

Bifurcated Real Estate Market

– The Impacts of Home Office Trends on Commercial Real Estate and Urban Economics

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Abstract: This paper explores how remote and hybrid work modes are changing the US real estate market in the wake of the pandemic. The research shows that there is a clear segmentation of the market. Specific industries such as technology, finance and professional services requiring high-end office space to support their operations and brand image. Retail, healthcare and manufacturing all have a high demand for physical space due to their specific industry characteristics. This creates regional differences, with high-demand areas able to thrive while others struggle. Furthermore, the paper suggests the implementation of rental subsidies targeted at physical sectors such as retail and dining. This is a beneficial way to increase the demand for real estate and reduce the tax burden on local governments. Additionally, it recommends the repurposing of unused real estate for public services which would drive economic growth. Overall this would increase economic stability and support a more balanced real estate market.

Keywords: real estate, remote work, urban economics.

1. Introduction

Elon Musk recently voiced his opinion on the rise of the work-from-home trend, noting that employees tend to be more productive working directly in an office environment, while remote work is not only less efficient, but also ethically questionable. Elon Musk's comments sparked an important discussion about the impact of remote work on the global economy and urban areas. As the world has become increasingly digitalized and networked, working online has become a fashionable trend. The widespread impact of COVID-19 has accelerated the trend of working from home. However, as the pandemic's impact on people gradually faded in 2022, an important consideration is whether the trend toward working from home will affect the demand for commercial real estate, and how this will affect urban economies in general.

The rise of remote work has noticeably evolved the commercial real estate market in the United States, especially in major cities like New York City and San Francisco. Research indicates that the percentage of fully remote employees declined to 16% by September 2022. However, only 9% of Manhattan office workers were in the office five days a week, with about 49% in the office on a typical day [1]. This data shows a major change in work patterns and preferences, emphasizing the

increasing acceptance and integration of hybrid work modes in the post-pandemic era. The reduced demand for traditional office spaces challenges conventional assumptions about urban economics. With fewer employees working full-time in offices, businesses are reassessing their real estate needs. The rise of remote work modes may lead to a split in the real estate market. Demand for residential properties with home office capabilities is increasing. Meanwhile, commercial real estate is facing declining demand. The above research also identifies the importance of co-working spaces as businesses adapt to changing work patterns. These shifts are affecting urban economics, particularly in how they affect local economies and real estate markets.

This paper investigates how remote and hybrid work modes are reshaping the US real estate market, including the downward economic trends currently observed. It also explores remote work and trends across various industries, identifying which companies continue to allow work from home and which have turned back to in-office work. In addition, this paper examines how different levels of economic development affect regional real estate trends. It notes the differences in how various areas respond to these shifts. Additionally, the research addresses exceptions like the continued demand for prime office spaces, with luxury office spaces in higher demand compared to the rest of the market.

2. Shift in Work Mode

The shift to remote and hybrid work patterns has had a major impact on the US real estate market, particularly in commercial real estate and urban economies. This section explores trends in the evolution of work patterns since the epidemic, highlighting how different industries have adapted to these changes and how these adaptations have led to differentiation in the real estate market. Remote and hybrid work modes have become an integral part of the operations of many companies in a variety of industries. Originally adopted out of necessity during the COVID-19 pandemic, these work modes have transformed into permanent solutions for ascertain amount of the workforce. The technology industry, in particular, was one of the first to accept large-scale telecommuting, and the transition has been smoother due to the industry's flexibility and mature digital work practices. Leading technology companies including Google, Facebook, and Twitter have not stopped providing remote or hybrid work options, regardless of limitations associated to the pandemic were loosened. Large office space has become much less in demand, especially in highly overflowing urban regions, as a result of this ongoing trend, which has enormously impacted the commercial real estate market.

In contrast, industries that rely heavily on a physical presence, such as manufacturing, healthcare and retail, have largely returned to physical work. These industries require employees to work on-site for operational reasons physically, so the demand for commercial space continues to increase. For example, manufacturing companies may not need traditional office spaces but still require industrial and logistical properties. Healthcare facilities still need physical spaces for patient care, while retail companies are finding a balance between physical stores and the growing trend of e-commerce. Despite the challenges posed by the COVID-19 pandemic, the number of retail establishments in the United States reached 1,045,422 by Quater 3 of 2020, an increase of 4,801 from Quarter 2 of 2020, marking the highest Quarter 3 establishment count over the last decade [2]. This growth shows the retail sector's strong ability to adapt to change. It emphasizes the need for physical retail spaces, even as the industry shifts to new consumer behaviors. The increase in retail establishments has a major impact on the real estate market. It raises demand for commercial spaces and influences the continuing changes in urban economic areas.

Financial and professional services industries, such as law firms and consulting firms, are increasingly adopting hybrid work modes. Although working remotely can offer many advantages, such as increased employee satisfaction and lower administrative costs, those industries require face-to-face collaboration to maintain client relationships and firm culture. These companies focus on

creating interactive and top-quality work environments as a way to attract customers. Those prime locations are still in high demand, but outdated office buildings are struggling to attract tenants.

As a result, these shifts have had a significant impact on the commercial real estate market due to changing work patterns. Though remote and hybrid work patterns are becoming commonplace in the technology sector, quality office space is still essential for companies that require face-to-face collaboration. For example, retail, healthcare and manufacturing still rely heavily on physical space for work purposes. At the same time, top locations remain in high demand, while others face challenges. This change has had an impact on the real estate market.

3. Economic Impact on Real Estate Market

3.1. Regional Difference

Over the past few years, the US real estate market has shown significant regional differences. In particular, how different regions are responding to the rise of telecommuting and economic transformation. As an example, economic conditions have had a major impact along with employment levels, income growth, and the elasticity of the housing supply. These subtle factors affect home office trends differently across the country. Some regions have seen more dramatic changes in the real estate market as a result of changing employment patterns [3].

In regions with high levels of employment and strong income growth, demand for real estate tends to remain strong even as work patterns change and mobility increases. This resilience allows real estate prices to remain stable even as work patterns change over time. These regions tend to be better able to respond to the changes brought about by increased telecommuting, and their real estate markets are better suited to home offices than other regions. For example, regions with higher housing costs, such as New England and the Pacific, have seen some convergence in their real estate markets due to the growing popularity of telecommuting. There was already a high demand for housing in these regions, and as more and more people relocated to desirable locations via telecommuting, housing prices spiked even further [4]. Moreover, telecommuting may have even more negative impacts for areas with slower economic development housing markets. In these areas, telecommuting may lead to a decline in demand for commercial real estate. Those residential real estate may grow slower because it allows for telecommuting, leading to a more distinctive divergence in the real estate market.

Regional real estate markets vary according to many different factors, such as access to credit, economic growth rates and the elasticity of housing supply. For instance, some high-demand regions tend to experience stronger growth with large inflows of global capital. Therefore, this further widens the gap between prosperous and deprived areas. These differences are exacerbated by the impact of local amenities which affect housing price and productivity strategies. The capitalization of these amenities creates significant differences in real estate demand across regions [5]. Thus, the economic impact of telework is not evenly distributed across the United States. Instead, it has only exacerbated existing regional disparities. This has led to the fragmentation of real estate markets across the United States.

3.2. Demand for Prime Office Spaces

The demand for prime office space in the US real estate market is closely tied to the specific needs of different industries and companies. These varying needs are determined by factors such as industry type, company size, and geographic scope, all of which influence the decision to occupy prime or non-prime office space.

Industries such as finance, technology, and real estate typically have higher requirements for customer interaction, data security, and infrastructure, and therefore, tend to prioritize prime office

space. These industries benefit from the advanced facilities, better security and prestigious location address that prime office locations offer. As a result, firms in these industries are more inclined to pursue Grade A office spaces. These spaces offer key advantages like strong brand recognition, exclusivity, high-end services, and top-tier facilities [6]. These premium office spaces are typically situated in central business districts which appeal to firms that view their office location as an essential component of their brand and client relationships.

Company size also contributes in determining the need for quality office space. Larger companies with more resources and a broader market tend to prefer premium office space as they need larger, multifunctional spaces that can accommodate a variety of functions and provide room for expansion [7]. These companies are willing to invest in prime locations to support their operational needs and corporate image. On the one hand, smaller companies may prioritize cost-utility and therefore prefer non-prime office locations unless they are in an industry that is paramount to the success of their business.

Some companies with regional or international operations often choose prime office locations to maintain their operational efficiencies. For these companies, while telecommuting offers greater flexibility, prime office locations in economic centers remain critical. These locations provide connectivity and proximity to key business partners, which is important to maintain a competitive advantage in the global marketplace. Some companies have reduced their need for physical offices. Meanwhile, others have increased their efforts to secure prime office space for activities that cannot be effectively conducted remotely. This has led to a continued bifurcation of the commercial real estate market, with prime locations remaining highly desirable and non-prime locations facing greater challenges in attracting renters.

4. Discussion and Suggestions

Dramatic changes in work patterns have resulted in an impact on the real estate market. These changes are having a large impact on the real estate market, affecting different types of real estate in multiple ways. Especially the commercial real estate has been challenged by the reduced demand for office space, with studies showing that not only retail and hospitality properties have been the most affected by the pandemic, some office space has also experienced a notable decline [8]. For example, the conversion of unutilized office space into residential units or co-working spaces has become an emerging trend. This is because it helps maintain the value of these properties while meeting new market demands [9]. In addition, the convenience of remote working has led to the appearance of many new industries. The government can capitalize on these changes by repurposing unused real estate for other purposes such as public services or affordable housing, thereby improving living standards and drive economic development.

In addition, remote work has a significant impact on tax revenues and vacancy rates. Most evidently, the decline in demand for commercial real estate has led to an increase in vacancy rates. Due to low office occupancy in urban centers, some governments are risking decreasing tax revenues. As a result of these vacancy rates, some local governments that rely heavily on property taxes are facing budget shortfalls. The economic recovery has been uneven in different regions, with some regions experiencing a more severe recession than others. Moreover, the shift in work modes is creating intensified disparities in the real estate market, which refers to those prime location properties continue to thrive, but those relatively weak properties face the risk of being left unoccupied. These economic imbalances step aggravate the chain reaction. To address this, policymakers need to consider implementing tax incentives or subsidies to encourage the reuse of vacant properties. This would enable the regeneration of urban areas and support economic growth [10]. If the governments can implement rental subsidies to encourage physical sectors such as retail and dining, these subsidies would help increase demand for office spaces and reduce rental disparities. Even though this solution

may initially raise the cost for government, it could eventually increase the office occupancy rate. This would also increase the overall tax revenues and contribute to long-term economy.

In short, the shift to remote and hybrid work patterns is fundamentally changing the dynamics of the real estate market. The rise of new industries driven by remote work creates opportunities for governments. They can repurpose unused real estate for public services which would raise living standards and stimulate the economy. Moreover, stakeholders are challenged as vacancy rates rise and tax revenues decline. By using tax incentives, repurposing vacant properties, and investing in infrastructure, they can help realign the real estate market. These strategies are essential for navigating a fragmented real estate market. In the meanwhile, they ensure that both prime and non-prime locations can thrive. This approach could help promote the overall economic stability.

5. Conclusion

This paper discusses the significant impact of remote and hybrid work patterns on the US real estate market, focusing on how these trends are reshaping demand across a wide range of industries. The analysis highlights a divergence in the real estate market, whereby industries requiring high levels of customer interaction and operational infrastructure continue to demand premium office space, while non-premium locations struggle to attract tenants. This shift is seen specifically in sectors such as technology, finance and professional services, which continue to value the ability of prime office locations to support brand image and operational needs. In contrast, industries such as retail, healthcare, and manufacturing have maintained or even increased their demand for physical space, driven by business needs. Regional differences in the impact of remote working further highlight the influence of local economic conditions on real estate trends. It is clear that some regions have adapted to these changes more effectively than others. The overall conclusion is that the rise of remote working has not led to a consistent decline in demand for office space. The market has adjusted more carefully to industry needs and regional economies.

While this analysis provides some insights from multiple perspectives, there are certain limitations. It did not delve into specific data and quantitative models to measure the exact impact of telework on real estate trends. Building on this foundation, future research may benefit from a more data-driven approach. For example, comparing detailed metrics such as vacancy rates, rental prices, and occupancy rates across different regions and sectors. Additionally, this paper primarily focused on qualitative assessments. Further empirical research could be conducted in the future to examine real-life situations. This would help better understand the long-term impact of telework on the real estate market. Future research should also explore how the evolving hybrid work patterns will affect the urban planning, infrastructure development and policy making. This approach will offer a thorough understanding of how the shift to home-based work will reshape the economic landscape. It will also clarify the effects on the real estate market in the coming years.

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