Government Return-to-Office Still Stalled Despite Mandates

Over the past few years, we've repeatedly heard a call for workers to come back to office across a range of industries including tech, finance, and fashion. Some companies, like Nike and Tesla, have been explicit in their mandate roll-out. Others have tried a softer approach with incentives like free lunches and extra amenities.

For a large percentage of workers, however, the answer to whether they'll come back to office has remained a resounding "no." While news cycles have largely covered this issue in the private sector, government agencies have been similarly hamstrung in their efforts to get federal workers back on board – even with increasingly stringent mandates.

The result has been a rough ride for downtown real estate, especially in larger metros with a high concentration of federal employees. But exactly how bad has the problem become?

Called to Office

An article in The Hill towards the end of last year pointed out some revealing statistics. When the Environmental Protection Agency surveyed staff, 66% of workers indicated they'd think about leaving the agency if remote work flexibility was reduced.

Meanwhile, a survey by the National Science Foundation found that 42% said they'd "have difficulty adjusting" if required to come in four days out of every two weeks, and 27% called the requirement "unworkable."

Despite these kinds of findings, there's still been a strong push at the highest levels to get federal staff back in their appointed seats.

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High Cost of Office

One of the hardest hit metros has been Washington DC, which boasts around 270,000 federal workers. An analysis by the US Government Accountability Office (GAO) in mid-2023 showed that, of 24 federal agency HQ buildings surveyed in the city, 17 were found to be using 25% or less of their capacity over a three-week sampling period. Some agencies were even found to be using as little as 9% of their available floor space.

For the US more broadly, the report notes: "Underutilized office space has financial and environmental costs. Federal agencies spend about $2 billion a year to operate and maintain federal office buildings regardless of the buildings' utilization. In addition, agencies spend about $5 billion annually to lease office buildings. Any reduction in office space could reduce these costs."

Knock-On Effects

The question of whether federal workers will ultimately return to use that space is a tricky one, but, for now, the low return-to-work in downtown DC is having an ongoing negative impact on landlords, retailers, and small businesses. Many shops and restaurants in the area have been forced to close their doors as low foot traffic combines with other factors, like high crime rates, to make their situation unsustainable.

In addition, as GlobeSt noted in April last year, there could still be even larger impacts downstream – especially if federal agencies move ahead with plans to cut back on space.

As anyone working in commercial real estate (CRE) knows, however, DC isn't alone in its downtown woes. Big metros ranging from Boston to Denver to San Francisco have all been dealing with their own return-to-office challenges as well.

DC Office Outlook

Taken together, this situation translates into a difficult office market in DC and a potentially tricky situation for investors and owners, especially if traditionally stable federal occupiers choose to follow through on downsizing plans.

As NAI KLNB sums up in their Q3 2023 office report: "The DC office market is still encountering challenges. Despite modest tenant activity, the prevailing trend is a reduction in office space utilization. In the third quarter of 2023, vacancies hit a new high, reaching an overall rate of 16.2%."

They add, however, that it's not all bad news for DC's downtown office buildings, saying: "Trophy and A+ class buildings have remained attractive options for companies seeking high-quality office spaces [and] leasing activity for the quarter reached 2.7 million square feet, representing a 21% increase from the previous quarter."

Among the deals bolstering those numbers were several federal lease renewals on existing space, reinforcing the government's determination to make return-to-office, and the corresponding boost to downtowns, a reality in 2024.