Should Twitter's Work-From-Home Policy Worry Office REIT Investors?

Description

Social media giant **Twitter** (NYSE:TWTR) was in the news last week after management informed stuff that they could continue working from home forever if they so wished. The company's latest work policy update follows similar work-from-home period extensions at **Microsoft**, Google, **Facebook**, and **Amazon**. Should this wave raise office real estate investment concerns if companies increasingly demand fewer offices?

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Although Twitter's latest move is a bit more flexible for employee choices, it comes after Canadian tech firm **Open Text** shut down half its corporate offices and required some of its employees to work from home indefinitely in an ongoing restructuring exercise.

We don't know if the majority of Twitter's employees will opt to work from home forever. However, it's not usually a wise choice to prefer being given a corporate office if an employer's work policies increasingly "encourage" working from home. Maintaining corporate offices is a significant operating expense for employers.

The idea of increased cost savings on rental expenses, property taxes, common area maintenance, cleaning, and sanitation costs could find increased appeal to companies after the practicality of work-from-home arrangements is proven during COVID-19 pandemic lockdowns.

Given this scenario, it's understandable for an office real estate investor to worry about potential low demand for office space in the future.

Should Office REIT investors get worried?

Investors in office real estate investment trusts (REIT) should take note of any evolving real estate trends — especially those that seem to threaten the economics of office REIT property portfolios. However, it seems like the new permanent work-from-home trend is shaping up mainly in technology companies for now. This could be a very important data point.

Firstly, most of the giant tech companies in North America are known for funding the construction of large campuses. Some were notorious for lavish offices and wholly owned corporate headquarters, and not necessarily for being office REIT tenants.

Therefore, tech companies may not be the typical “customers” for office real estate investors.

The Dream Office REIT illustration

Perhaps we could look into **Dream Office REIT** (TSX:D.UN) to help support the no-worries view.

In the first quarter of this year, the REIT’s tenant portfolio allocation by industry was comprised of 34.1% of professional services and management firms, 25.3% of finance and insurance tenants, 20.6% of government and government agencies, and 6.7% by healthcare and social assistance tenants. Retail, restaurants, food services, and entertainment, and real estate and construction industry tenants comprised 8.7% combined. This left well under 5% of the portfolio exposure to the “other” industry category, where technology would share the small remaining piece of the pie with the minor others.

Unless the work-from-home trend extends to other industries, Dream Office REIT investors shouldn’t be concerned for now.

Dream Office REIT enjoys the protection of bond-like long term leases. Office leases usually exceed five years and 25-year terms are also common. The trust reported 5.3 years in remaining lease terms by March this year. Our old habits that require proper offices for best workflow productivity may have come back by the time most leases expire.

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Most noteworthy, social-distancing guidelines for workplaces require desks to be widely spaced apart. Companies could need larger office spaces to accommodate employees when they return to work after the lockdowns. This could mean higher demand for office space, and not less of it.

Foolish bottom line

It makes sense to say that some companies are encouraging employees to continue working from home so as to minimize the headaches of creating wider workspaces for everyone.

Moreover, social distancing in corporate offices will be an expensive endeavour, as workers return to their “newly arranged” offices. Relocating some flexible roles to work from home until the pandemic is over is a viable option for companies. But this may not necessarily result in lower office real estate demand in both the short and the long term.

Actually, I wouldn’t be surprised if tenants suddenly require more temporary office space to accommodate returning stuff.

Happy investing, Fools.

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