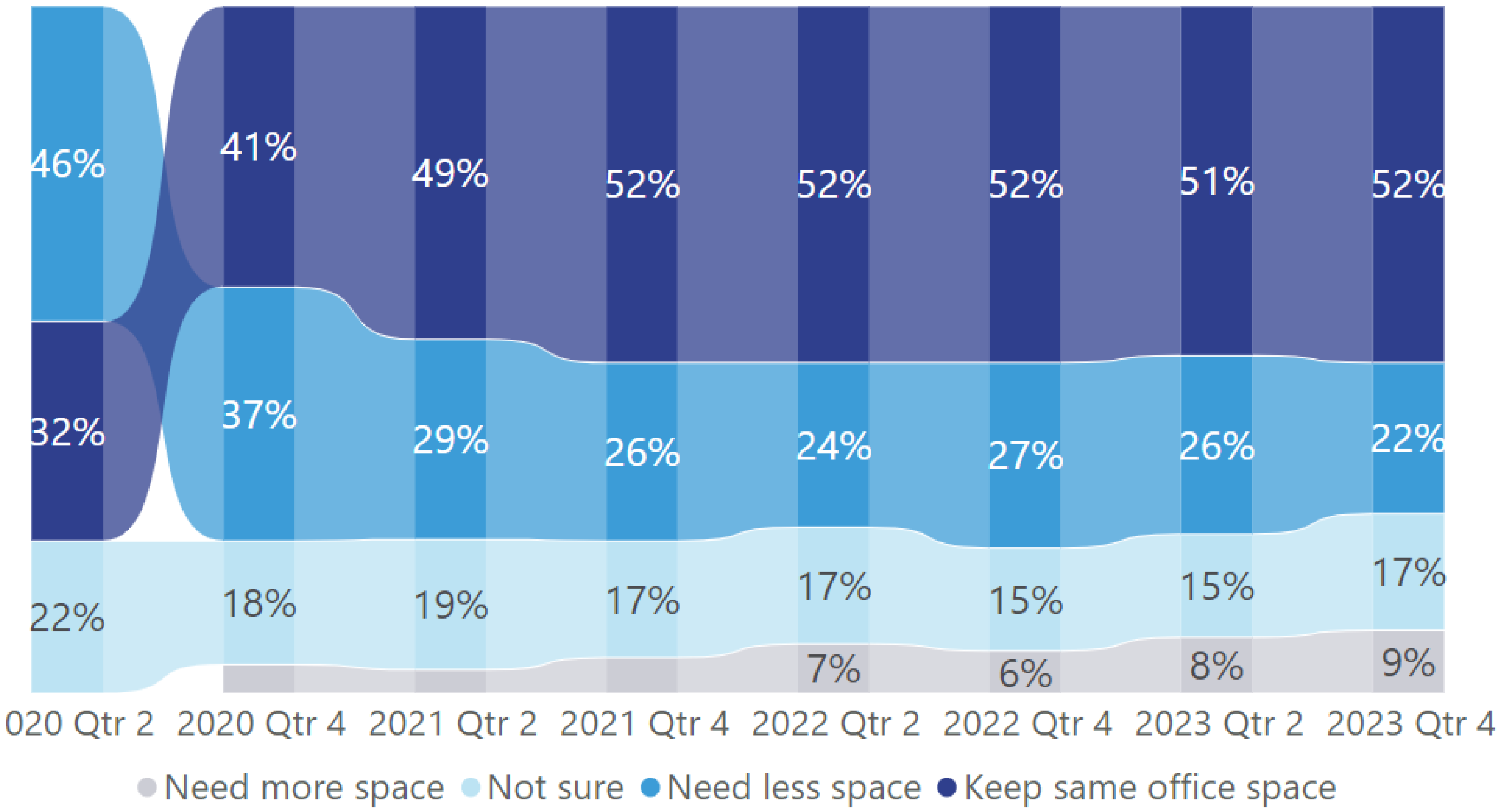
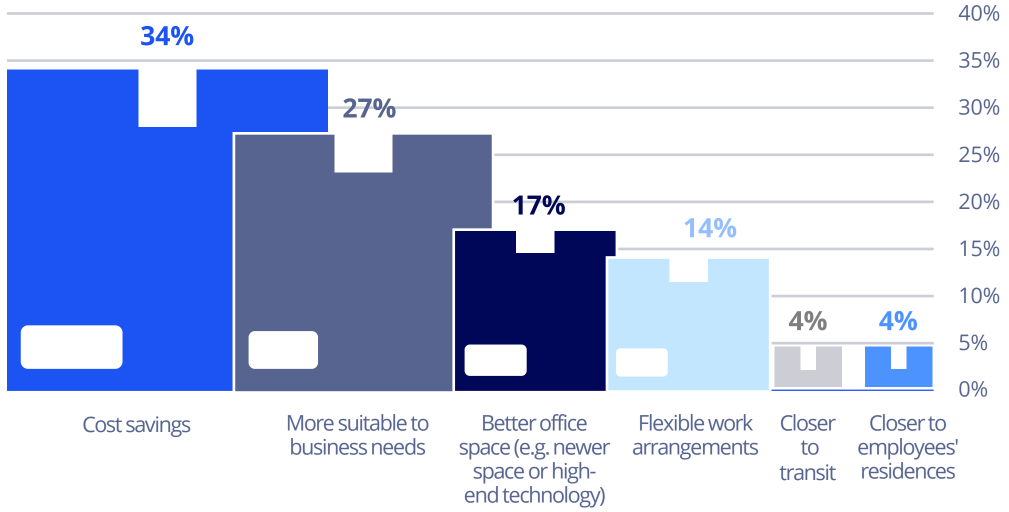


Figure 7: Tenant sentiment on their space needs.

Tenants who are planning to move indicate that they are primarily motivated by cost savings.

In this survey, tenants who have decided they will move at the expiry of their lease indicate that cost savings are the primary motivator, followed by the desire for an office space better suited to their business needs.

Figure 8: Tenant motivation for moving their office space.



Suburban tenants say transportation accessibility is a bigger priority than cost of rent, while downtown core tenants highlight building security.

Perhaps unsurprisingly, among the top three tenant priorities when deciding whether to lease or renew office space are cost of rent and transportation accessibility. While downtown core tenants analyze the proximity to public transit, non-core and suburban tenants' factor in the ease of access by car and availability of parking. It is noteworthy, however, that suburban tenants say transportation accessibility is a bigger priority than cost of rent, while downtown core tenants highlight the importance of building security.

	Priority 1	Priority 2	Priority 3
Downtown core tenants	Rental rate	Building security	Proximity to public transit
Downtown non-core tenants	Rental rate	Availability of parking	Ease of access by car
Suburban tenants	Availability of parking	Rental rate	Ease of access by car

Figure 9: Tenants were asked to rank the importance of factors, including proximity to public transport, ease of access by car, availability of parking, nearby amenities, building facilities, architectural design, security, layout flexibility, natural light, air quality, rental rate, building prestige, branding opportunities, and suitability for hybrid work.

To analyze our portfolio, we surveyed a stratified sample of tenants out of our 35 million square foot national office portfolio. This includes class A, B, and C assets in primary and secondary markets, with businesses varying in size and industry. The survey contains responses from 427 companies, with a 95% confidence level.

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

View our previous reports:

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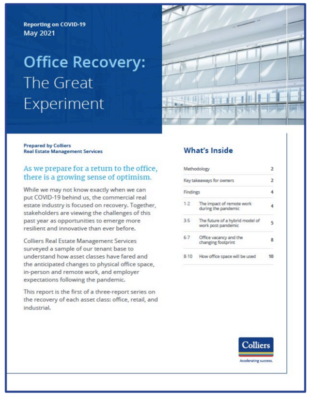
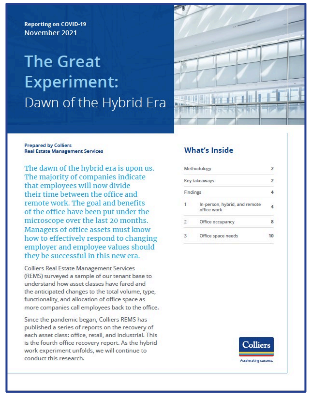
Q2 2020

Q4 2020



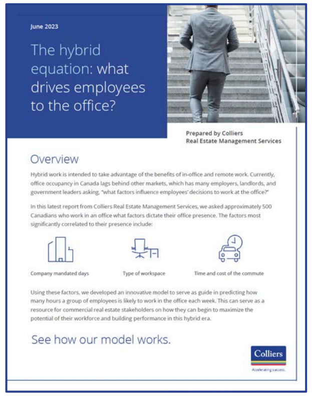
Q2 2021



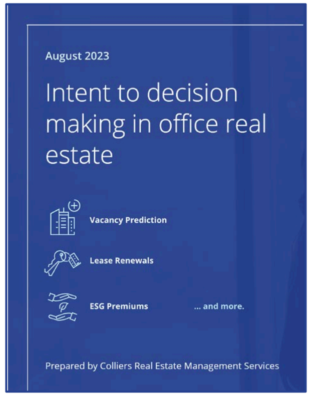
Q4 2021

Q2 2022

Q4 2022



Employee Pulse Report



Q2 2023

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At Colliers, we accelerate success.

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