Navigating Changing Realities: Can Atlanta Avoid a Zombie Office Building Apocalypse?

In this post-pandemic era, the issue of office vacancies has become an even more significant concern than normal for owners and operators of commercial office buildings. As our firm noted last summer in an article about this phenomenon, as more companies permit employees to work from home, office vacancy rates are surging and downtowns across the country are plagued with office buildings that have "become the so-called walking dead, with insufficient occupancy and few customers walking through the doors. The resulting decline in foot traffic is sucking the life out of downtown business districts, leaving too many shuttered restaurants and service businesses behind." Although Atlanta is no exception to this trend, is the tide beginning to shift? As we look ahead into 2024, some companies have decided to reinstate pre-pandemic office schedules, while others are implementing innovative approaches to transform office space.

Current Atlanta Office Vacancy Situation

At the end of 2023, the overall vacancy rate in metro Atlanta for office space was 23.8%, reflecting an increase of 20 basis points quarter over quarter compared to the national average rate, which increased by 50 basis points during that same period. Unfortunately, the forecast for 2024 indicates a continued increase in office vacancies. It is essential for owners and operators to understand the implications of these trends and proactively plan for the future of their properties.

Mandated Return-to-Office Policies

Is there an emerging trend in remote work policy that will positively affect vacancy rates? Recently, some large employers are requiring employees to fully return to the office. UPS is one example, setting itself up to be the largest public company in Georgia to eliminate remote work. UPS has nearly 4 million square feet of office space nationwide, including 625,000 square feet at its global headquarters in Atlanta. It remains to be seen how this mandated return-to-office policy will work for UPS, and if these mandates will have an effect on vacancy rates. It is important to recognize that even with a mandated return-to-office policy, there may be challenges in ensuring employee compliance, as Goldman Sachs has experienced. Goldman first implemented an office-first strategy in March 2022 and has continued to run into problems with employees still not showing up at the office. Enforcing a full return-to-office policy may not guarantee employee compliance.

Alternative Uses for Vacant Office Spaces

Converting vacant office spaces into alternative uses, such as residential or hospitality, has emerged as a potential solution to combat high vacancy rates. In downtown Atlanta for example, the city is converting 2 Peachtree Street, a 44-story government building, into a mixed-use project that will include retail, offices, and affordable housing. The offices in the building were once spaces for employees of the state of Georgia, who have now shifted to hybrid work. The city hopes that the conversion will help to revitalize downtown, furthering a general goal to increase residential density, which would place more people on the streets and support nearby businesses.

Converting office buildings is not without its challenges, and it requires support from both the public and private sectors. At the federal level, the Revitalizing Downtowns Act proposes expanding the investment tax credit to add a qualified office conversion credit equal to 20% of eligible qualified conversion expenditures for certain qualified buildings. While this bill has yet to make progress through Congress, it underscores the importance of cooperation among state and local governments, regional economic development authorities, property owners and investors in finding creative solutions.

Future Outlook

Looking forward, the gradual return of (some) employees to the office is likely to continue due to mandated return-to-office policies and the need for in-person collaboration with supervisors, colleagues and mentors, although the number of employees present may be lower than in pre-pandemic times. To revitalize vacant office spaces, converting them for other purposes shows promise, but requires meticulous planning and support from all sectors to ensure success. Ultimately, only time will tell if these collective efforts will be enough to prevent a "zombie office building apocalypse" and reverse the current trends, bringing new life to commercial office buildings not just in Atlanta, but also in other cities and metropolitan areas.

For More Information

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