

Who are your future office tenants?

A new study commissioned by NAR provides some of the answers for commercial practitioners.

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The shift in the U.S. economy to the service sector has made office space demand an important indicator of economic strength. However, traditional estimates of office use often overlook office use in categories other than professional services, information, and finance and insurance. That's why in 2006, NAR's National Center for Real Estate Research asked us to initiate a study and analysis of office-using industries. The result was "Office Employment in the United States: 2004 – 2014." The good news for commercial brokers, managers,

and investors is that we estimate office-based employment will increase by 6.5 percent between 2004 and 2009 and grow by approximately the same percentage between 2009 and 2014. Our projection is based on our estimate that 41.5 percent of workers occupy office space (approximately 60 million people in 2004). This news is tempered, however, in that this increase is only slightly greater than total U.S. employment increases for the period because of the slow growth in the office support staff area. We used U.S. Bureau of Labor Statistics data as the basis for our analysis. Industries in which a high percentage of workers occupy

offices include finance and insurance and professional services (see Figure 1). In absolute numbers the biggest users of space include government (9.5 million), health care and social assistance (6.9 million), professional services (6.1 million), finance and insurance (5.7 million), and self-employment (5.3 million). The last group was a major surprise and may indicate a future market for commercial property owners.

Office-using occupations projected to have higher than average percentages of employment growth in the next decade include computers and math, post-secondary teachers, and health diagnosis and treatment. In terms of the total number of workers employed in office set-

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tings, health care and social assistance and professional services top the list. Within the professional services category, the largest increases in demand will come from insurance agents and brokers, legal services, accounting services, architecture firms, computer designers, and management consultants. In the health care sector, the largest users of additional space include the offices of health practitioners, home health care services, hospitals, and community care services. Government also remains a major space user, but much of that space is not held by the private sector. One major use category that will probably decline is office support staff, which is projected to increase by only 5.8 percent from 2004 to 2014. Technology is replacing clerical workers, which may lessen the demand for storage and cubicle space while increasing the need for larger spaces for higher level occupations.

Having established broad employment categories where office demand will grow, we next segmented the data to pinpoint particular uses within each category that require a proportionately higher amount of office space. For example, although the demand for nursing care is expected to grow substantially by 2014, only 24 percent of that care will use office space. On the other hand, approx-

What it means to you

"These projections show me I'm going to be spending a lot of time cultivating tenants in the medical field," says Bob Redmond, SIOR, senior vice president at CB Richard Ellis in Cleveland and former chair of the Commercial Research Subcommittee. Redmond, who was an early advocate of NAR conducting research into space demand for core commercial property types, says that this type of research is "valuable not only to commercial brokers and property managers, but also to Wall Street, to pension funds, and to investors."

"Since a significant percentage of our economy is tied to the office service sector and investment in office properties can typically reach 50 percent of a portfolio's value, being able to understand the demand elements—where, how much, and what

imately 71 percent of outpatient care services are based in offices. Thus, growth in that health care segment would have a much greater impact on office space demand than a comparable growth in nursing. Similarly, some 93 percent of Internet publishing and broadcast is conducted from office space, compared to only some 69 percent of newspaper publishing activity.

Another key element in understanding office demand is obviously location so the study next determines major employment in the office sector for 23 major metropolitan markets. Top office users include New York City; Washington, D.C.; and, surprisingly perhaps, Tampa, Fla. We also calculat-

ed the importance of each industry to local employment to help local brokers and owners understand which office-based jobs will grow most significantly in their markets. For example, health and educational services plays a large role in the employment of Cleveland, Pittsburgh, and Baltimore.

Another section of the study includes excerpts from interviews with office industry experts on future office demand trends. This group sees a much slower move toward the paperless office than many once anticipated. They also expect that office tenants will be more willing to pay a premium for short-term leases that offer more flexibility to respond to new technologies and business models.

Figure 1: Industries with high office-use concentrations

Finance and insurance	96.3 %
Professional services	89.0 %
Management of enterprise	83.9 %
Information	67.3 %
Wholesale trade	58.8 %
Educational services (private)	56.5 %
Health care and social assistance	48.9 %
Real estate and leasing	46.2 %

space is wanted—is critical," says Ken Riggs, CEO of Real Estate Research Corp. and another former chair of the Commercial Research Subcommittee. This research study, continues Riggs, lays a foundation for understanding future office demand and positions NAR to expand on that research by exploring more, smaller markets and other property types.

The research, which is available free to all commercial REALTORS® at www.REALTOR.org/RCA, demonstrates NAR's commitment to the commercial sector and to helping its members excel. By funding such initiatives through the National Center for Real Estate Research, NAR is establishing itself as the voice of *all* real estate, not just the residential sector.

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