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One of the few enduring changes from the pandemic era appears to be remote work. Whether you are a fan or not, most workers embrace the flexibility of at least some remote work if they work in an industry that is conducive to it. As a mother of five who worked part-time mostly from home when my kids were young, I am personally a big advocate of flexible work arrangements. It allowed me to spend more time with my kids either teaching them or nurturing them in other ways. I always knew I was fortunate in having the ability to work part-time and be present for them. I don't think we should ever discount the benefits of raising the next generation of citizens and workers. And flexible work does make that a little easier. In addition, many young adults say that it is now harder to have one parent to not work outside the home or work less due to housing unaffordability, student debt, and overall high cost of living. But some of these barriers to work can be mitigated by flexible work schedules, especially in the context of high childcare costs and scarcity of quality childcare. The flexibility allows some families to reduce childcare needs. In this context, flexible work is not only desirable to these families, it is a necessity for participation in the labor force.

And yet, most large disruptions have pros and cons. One of the cons is the flailing commercial real estate market for office space. Recent studies that incorporate informal work arrangements and the self-employed show about 30% of all full-time work in the U.S. is now done from home according to Stanford University studies. Thus, it is not surprising that office vacancy rates are at 19% nationwide, which is about 6% higher than pre-pandemic according to Cushman and Wakefield data. But if you look at nationwide data from office badge swipes, actual human presence in office buildings is at 48% of what it was pre-pandemic according to security firm, Kastle. If we look at large markets like Manhattan, only 9% of workers were in office all five days of the week. Restaurant and bar sales in Brooklyn now outpace those sales in Manhattan according to retail tech company, Square, and all because of remote work.

To give you some sense of magnitude, Cushman and Wakefield says about 330 million square feet of office space will be obsolete and vacant by the end of the decade. This equates to all the office space in the city of Atlanta, Georgia, which is the eighth largest office market in the country.

Stepping back, this is now spilling over to banks that have financed loans with landlords who own these office buildings. Pre-pandemic most businesses set up leases with landlords for five or ten years, which is a long time. Many of those leases are now expiring and those businesses are often either not renewing their leases or they are leasing less space. Also, landlords who took out variable rate loans for their office spaces, are now facing higher interest rates causing some landlords to default on their debt or simply hand back the keys to the bank.

Some banks have more exposure than others, but in aggregate, the Mortgage Banker's Association says almost $100 billion in debt for office buildings will come due in 2023, which is about 25% of all loans for office space. Another $58 billion will come due in 2024. So, although I believe the banking failures we saw in March have been largely contained, I am watching this bank exposure to office real estate closely. Banks are aware of this and many are being proactive. Wells Fargo recently announced that they are setting aside $643 million for commercial real estate write-offs due primarily to the risks in office space portfolios. We need to also remember that many (office) commercial real estate loans are not held by banks, but by private equity and they too have risk. Many retirement accounts have a variety of investments including real estate investment trusts, or REITs, which have traditionally been considered "safe" or low-risk investments. For REITs that are heavy on office space, there is likely some negative exposure and that could spill over to investment and retirement accounts.

In everything I've been reading and pondering, I don't think there's enough discussion on how a general economic slowdown or recession could exacerbate what's already happening in the office market. Office-based businesses that experience a decline in revenues may decide to reduce their office space in this new world of remote work in order to cut costs. I would think most business owners would rather reduce their office footprint and the associated overhead costs than reduce staff. It's possible this could trigger a negative feedback loop bringing office vacancies even higher. I was at a meeting at the state capital this week with the group of economists and industry representatives that meet bi-monthly and our commercial real estate guru says there will be a wave of office building foreclosures in Denver over the next 18 to 24 months that will be ugly. It's ironic that we are somewhat shielded in Colorado Springs as a second-tier city that did not overbuild office space over the past decade. Our office vacancy rate is at 10%, about half of the nation's average office vacancy rate.

Pros and cons of remote work aside, it seems to me that the genie is out of the bottle. In an era of too few workers, shifting perceptions of work/life balance, scarce and expensive childcare, and nimble technologies that enable work-from-anywhere for many jobs, the reality is that it is unlikely office workers will ever be back in office five days a week. If that is indeed the baseline, history has proven that there is a next generation of how to do things and that those who embrace it typically have an edge. New technologies emerge, and new paradigms define new preferences and lifestyles. Some people and companies get very rich capitalizing on the changes precisely because they've embraced that there is a new normal. I see some parallels with artificial intelligence. All of this makes me think of the old camera company, Kodak. They held onto the mantra that film cameras were better than digital cameras all while their industry was completely transformed. Just because something was done one way for so long doesn't mean there isn't a different or better way that it will be done in the future.