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RE: Request for Office Space Demand Analysis and Outlook 2021

As an update on my previous letter in February, 2021, the COVID-19 pandemic continues to negatively impact the office market. Per a report from Cushman & Wakefield ("*Predicting the Return to the Office*"), "...the pandemic created the worst recession the office sector has ever faced." In the Roanoke-Blacksburg markets, the net absorption rate for office space in the last 12 months is down nearly 61%, while vacancy rates (not including non-occupied, leased office) have risen to nearly 7.8%. After more than a year since the pandemic began, many companies are still not able to make long range commitments (e.g., commit to a project that will be delivered 12-24 months from now) due to continued uncertainty about the future need and use of their office space. In some cases, large office users are leaving the office permanently; for example, in Roanoke, Allstate (70,000-sf suburban building and 40,000-sf downtown building) and Advance Auto Parts (200,000-sf customer service center) have both committed to a permanent remote workforce. Another major impact is that higher vacancy rates, increased subleasing activity, and limited office users prepared to commit to long-term leases could create pressure on rental rates, which increases competition between properties for prospective office tenants with discounted rental rates. This is a particularly difficult office market for new construction office space since such developments require a premium rent.

The silver lining is that most companies will return to the office, and most of those companies will have real estate needs after the pandemic resolves. Cushman & Wakefield projects that office vacancy will peak in 2022 before fully recovering to pre-pandemic levels by 2025. For more information on office trends, please see below:

Please also find attached additional references on the status of the office market:

- [2nd Quarter 2021 MarketBeat Report](#) – US Office Market – Cushman & Wakefield
- [Predicting the Return to the Office](#) - Cushman & Wakefield

Please let me know if there any questions or if I can provide any additional insights.

Sincerely,

Price Gutshall
Senior Associate, Office Services Group