

SURVEY REPORT

# The Return of the Office

How commercial real estate investors are gaining a competitive edge renewing their focus on office assets



After years of muted demand during the pandemic — and in the longer-term shift to hybrid and remote work that occurred in its wake — office assets have experienced a resurgence in interest. Large employers, from JPMorgan to Amazon, have mandated workers to return to the office. And, across the country, tenants are reevaluating what they need from their office space.

Not surprisingly, these trends have coincided with renewed momentum for office real estate — and a rush of executives eager to meet that need.

“We’re seeing renewed demand for office space across the board: From tenants, from investors and, now, from financial institutions,” explains Shawn Dorsey, Executive Director, CRE Banking at Northwest Bank. “For the past several years, capital for office developments has been hard to come by. But as capital opens up, investors who had been waiting on the sidelines are now returning to the market. And those who have been focused on office investments are ready to expand.”

But that doesn’t necessarily mean that investors can return to business as usual. Tenants’ needs have changed — and investors must adapt their spaces to accommodate a range of working arrangements.

In this paper, we’ll share findings from Northwest Bank’s State of Commercial Real Estate Survey — our inaugural commercial real estate research program, launched with a survey of more than 150 real estate executives.

### YOU’LL LEARN:

- Why flexibility is key to attracting tenants in today’s competitive market
- How to find untapped opportunity in underserved markets
- Which financial considerations should be top of mind in planning a new project, and where to turn for support

Deal volumes in January 2025 increased **80% year over year**, with \$6.2B worth of office properties trading hands that month.



of respondents in Northwest’s State of Commercial Real Estate survey plan to acquire or develop real estate properties in their current target areas in the next 12 months.

Among investors who plan to acquire new properties in their current target areas:

- 83%** plan to acquire office projects
- vs -
- 68% for industrial
- 65% for multi-family
- 61% for retail

Among investors who plan to develop new properties in their current target areas:

- 73%** plan to develop new office spaces
- vs -
- 71% for industrial
- 66% for multi-family
- 66% for retail





# The Office Space of the Future: What Do Tenants Want?

As employers forge their own path back to office, one attribute has emerged as essential for enticing office assets: Flexibility.

“Tenants want the ability to adapt their space to their workplace policies, so they can use the space in a way that best serves a hybrid work force, for example, but also retain the option to bring employees back into the office within their existing space,” Dorsey says.

Tenants are also looking for ways to optimize cost efficiencies with smaller footprints. Square footage per employee has decreased each year since 2009, and investors must look for opportunities to offer space efficiency.

For new developments, Dorsey recommends building floor plans conducive to multiple users as opposed to single-tenant spaces. The ideal plan should offer ample space for common areas, as well as offices, cubicles, breakout workspaces and amenities.

Tenants are also shifting away from open workspace in favor of smaller offices. “These open-concept spaces look appealing. But for many industries, it’s challenging to actually work in them, particularly for employees used to the privacy of work from home (WFH),” Dorsey says. “I’m seeing a lot of new configurations that shrink the open spaces for smaller — sometimes non-windowed — offices with four walls and a door.”

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**Shawn Dorsey**

Executive Director, CRE Banking, Northwest Bank

# The value of modernizing outdated spaces

Older office buildings and high rises are typically built with single-user floor plans. But they can still present an attractive investment opportunity — and can benefit from modernization.

“Even if the building is outdated, its location — often in central business districts or transit-accessible areas — remains highly desirable,” explains Dorsey. “Obsolete buildings often trade at a discount, so these become ‘value-add’ acquisitions, which generally yield higher potential returns after repositioning.”

Older buildings also offer ‘character’ — such as exposed brick, high ceilings or industrial aesthetics — to help entice talent seeking unique spaces with a vintage or industrial feel. Existing buildings may also already have favorable zoning, grandfathered entitlements or density allowances that would be difficult to replicate with new construction. And, finally, older buildings in desirable locations often allow for shorter commute times, helping tenants attract top talent and increasing the perceived value of the space.

## How investors can modernize these spaces:

### 1. Infrastructure upgrades

- + HVAC, electrical and plumbing modernization and automation
- + High-speed internet and smart building systems
- + Energy efficiency retrofits like LED lighting, insulation and solar

### 2. Flexible layouts

- + Convert traditional floor plans into open, collaborative workspaces
- + Use modular furniture and movable walls to adapt to hybrid work models

### 3. Sustainability and ESG enhancements

- + LEED certification or WELL building standards can qualify for tax-efficient benefits (for the owner and the tenant)
- + Green roofs, water conservation systems and recycled materials

### 4. Facade and entryway improvements

- + Modernize curb appeal with updated signage, lighting and landscaping
- + Improve accessibility (ADA compliance, elevators, ramps)

### 5. Add shared amenities

- + Coworking zones
- + Shared event amenities
- + Fitness centers or wellness rooms
- + Rooftop lounges or cafes
- + Tech hubs or innovation labs



# Unlocking Opportunities in New Markets

Real estate executives aren't just eyeing office space within their current target markets — they're also looking to office assets as an opportunity to expand their reach.

The vast majority of the executives we surveyed reported their intention to expand their office holdings into at least one new geographic area over the next year.



of real estate executives report that they plan to acquire or develop real estate properties in one or more new target geographic areas in the next 12 months.

Among investors who plan to acquire new properties in new target areas:

**78%** plan to acquire office projects

- vs -

71% for industrial

64% for retail

61% for multi-family

Among investors who plan to develop new properties in new target areas:

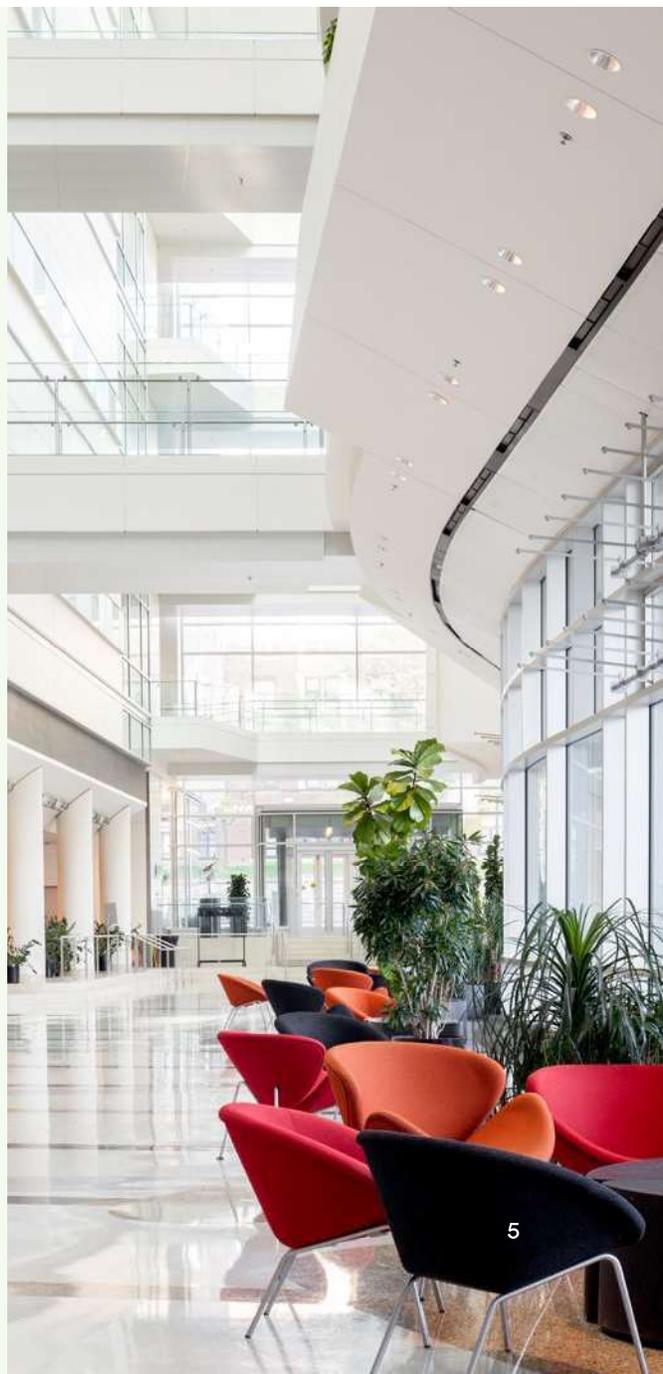
**73%** plan to develop new office spaces

- vs -

72% for industrial

68% for retail

64% for multi-family



The reasons for expanding run the gamut. But, by and large, respondents say they're chasing opportunity.

**Executives' reasons for entering new markets:**

**61%** Higher potential returns compared to current markets

**56%** Strong market growth/demand

**55%** Better investment opportunities compared to current markets

**50%** Business expansion or relocation

**30%** Diversification of their portfolios





## Staying flexible to find hidden opportunities

Dorsey isn't necessarily surprised by these trends. "Digitization within the workplace has given employees more freedom around how and where they work — and that extends to investors, opening up additional opportunities that might not have been available in the past," he says.

For example, law firms were once primarily concentrated in central business districts (CBDs) due to their proximity to courthouses and clerk's offices. But these tenants can now expand out into new regions, thanks to the rise of digital communication tools that allow lawyers to complete more duties remotely. Under these new work arrangements, suburban office parks with access to transit, or proximity to large residential areas, are often more desirable.

This trend is holding true for tenants across industries. Property values in CBDs have plunged, dropping by 52% between 2019 and 2023, while suburban office spaces — particularly in high-demand neighborhoods, like Century City in Los Angeles — have seen rents increase by 84% over the same time frame.

"Location is as important as ever, but investors — particularly those who had concentrated their holdings in downtown locations — need to work off a new playbook to succeed in today's climate," Dorsey says.

# Spotting opportunities in emerging neighborhoods

As competition for suburban office spaces and parks heats up, investors have an opportunity to realize value by identifying under-tapped markets.

“The adage in real estate that ‘retail follows rooftops’ holds true for office space as well,” Dorsey says. “Population growth within neighborhoods naturally coincides with demands for office space, since employees prefer shorter commutes.”

## Identifying underserved markets

Consider tracking trends across the following metrics as you evaluate potential new markets:

- ✓ Monthly housing starts
- ✓ Office space occupancy
- ✓ Work-from-home trends (e.g. WFH policies for the largest employers in the area)
- ✓ Average rent

Demographic information:

- ✓ Age
- ✓ Family size
- ✓ Education level
- ✓ Household income

“In these emerging markets, tenants are focused on finding office space in mixed-use areas that combine residential, retail and office space with public amenities, like parks, beaches and river walks,” Dorsey says. “Millennial and Gen Z talent flock to these spaces and employers are seeking out office spaces here to help them attract top talent.”

The demand for mixed-use neighborhoods also creates opportunities for investors to succeed by developing “third spaces” — or community centers — to transform traditional office parks into vibrant local hubs. “Developing spaces where residents can work, shop and congregate helps cultivate that sense of community that many office tenants are looking for. These parks also bring in foot traffic, helping investors increase the value of their retail space in the area, too,” he notes.

As you plan new developments, consider leaving room for shared amenities, such as parks, walking paths and seating areas. Look for gaps in existing experiential retail in the region — and consider incorporating additional retail spaces into your office plans to contribute to life-work-play communities.

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**Shawn Dorsey**

Executive Director, CRE Banking, Northwest Bank

# Focus on Financial Planning: 3 Strategies to Help You Manage Risk and Set Your Initiatives Up for Success

## 1. Build uncertainty into your plan

CRE executives face a spate of financial uncertainties, from the looming threat of tariffs on essential construction materials to a dynamic labor market. So it's critical to take steps to anticipate — and plan for — financial risks you may encounter across the lifespan of a project.

### Potential sources of uncertainty:

- Increased labor costs
- Tariffs (e.g. for lumber, steel, aluminum)
- Material shortages and/or price spikes
- Dynamic capital costs (e.g. amid rate fluctuations)
- Inflation
- Economic downturns
- Permit/approval delays
- Construction delays

Emergency-proofing starts with a firm quote from a reputable general contractor (GC) known for completing their projects on time and on budget, allowing executives to create their financial plans accordingly. From there, executives should use financial modeling to scenario-map how potential risks might impact their project and develop a conservative budget from there.

“Of course, you’ll always hope you never experience the worst. But a conservative budget means you’re best positioned to weather even a ‘perfect storm’ of risk factors, maximizing the chances that you’ll be able to move ahead like you intended,” says Dorsey.

Executives should also focus on building relationships with third-party general contractors to help manage risk. “Strong relationships encourage GCs to manage costs and be transparent about their expenses,” Dorsey explains. “They’re more likely to ‘play the long game,’ to help you weather financial risk, knowing that additional work on future products is forthcoming.”



## 2. Balance the demand for flexibility with steps to minimize rollover

Of course, maximizing occupancy and minimizing lease rollover are key to the financial success of any project. But as the workplace continues to evolve — and tenants’ needs continue to change — executives must pull every lever to entice those likely to occupy the space long-term.

“Minimizing rollover is a balancing act, because longer leases are generally more financeable and provide lenders with less volatility of cash flow, but they are counter to the flexibility that many tenants are seeking right now,” Dorsey says.

Savvy location selection is key to making it work, since regions with pent-up demand provide owners more leverage to dictate the terms of the lease. However, in the event the owner struggles to stoke tenant demand, they should take steps to fully lease up to max occupancy at the longest term to maximize cash flow and minimize volatility.

That could involve offering more favorable rents or lease terms to entice tenants, of course. But executives should explore other strategies as well. Consider offering adjustable build-outs, with a medley of move-in ready suites as well as coworking-style spaces to attract tenants seeking flexible areas. Invite tenants to sign for a trial lease to reduce friction, then negotiate more favorable terms once the tenant realizes the value of the space. Finally, renewing your focus on building relationships with brokers can help you connect with the broadest range of tenants possible, maximizing your chances of finding the right fit.



### 3. Bring your financial institution into the conversation as early as possible

Whether you're looking to expand your reach within a current target market or put down roots in a new one, your financial institution should be a trusted member of your advisory team.

Reaching out to your bank early offers logistical benefits, helping minimize the risk of delays that could undermine the project. "Banks are able to move only at a certain pace, because we need to complete credit approvals and do our due diligence prior to closing," Dorsey says. "By starting as early as possible — once a pro forma and budget is completed — we can work with you to set closing expectations."

Your bank can also serve as a strategic advisor to help you make informed investment decisions. They can help you optimize your capital structure to find the right mix of financing options to meet your needs, and create a conservative budget to manage financial risk without over-leveraging. They can also guide you on timing your transactions, so you can weigh the benefits and considerations and select the best time to buy or sell.

Crucially, your bank can serve as a trusted source of on-the-ground insights that might shape your strategy. "We're not only hearing what's happening with other CRE executives, we also work with businesses that may make up a portion of your prospective tenant base," Dorsey says. "By keeping our ear to the ground on what's happening in the community, we can serve as a sounding board to help you find solutions and strategies that work in your local market today."

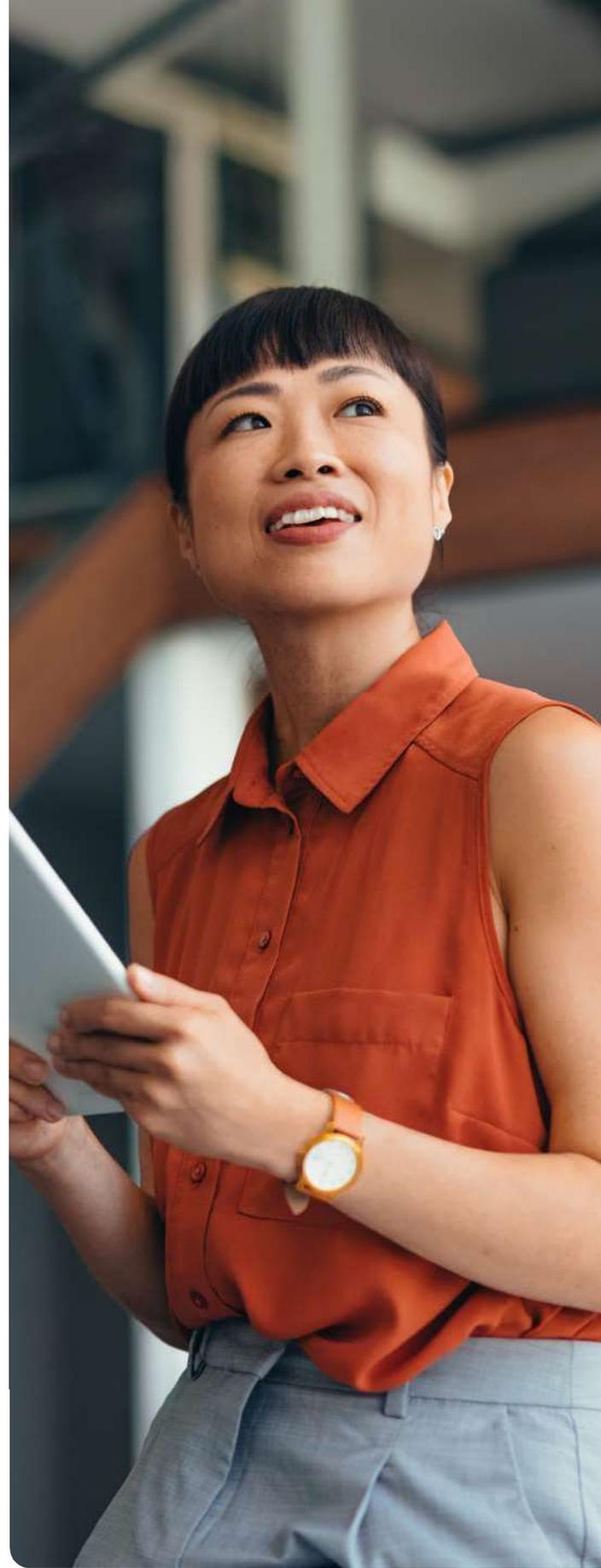
# The Bottom Line

The rise of office transactions offers a glimpse of hope for a troubled asset class, but success in this segment still requires careful planning and strategy. “The office asset class still has a long way to go to prove that it is resilient and financeable, and downtown submarkets are still struggling,” Dorsey says. “But, by focusing on suburban and mixed-use assets, and maximizing tenant/lease quality and duration, executives can forge a path to success.”

## How Northwest Bank can help

Our team of dedicated commercial real estate lenders serve as trusted advisors to help you navigate the renewed interest in office assets. From helping you manage financial risk to connecting you with trusted lending solutions, we’re here to help you reach your business objectives.

To learn more about our commercial banking solutions, connect with a member of our team today. [Submit this form](#) and a member of our team will reach out to you.





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