Perspectives

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Navigating Office Strategy in an Uncertain Economy

We are facing national economic uncertainty, which clouds what businesses are prepared to commit to contractually. This uncertainty impacts strategic planning, operational decisions, human resources decisions that impact hiring and employee retention, and the subsequent level of financial risk that organizations are willing to take. Additionally, it has a direct correlation to office use, relocation initiatives, occupancy rates, and rental growth.

With more than four decades in the commercial real estate industry, we have observed that every cycle is different, ranging from the driver or set of drivers that dictate the length, impact, and effect of the overall cycle. We believe that 2026 will bring more adjustments in office building values and the selective transfer of ownership. As values reach a point of clarity for the buyer/seller/lender's alike, current capital expectations can be met with a degree of certainty which mitigates the actual or perceived risk to the capital.

Part of the level set for capital is to validate office utilization from the actual tenant base and their employees. We continue to watch the evolution of the hybrid/remote working experience and the generational differences that exist in the workplace. We believe that these two factors have fundamentally reset how business is done. Consequently, they dramatically impact office building use and determine whether an office building is a viable alternative for a company and their employees. That leads to a direct impact on office building valuation, and hence, why we are experiencing the bifurcation of product class in the office building market between the Class AA or sometimes referred to as "trophy" properties, and the Class A- or B+ product that are lacking relevant amenities.

The shift in the workplace has without a doubt made some office buildings functionally obsolete, with no amount of money invested able to make those buildings relevant. As a result, we will see some inventory eliminated through adaptive reuse and some repositioned with fresh capital that addresses a price point below what we are experiencing in the Class AA product. These factors all have a direct and positive impact on the supply and demand curve.

Providing no further instability in a political or national economic sense, 2026 is expected to be a choppy year. We believe that the New Year will see a "return to the basics" in the real estate service industry, 1.) a deep understanding of the dynamics of the market and what are the future expectations and why, and 2.) deep understanding of the client's business where we find the intersection of business and real estate strategies pushing profitability. Or put in my Texas speak "a time to roll up our sleeves, grind and get our fingernails dirty", and produce meaningful results for our clients.

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