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<https://www.wsj.com/articles/a-new-setback-for-big-cities-as-return-to-the-office-fades-11606818601>

## PROPERTY REPORT

# A New Setback for Big Cities as Return to the Office Fades

The low level of employees back at their workplaces is intensifying pain for cities geared toward office life



San Francisco's financial district is part of a region lagging behind all other U.S. regions with a 13.4% return-to-the-office rate as of Nov. 18.

PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

By [Peter Grant](#)

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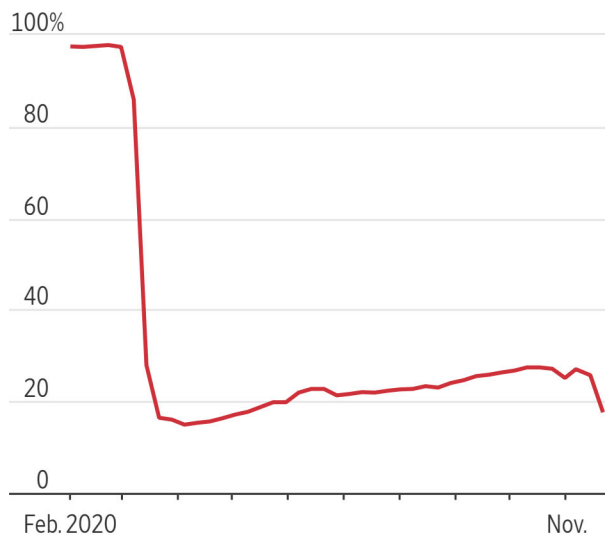
U.S. employees started heading back to the office in greater numbers after Labor Day but that pace is stalling now, delivering another blow to economic-recovery hopes in many cities.

The recent surge in Covid-19 cases across the country has led to an uptick in Americans resuming work at home after some momentum had been building for returning to the workplace, property analysts said. Floor after floor of empty office space is a source of great frustration for landlords and companies, which have invested millions of dollars in adapting building plans and developing new health protocols to make employees comfortable with a shared location.

### **Pandemic Pressure**

Return-to-the-workplace sputters after rising slowly through most of the summer.

#### **Percentage of U.S. workers returning to the office**



Source: Kastle Systems

About a quarter of employees had returned to work as of Nov. 18, according to Kastle Systems, a security firm that monitors access-card swipes in more than 2,500 office buildings in 10 of the largest U.S. cities.

That rate is up sharply from an April low of less than 15%, which largely consisted of building-maintenance and essential workers. The office return rate climbed steadily during the summer and early fall, but it has flattened out after reaching a high point of 27% in mid-October, Kastle said. The rate for last week was down even more sharply than in previous weeks but likely reflected the Thanksgiving Day holiday.

“There’s a huge headwind against company executives to strongly push their employee bases to come back to work,” said Douglas Linde, president of big office owner Boston Properties Inc.

Despite the success of work from home at a number of companies, many employers would like to see more workers back in the office where they can collaborate more easily. Instead, companies are extending their work-from-home policies well into next year as infection rates reach new highs.

The low level of employees at their desks is intensifying the pain for cities geared toward office life. Cities’ populations are falling as people working from home move to the suburbs or other less dense locations where they can find more living space for less money.

Apartment rents in downtown San Francisco have fallen 20% since their peak in March, according to CoStar Group Inc., as residents leave. Metro public-transportation systems in cities such as New York, San Francisco, Boston and Washington, D.C., have lost billions of dollars in revenue from months of employees favoring remote work.

**‘There’s a huge headwind against company executives to strongly push their employee bases to come back to work.’**

*— Douglas Linde, president of Boston Properties Inc.*

Many restaurants, shops and services that cater to a business crowd are barely hanging on, or have given up. Paul McLaughlin, managing partner of Oceana in Midtown Manhattan, said this time of year his seafood restaurant is usually packed with holiday parties, business lunches and tourists who came to view the Christmas tree at nearby Rockefeller Center. This year, business is down 85% to 90% from normal, he said.

Even some of the first companies to return to the workplace are now having second thoughts, reverting to remote work and Zoom calls.

About three-quarters of the 25 employees at OhmniLabs Inc., a San Jose, Calif., robotics company, returned to work this fall. But as infection rates increased, OhmniLabs reversed its policy for all but those directly involved in manufacturing the robots.

“Going forward we’re going to continue to encourage people to work remotely,” said Thuc Vu, chief executive. “Let’s just accept it as the new normal.”

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**Photos: The evolution of office spaces, as told through popular films and TV shows**

20TH CENTURY  
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COLLECTION



Many in the real-estate industry now believe that a return to the office in large numbers likely won't happen until well into next year as federal and local governments urge caution. The Centers for Disease Control and Prevention and other government officials advised Americans to stay home for Thanksgiving, and New York City public schools have partially closed again.

“People are slow to retake going to the office primarily because local-government officials are strongly encouraging them to work remotely if at all possible,” Mr. Linde of Boston Properties said.

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**SHARE YOUR THOUGHTS**

*Have you gone back to work in an office? If not, what are your expectations about returning? Join the conversation below.*

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Office holdings have long been a cornerstone investment for major real-estate funds for their steady and reliable income. But values are falling sharply as a growing number of tenants dump sublease space on the market or demand lower rents from their landlords when their leases expire.

Tenant searches for new office space have collapsed in once-hot markets. In San Francisco, this search activity in October stood at only 13% of what it was in January 2018, according to the VTS Office Demand Index.

Bad loans are also higher. As of the beginning of November, 2.3% of office mortgages that were converted into mortgage-backed securities were more than 30 days delinquent, up from 1.7% in February, according to data firm Trepp LLC.

The San Francisco region has been lagging behind all others in the U.S. with a 13.4% return rate as of Nov. 18, according to Kastle. The Bay Area is trailing partly because of that city's high reliance on the technology companies that early on allowed employees to work remotely even before the pandemic hit.

The office return rate in the New York City region is nearly as bad at 15.9%. New York's reliance on mass transit—and concerns that the new coronavirus could spread through subways, buses or regional trains—has kept many people working from home.

At the other end, the Dallas-Fort Worth region had 40.3% of its workers back, Kastle said. Texas has the benefit of good weather, car-commuting and a culture that has been more resistant to shutdowns than those in states such as New York and California.

Restaurants and bars and business districts follow social-distancing measures but are still lively during lunchtimes, says Mike McDonald, vice chairman at Cushman & Wakefield. His firm represented J.P. Morgan Asset Management this fall when it agreed to sell a 20-story Dallas office building to CBRE Global Investors.

“When we have investors come in from New York and San Francisco, they're saying ‘Wow, this is eye-opening. This is a different experience from what I'm having at home,’” Mr. McDonald said.

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