



## Ask an Economist: The impact of hybrid officing

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Remote work has surged during the COVID-19 pandemic. Survey estimates from 2020 suggest that as many as half of all employees worked remotely on a regular basis, up from about 15% previously. As the pandemic continues, many businesses are making decisions about whether or how to shift employees back to traditional office occupancy. Among the decisions for some of these employers is whether to embrace “hybrid officing,” a mixture of at-home and on-site work schedules.

An *Economic Bulletin* published earlier this year by [Senior Economist Jordan Rappaport](#) suggests that many businesses are likely to shift to hybrid officing after the pandemic, with employees working remotely several days a week.

Rappaport discussed the research during a recent Studio 10 interview. See the transcript of the conversation below.

### **Q: Which factors are supporting shifts toward hybrid officing?**

**A:** Employers indicate that the pandemic surge in remote work does not appear to have made workers less productive. In a June 2020 survey by the PwC professional services network, almost half of U.S. business executives said employee productivity actually improved while sheltering at home, and a quarter of them reported that productivity was about the same.

As a result, many employers have expressed willingness to let employees work remotely part of the time after the pandemic has ended. In a January 2021 PwC survey, a majority of business executives said that office employees could work remotely one to four days a week without sacrificing company culture, a preference that matches that of their employees.

## **Q: How could hybrid officing influence residential location decisions?**

**A:** A shift toward remote work will likely reduce commuting time for most workers—with the associated decrease in commuting volume significantly reducing traffic congestion and travel time for all who drive to work. Large metropolitan areas may benefit most from the decreased commuting volumes, as those areas tend to have the worst traffic congestion and longest commutes. The reduction in commutes—and faster driving speeds because of less congestion on roadways—have the potential to reshape where people live and where employers locate within metropolitan areas. In particular, workers will likely be willing to live farther from their employers, boosting residential construction in the outer suburbs of metropolitan areas. The more plentiful land available for development there removes a key bottleneck that has constrained single-family construction in recent years, and it could lay a foundation for a ramp-up in home building that is sustainable for many years.

The increased willingness to live far from an employer does not necessarily imply that people will abandon living near core business districts. To be sure, rents and home prices in central locations may fall relative to rents and home prices farther away, making living near the center of a metropolitan area more affordable for younger households.

## **Q: What about commercial development? How would business locations be affected?**

**A:** In addition to reshaping residential development, hybrid officing might reshape commercial development—albeit in an opposite way. In particular, hybrid officing might encourage employers to shift offices from suburbs to core cities. Formerly, suburban offices had two key advantages: ample parking and short commutes for suburban residents. However, downtown parking constraints and commuting delays are likely to ease with hybrid officing, reducing those suburban advantages. Although suburban office space is typically less expensive than urban office space, that also might become less important.

With fewer employees working in person, hybrid officing might allow businesses to cut down on leased space, lowering office rent as a share of their expenses. In addition, the aggregate effect of businesses reducing leased space will be downward pressure on office rents in both central and suburban locations, further easing expenses.

## **Q: When could we see these changes taking effect?**

**A:** The shift in location of residences and workplaces is likely to play out over several decades, similar to the shifts from cities to suburbs and from colder locations to the Sun Belt. Especially during the first part of this extended transition, workers and employers are likely to experiment with how to balance the flexibility and time savings of remote work with the collaboration, team building, and closer supervision of working in person. Similarly, developers are likely to experiment with building homes that better meet the needs of a remote workforce and office spaces that better match the fluidity of daily attendance.

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