

Beyond Silicon Valley: Will Tech Companies Drive the Return to Office?



Over the course of the pandemic, many companies in the tech sector experienced massive growth. Online platforms and remote collaboration became the new normal, and the question of when and how the return to office would happen was countered by the remarkable success tech companies have had keeping everyone's operations running remotely.

While some tech companies have recently been losing traction, many of the bigger players continue to thrive. These companies, which kept everyone in the virtual loop, have also been expanding their own real-world presence. So much so, in fact, that earlier this year Moody's Analytics observed: "In a time of great uncertainty around the workplace of the future, tech companies have taken the opposite approach of typical professional service firms by increasing their footprint instead of scaling back."

So, while the question those of us working in office real estate have asked throughout is: What will the return to office look like? A more pertinent one might be: Who will lead it?

Shifting Hubs

The answer to that second question comes in two parts. In addition to specific companies, certain metros are coming up as top contenders for housing a tech-driven return-to-office. And while some of these are established tech markets, there are also some surprising additions to the list.

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Metros like Buffalo, San Bernardino, Nashville, and Wichita, for example, found a place under Moody's "emerging tech markets" banner. These new markets strongly outperformed their counterparts, with Moody's stating: "As for office performance, emerging tech markets rents increased 6.7% compared to only 4.3% nationally in the last five years."

Tennessee is emerging as a market leader. Both Knoxville and Nashville registered "vacancy rates lower than the national and regional averages", while Nashville also showed a modest (0.4%), but still positive, uptick in asking rents.

Opportunity and Risk

For tech companies, these up-and-coming metros present an opportunity to relocate (or expand) to areas where the cost of doing business is lower than traditional hubs. This also has the added benefit of placing these companies in areas that allow for a more balanced pace of life – a growing requirement for the post-pandemic workforce.

Metros that are surging in popularity, like Nashville, provide other benefits as well. As Moody's points out, Nashville offers a far more diverse workforce (23% of tech workers in the city are people of color), alleviating a traditional pain point for the tech industry.

Naturally, these growing markets present a tempting opportunity for real estate professionals and investors as well. Worth noting, however, is that the momentum of this shift from established to emerging tech hubs is far from set in stone.

Some of these emerging markets, like Greensboro, saw office vacancy rates jump between the first and second Moody's survey. Interestingly, performance among a group of metros classified in the initial study as "special mentions" worth watching in the future also dropped off sharply.

Moody's notes: "Growing pains and wide swings in performance are expected for this group as any leasing hesitation in the metros by tech companies will be magnified by slowing economic performance."

Betting on Tech

Given how the situation has evolved just this year, the answer to whether tech expansion will drive the return to office seems to be: It depends where you are.

We've seen some traditional hubs, like San Francisco, under performing as big players reevaluate their plans. Meanwhile others, like San Jose, are going strong, spearheaded by heavy tech investment from the likes of Google. At the same time, the discussion around the return to work within these companies themselves is ongoing, leaving the question of how the tech office market will perform in the long-term an open-ended one.

All of that said, it seems likely that at least some of the new tech metros will continue growing as large enterprises, and top talent, start to take notice. As always, however, if you're considering investments in these areas, our top advice is to seek out local opinions, and to keep a sharp eye on the shifting market.