

## “THE SKY IS FALLING!” – CHICKEN LITTLE SYNDROME IN THE OFFICE SECTOR

We’ve all been warned through the story of Chicken Little to think critically and not believe everything we hear - it’s a lesson that’s just as valuable today as it was generations ago when it was first told. But when I talk with people about the office market everyone I speak with seems to share the same few hysterical concerns – “work from home (WFH)”, “artificial intelligence (AI)”, “inflation”, “jobs”, “interest rates”! These are all legitimate concerns but often I hear them used as weapons to defend predisposed positions rather than concerns for which to be thoughtful and develop assumptions. Before anyone runs off to tell the King the sky is falling, here’s my (researched) take on each of these issues.

- There is no debate that the concept of WFH and its pesky sibling return to office (RTO) have become enduring features of the US workplace. There are, however, two types of WFH which often get lumped together but actually have very different impacts on the office market – of primary concern, WFH Only (the share of workers who are fully remote) and the much less impactful WFH Share (the share of workers who are hybrid). Prior to the pandemic, the WFH Only rate was about 7%; the rate, unsurprisingly, peaked in 2020 at about 32%. Today the WFH Only rate has stabilized at 12%; 1.6x the prepandemic rate. The WFH Share rate has similarly stabilized and sits at 23%, also 1.6x the prepandemic rate. The Fed and the largest investment banks expect both rates to continue to reduce but remain above prepandemic rates (most commonly in the 1.2-1.3x range).
- AI is here to stay, and everyone seems to have an opinion about its effect on our lives, our jobs and our world. I’ll avoid pontification and get to the data... The largest investment banking firms are underwriting 4-7% of all current jobs will be affected by AI. Keep in mind, that 4-7% will disappear over a period of time – 5-15 years is the range of assumption I’ve heard. That means that AI will affect unemployment by a rate of 27-140bps annually for the next 5-15 years. It’s not nothing but it’s certainly not material. We also have fairly good idea what jobs will be most affected so we can understand what markets will be most affected and underwrite accordingly.
- Inflation can be a beast to understand but there are two elements of the concept which must be separated – transitory inflation and entrenched inflation. We have experienced dramatic inflation recently but that is largely due to transitory inflation resulting largely from the recent tariffs. Entrenched inflation is currently below 3% and expected to slow to 2% (and stabilize there) by the end of 2026 (the same time most expect transitory inflation to subside); this is the exact reason the Fed is willing to lower rates; more on that later.
- I hear people speculate often that the job market is terrible and only getting worse. The reality is the job market is currently at stabilization. “Jobs” should be considered as a ratio of the number of jobs added and the number of jobs needed. I often hear people talk about the first but not the second. The second number has dropped precipitously since immigration tightening. Although the government shutdown has made it difficult to collect recent data, private data suggests that we added 75,000 jobs last month, which is equal to the number of jobs needed. The second number is expected to continue to fall in 2026 and level off around 50,000.
- Interest rates are always a topic of concern in CRE. The Fed has shown an interest in reducing the Fed Funds rate which has a direct effect on commercial rates. Most bankers are betting on three more rate cuts through summer 2026. Presumably, this will result in a baseline rate of 3.00-3.25%.

It’s Important that we think critically about this data and develop thoughtful positions. We can and should quantify the effects of these issues and understand how they will affect the office market to ensure we make informed assumptions when underwriting investments and do not fall victim to paranoia and mass hysteria. These are not unknowns to be accepted and feared but data to be interpreted and utilized in our underwriting.

Acorns fall from trees; it might not be pleasant when they hit your head, but the sky is assuredly not falling, and the office market is assuredly not dead.

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