

Far Fewer Global CEOs Expect to Reduce Office Space Than Last Year, KPMG Survey Finds

In a sign that expectations of a permanent work-from-home culture may be overstated, a fresh KPMG survey of top CEOs worldwide found a mere 17% plan to shrink their overall offices, an abrupt drop from the nearly 70% talking about it in August.

The sharp drop in office plans for the next three years comes as cities begin setting strategies to reopen office buildings, stores, restaurants and entertainment venues to full capacity as the COVID-19 pandemic loosens its grip across the globe.

“There has been a noticeable drop in the appetite by corporate leaders to make wholesale changes to how employees work post-pandemic,” KPMG Global Chairman Bill Thomas said in the study by the professional services provider.

“The COVID-19 crisis has accelerated future-of-work trends, but many global leaders are taking a more measured approach before making concrete decisions,” he said. “In many parts of the world, we’ve gone a year or more without in-person human interaction and it’s clear that CEOs — as well as their teams — are looking forward to being reunited.”

A return to the office, whether fully or partially, could go a long way toward restoring financial balance to economies that have suffered as out-of-home dining, travel, entertainment and leisure services and venues have been crippled for more than a year in the pandemic. Such a move, of course, would be welcomed by commercial real estate owners.

Office demand has been walloped by the work-from-home directives that took off in the United States and United Kingdom in March, moves that locked up major office towers in most urban and suburban areas and prompted a slew of sublease space to pile up.

Much of the demand losses of last year have been carried into 2021, according to a CoStar analysis. “The first quarter is on pace to post a loss of 50 million square feet of absorption following the 75 million square feet of negative demand in 2020,” according to CoStar’s US national office report. “The severity may ease should tenants return to the office in the second half of the year and begin making forward-looking real estate decisions.”

Sublease space, however, is compounding the problem, approaching 200 million square feet, a jump of nearly 75 million square feet from the start of 2020. Making matters more worrisome is the 156 million square feet of office space, under 2% of total stock, under construction, the CoStar analysis found.

“Tech hubs such as Austin, San Jose, San Francisco, Boston and Seattle seeing some of the most activity,” according to the report. “High-growth Sun Belt markets such as Nashville, Charlotte, Raleigh and Atlanta are also posting some of the largest supply growth. There is concern that the elevated supply

levels in these markets will coincide with the rapid increase in sublet availability, putting greater upward pressure on the vacancy rate and further stalling asking rent growth."

The stark contrast to last summer's KPMG CEO insights poll lends some relief to the commercial real estate industry. In August, 69% of CEOs said they planned to reduce office space. But that new drop to 17%, coupled with the recent hike in sublease space, could be the result of two things: Either the office reductions are mostly completed or the dropping numbers of COVID-19 cases, hospitalizations and deaths, as well the climbing numbers of those getting vaccinated, is improving CEO expectations for a return to normal.

Global executives are still apprehensive about a fully remote workforce, but in a post-COVID world, only 3 in 10 are considering a hybrid model for their staffs, the KPMG survey found.

"As a result, only 21% of businesses are looking to hire talent that works predominantly remotely, which is a significant shift from 73% in 2020," KPMG said.

Still, a sizable 61% majority of CEOs said they will wait until more than 50% of the population is vaccinated before they take any return-to-the-office action. When that happens, 21% said they will take further precautionary measures by asking clients and other in-person visitors to reveal their vaccination status.