Office REITs Trade at New Low, but Fears for the Sector May Be 'Overblown'

There's been a lot of talk recently around the role of commercial real estate (CRE) in the current economy. More than a few news sources have speculated that CRE may be the 'next shoe to drop,' after bank failures left many wondering about the broader exposure of financial institutions to real estate.

One sector that's gotten a great deal of scrutiny in the current environment is office. Pressures on office assets, like the shift towards remote work, continue to mount. Naturally, it's easy for investors in office assets and REITs to get spooked, but how worried should they actually be?

Here are the facts:

REITs Reach 2009 Low

According to a recent Bloomberg article, office REITs (Real Estate Investment Trusts) are currently trading at a low they haven't seen since 2009. The S&P Composite 1500 Office REITs index is also "down 27% in 2023", its lowest rating since 2009.

That figure is a steep dip from the broader S&P 500 Real Estate index, which was down around five percent in May 2023.

Though those numbers are certainly concerning, Bloomberg notes that fears for the sector "may be overblown," pointing out that companies are still working towards a return-to-office in the long run.

Quoted in the article, RBC Capital Markets analyst Michael Carroll puts it like this: "We're starting to see some of that reversal. You're seeing the first steps of people starting to reutilize their office spaces when they weren't just a few years ago."

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Return-to-Office is Still Push and Pull

While an unambiguous return to work would certainly drive recovery for the office sector, there's still a lot of uncertainty around how to accomplish that.

A recent report from workplace strategy and design consultants, Unispace, highlights just how complex the issue has become. Unispace notes that fewer employees are "reluctant" to return to the office now (51% in 2023 compared to 64% in 2021) but adds that employer approaches need to change.

According to their findings, nearly half of the firms globally that have mandated a return are experiencing "higher than normal employee attrition." The report shows, however, that occupancy is up – though many workers are still hybrid.

Worth noting is that while return-to-office trends seem to be picking up internationally, the US is still trailing with only around 50% of workers on-site the majority of the time.

Balancing Act

Overall, there are still a lot of wrinkles to iron out when it comes to predicting long-term performance for the office sector. There are also still fresh challenges incoming that may see investors further lose their appetite for office assets and office-linked REITs.

With all of that said, as with any complex market situation, there are as many opinions about the severity of the office 'situation' as there are analysts to have them.

As CRE professionals, what remains important is to keep a cool head, consider each deal and investment on its own merits, and stay on top of the office trends that add value for clients in the long run.

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