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Do Amenities, Building Age, and Floor Plans Affect Office Vacancy Rates?

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The Covid-19 pandemic forced many employees to work from home. While fully remote work isn't as common, structured hybrid work schedules that require employees to work in the office two or three days a week have become more commonplace.¹ Workers coming into the office less frequently has decreased the demand for office space. The pressure on tenants to populate their office space with workers has increased. In some instances, firms have updated their space to offer highly sought-after amenities to persuade workers to return to the office more often.

In this article, I examine the office markets of Chicago and Detroit—the Seventh Federal Reserve District's two largest metropolitan areas—and the U.S. as a whole to see if the amenities offered have impacted their vacancy rates, especially in the most attractive (Class A) properties.² There have been anecdotal reports that popular pre-pandemic workplace offerings, such as fitness centers and free parking, have enticed more employees back to their offices in recent years. Besides these factors that may draw more workers back, I study what has happened to the vacancy rates of office space constructed pre-1997 and post-2018 (and renovated post-2000 and post-2018). I also look at the vacancy rates of office space with open floor plans, which had been in vogue before the pandemic. By looking at all these different aspects of office space in relation to the vacancy rate, I explore whether the data match some of what's been reported anecdotally. I conducted this exercise using data from CoStar. The data are divided into CoStar markets, which resemble metro areas.

Seventh District office markets: Chicago versus Detroit

In the Chicago market,³ the office vacancy rate increased from a recent low of 10.8% in the third quarter of 2018 to a 30-year high of 15.7% in the fourth quarter of 2024. Leasing activity has slowed noticeably since 2020. Over the period 2011–19, before the pandemic hit the U.S., the amount of office space leased to new tenants was consistently above 6 million square feet quarterly. Since early 2020, leasing activity has been in the 4 million to 5 million square feet range quarterly. As in many office markets, net absorption⁴ in Chicago has flipped since the second quarter of 2020. During the period 2014–19, net absorption was +11.29 million square feet; since the second quarter of 2020, net absorption has totaled –21.08 million square feet. Not surprisingly, these numbers reflect a weak post-pandemic return-to-office rate across Chicago: Kastle Systems' weekly back-to-work barometer index shows Chicago consistently in the 50% to 55% range of access card swipes compared with their pre-pandemic baseline; and Flex Index's *Q3 2024 Flex Report* ranks Chicago as one of the most flexible metros for employees' work locations.

Over the past decade or so, Detroit's office market⁵ followed a different trajectory than Chicago's. Compared with Chicago's office market, Detroit's was in a softer position in 2014, but it was on the upswing until the pandemic hit the U.S. in early 2020. During the pandemic and its aftermath, Detroit's office space vacancy rate increased from a low of 9% in the first quarter of 2020 to 12% in the fourth quarter of 2024 (though it had plateaued around that level since the first quarter of 2023, while Chicago's vacancy rate had continued to rise).

While Detroit isn't included in the Kastle measure, the Downtown Detroit Partnership has a dashboard that tracks the average number of daily downtown workers per month. This Detroit dashboard shows that the ratio of workers downtown in October 2024 versus October 2019 is like that of workers in Chicago in comparable post- versus pre-pandemic periods (according to the Kastle index). With that said, the partnership's dashboard only covers Detroit's central business district, and my analysis looks at the Southeast Michigan office market (see note 5). Since early 2020, leasing activity in Detroit's office market has slowed similarly to how it has in Chicago's market. While leasing in Detroit's office market is obviously lower (as

it's smaller than Chicago's), the drop-off is similar in percentage terms. Net absorption of office space has also showed a similar pattern. Over the period 2014–19, net absorption was +12.97 million square feet, but it has flipped since the second quarter of 2020 to total –5.74 million square feet.

By diving deeper into Detroit's office market, I noticed some indicators that show that it's healthier than Chicago's market. Detroit has seen higher levels of office construction since 2020 than in the five years leading up to the pandemic. Also, the current amounts of time needed to either sell or lease space are equal to or lower than the pre-pandemic amounts. In addition, the office vacancy rate of Detroit's central business district has remained in the single digits since 2020 (up from 6% early that year to 9% in late 2024), whereas the office vacancy rate of Chicago's central business district has almost doubled since then (up from 11% in early 2020 to 21% in late 2024).

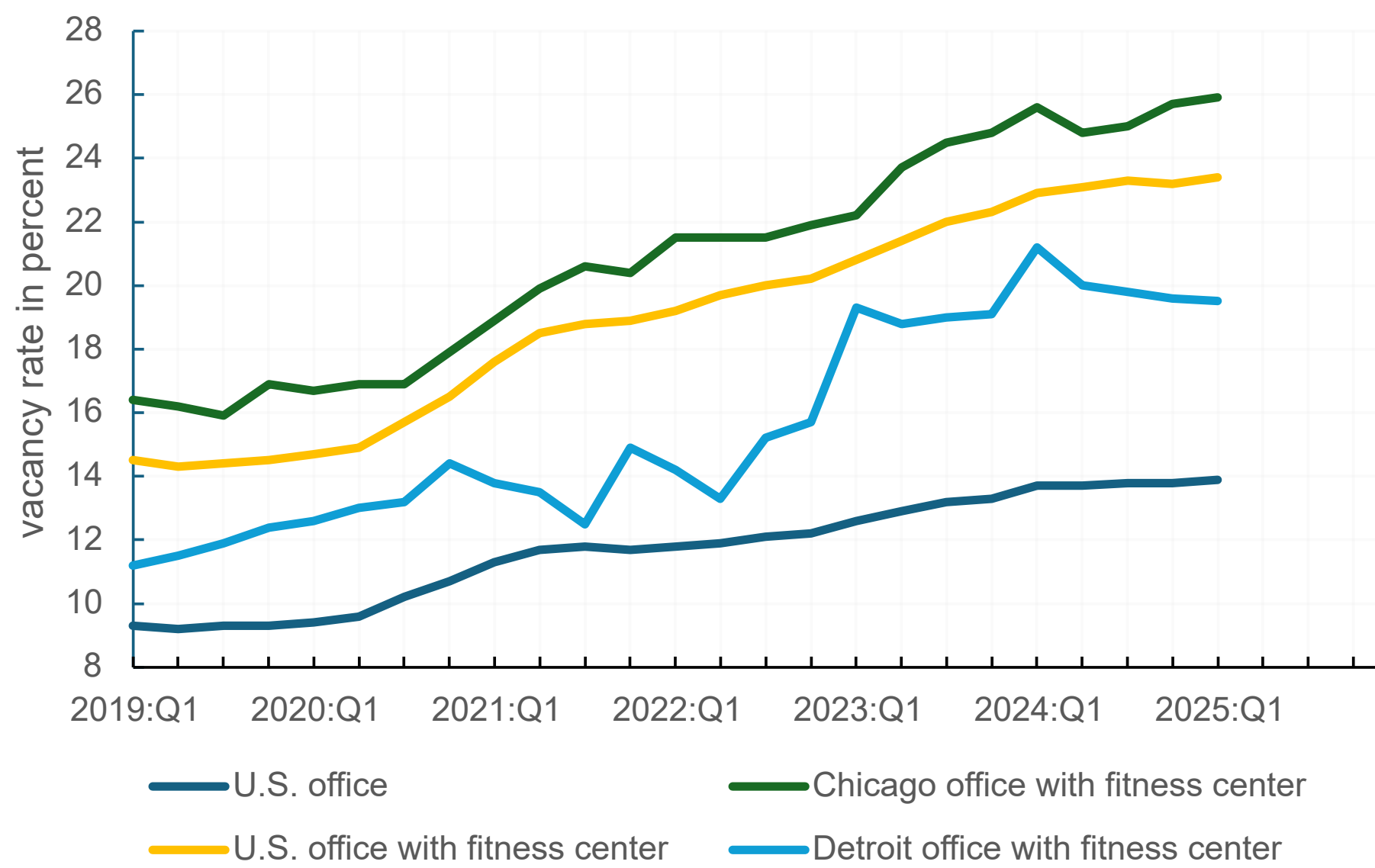
Amenities and office vacancy rates

Office tenants may make being back in their traditional office space more desirable for employees by offering more amenities. One such amenity is an on-site fitness center. Retail fitness centers have maintained their popularity as we've gotten further away from the pandemic. According to CoStar, 1.61 billion square feet of retail properties are for fitness center tenants—a level that had not been reached until quite recently. Of those 1.61 billion square feet, just 6.5% of the space sits vacant—the lowest vacancy rate since 2006, when rented space by fitness center tenants first surpassed 1 billion square feet.

So having a fitness center on site makes sense as it would likely save employees time and money from joining an off-site fitness chain. However, before and after the start of the Covid-19 pandemic in the U.S., the vacancy rate of office space with an on-site fitness center was higher than the vacancy rate of the overall office sector; moreover, these two rates increased proportionally after 2019.

Similar trends in vacancy rates for office space with an on-site fitness center have emerged in Chicago and Detroit. As figure 1 shows, in both markets, office space with fitness centers had higher vacancy rates after 2019 compared with the rates before the pandemic. This trend also held true for Class A office space with an on-site fitness center (not shown in figure 1). As appealing as an on-site fitness center in a Class A office space might sound, this part of Chicago's office market (which amounts to 75% of Chicago's total Class A space) saw its vacancy rate increase from 15.5% in the first quarter of 2019 to 23.6% in the fourth quarter of 2024. This segment of Detroit's office market saw a similar increase: The vacancy rate for Class A office space with an on-site fitness center increased from 10.8% in the first quarter of 2019 to 18.4% in the final quarter of 2024 (again, not shown in figure 1).

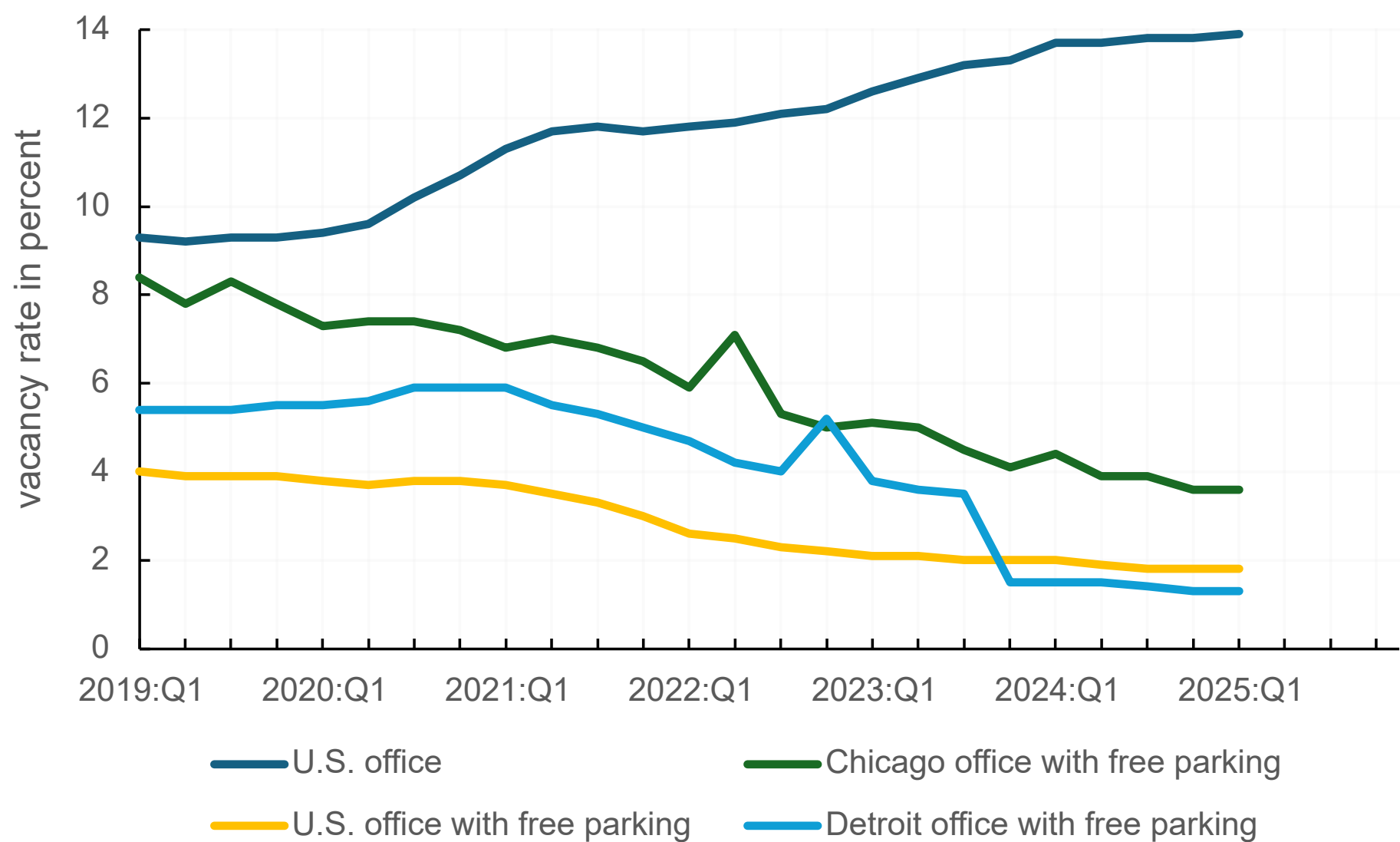
1. Vacancy rate for all U.S. office space versus vacancy rates for U.S., Chicago, and Detroit office space with an on-site fitness center



Note: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed.
Source: CoStar.

Another popular on-site amenity for office workers is free parking. Even before the Covid-19 pandemic, some downtown office tenants had already started to investigate moving to suburban offices because of employees’ displeasure with increases in downtown parking prices. While holding relatively steady in 2019, as shown in figure 2, the vacancy rates of office space with free parking have decreased across the U.S., as well as in Chicago and Detroit, since 2020.

2. Vacancy rate for all U.S. office space versus vacancy rates for U.S., Chicago, and Detroit office space with on-site free parking



Note: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed.
Source: CoStar.

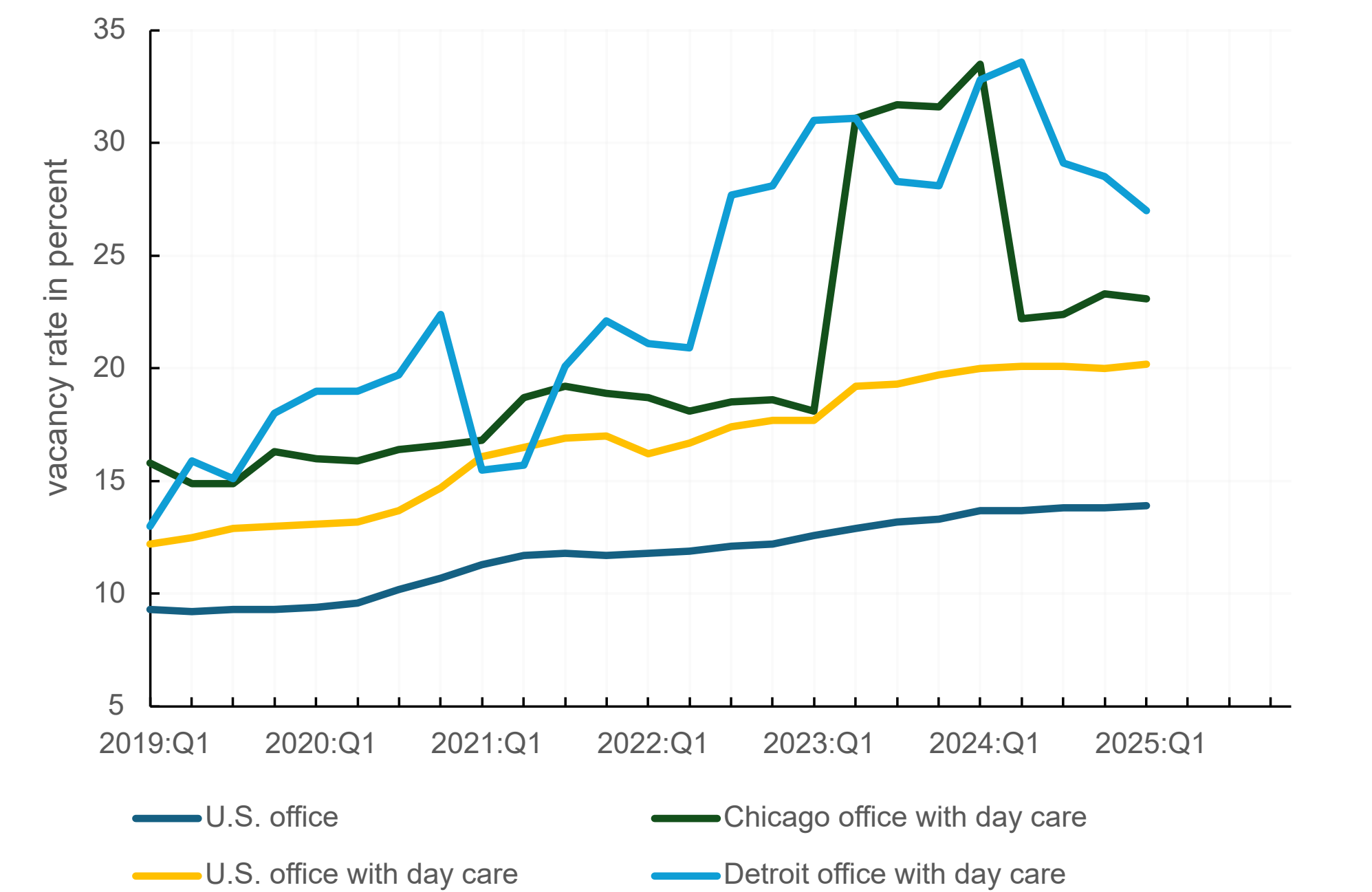
Similar to the broader vacancy trend for all office space with free parking, there have also been declines in vacancy rates for office properties located in central business districts with free parking. Two key differences from the broader trend are that the vacancy rate for that segment of the U.S. office market was already fairly low pre-pandemic and that it didn't fall as much during the pandemic and its aftermath, moving down from 2.9% in the first quarter of 2019 to 1.9% in the fourth quarter of 2024.

In Chicago's office market, office properties with free parking on site make up about 22% of all office properties. The vacancy rate for office properties with free parking fell from 8.4% in the first quarter of 2019 to 3.6% in the fourth quarter of 2024. Meanwhile, in Detroit's office market, 43% of office properties offer free parking, and at those properties, the vacancy rate dropped from 5.4% in the first quarter of 2019 to 1.3% in the final quarter of 2024.

The last office amenity I'll look at is on-site day care. More employers are investigating the prospect of adding on-site day care because the lack of such care has been proven for some to be a significant barrier to drawing workers back into the office. Using CoStar's database, I find that 7% of national office space square footage has on-site day care. When looking at Class A space exclusively, I observe that on-site day care is present in 5% of such office space across the nation.

As seen in figure 3, offering on-site day care is not enough to bring the U.S. office vacancy rate down: The vacancy rates of both the overall U.S. office space and the segment with on-site day care trend up after 2019. Moreover, even Class A office space with on-site day care (not shown in figure 3) doesn't have a vacancy rate that moves down to the level of the overall U.S. office vacancy rate either. Of note, Chicago and Detroit have lower percentages of office space with on-site day care than the nation. However, the vacancy rates for office space with on-site day care in both metros have generally been higher than in the U.S. overall.

3. Vacancy rate for all U.S. office space versus vacancy rates for U.S., Chicago, and Detroit office space with on-site day care

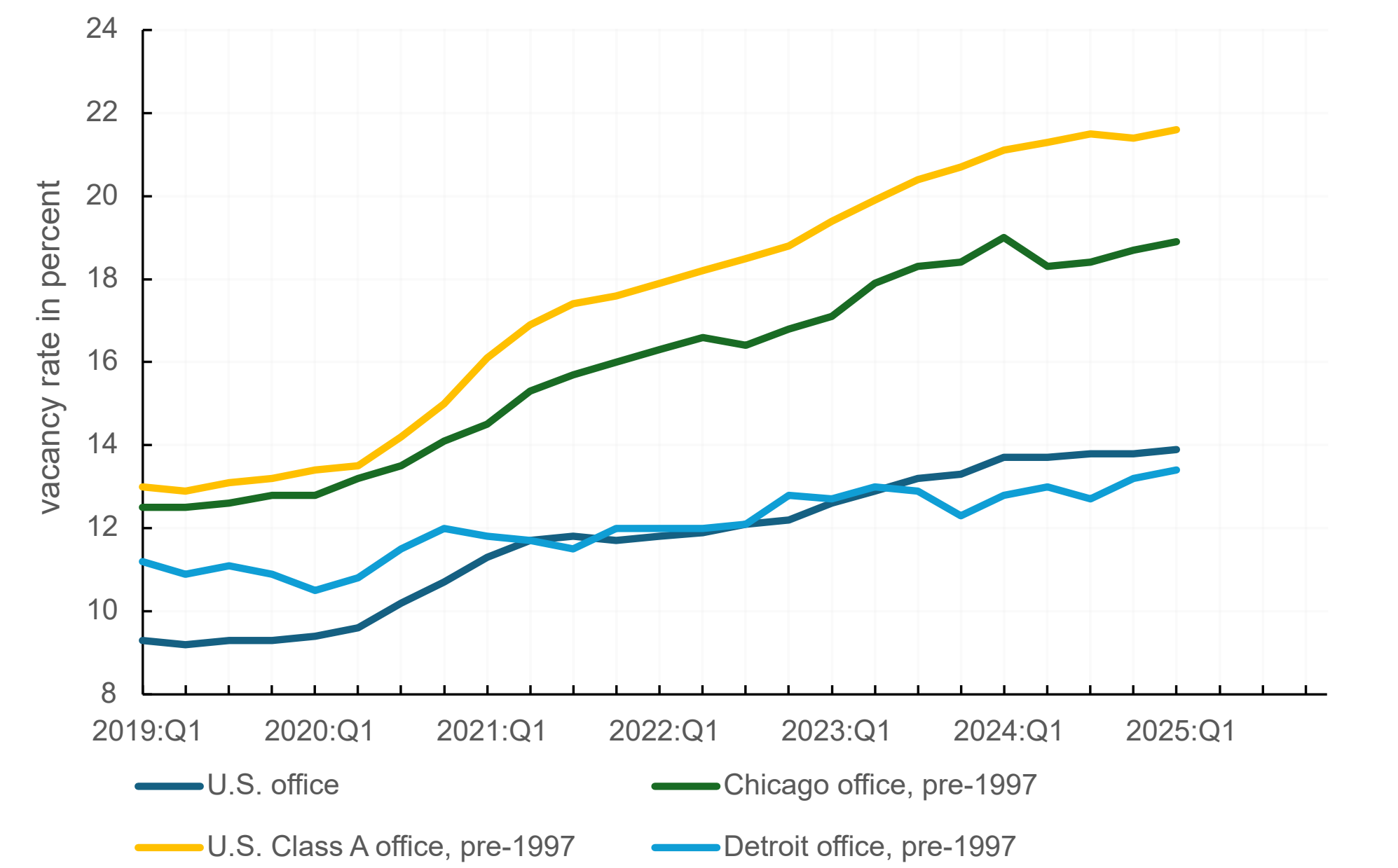


Note: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed.
Source: CoStar.

Building age, floor plans, and office vacancy rates

Does the vacancy rate differ according to when a property was constructed? Most of Chicago’s and Detroit’s office properties were constructed before 1997.⁶ As shown in figure 4, the vacancy rate for office buildings built before 1997 increased by around half of its starting level between early 2019 and late 2024 in Chicago, but the vacancy rate for such buildings went up by only a couple of percentage points over the same period in Detroit.

4. Vacancy rate for all U.S. office space versus vacancy rates for U.S. Class A, Chicago, and Detroit office space constructed pre-1997

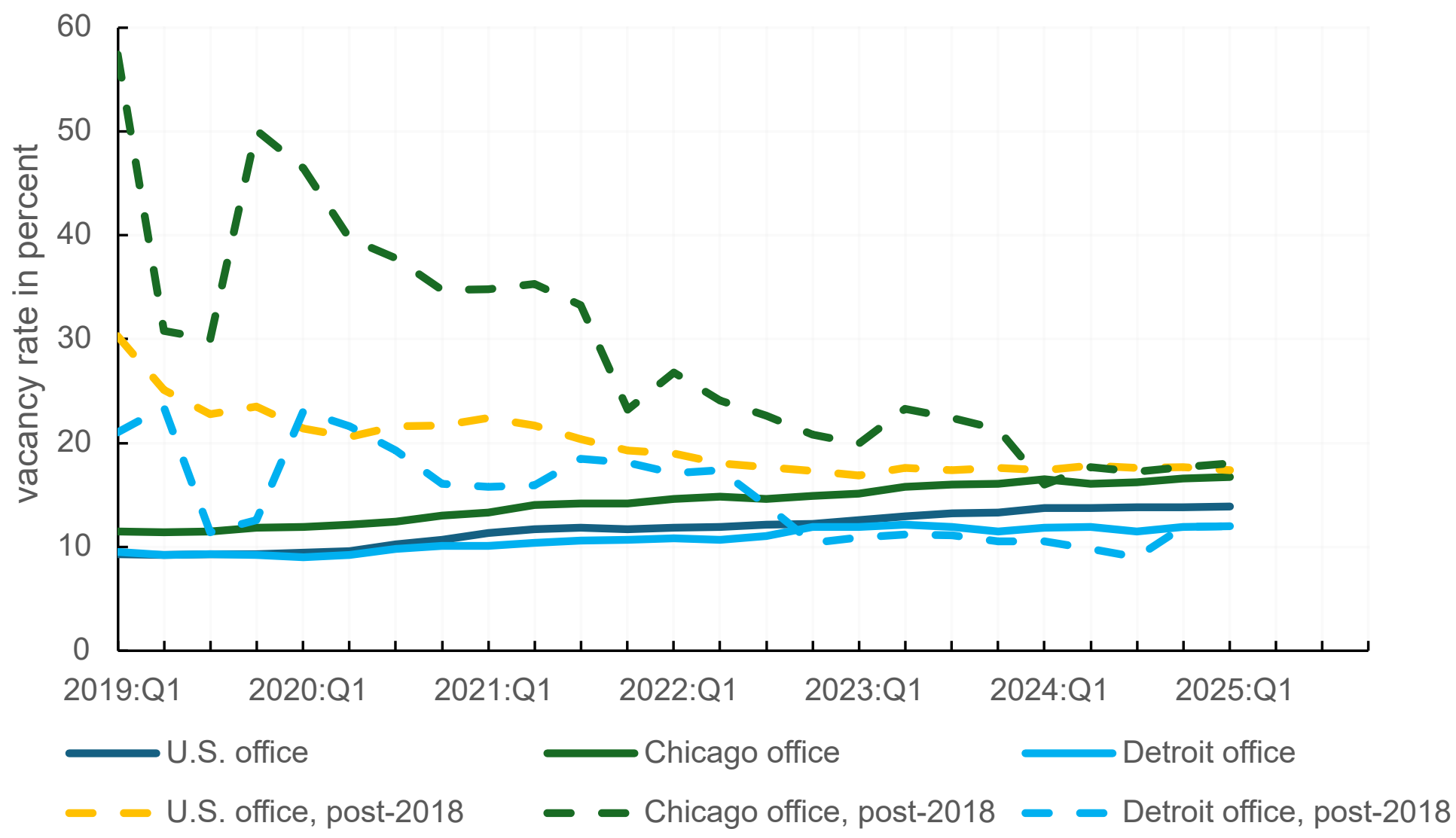


Notes: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed. Class A office space (see note 2 for a definition) was used to assess pre-1997 U.S. office space because CoStar has a sample limit of 300,000 properties when using its search function to filter the data by characteristics such as date of completion.
Source: CoStar.

Given that so much of Chicago’s and Detroit’s office stock is old, what are the vacancy trends for *renovated* office properties in these markets? One might expect the vacancy rates for this renovated segment of the market to behave somewhat differently from those for properties built pre-1997, but CoStar data show they generally mirror each other. For the Detroit market’s office properties renovated after 2000, which accounts for around 10% of all properties, the vacancy rate increased from 15.2% in the first quarter of 2019 to 19.8% in the fourth quarter of 2024. And in the Chicago market, the vacancy rate for office properties renovated after 2000, which accounts for 7% of all properties, jumped from 14.1% in the first quarter of 2019 to 25.5% in the final quarter of 2024.

In figure 5, I look at the vacancy rates of office properties *constructed* after 2018 in the U.S., Chicago, and Detroit in comparison with the vacancy rates for their overall office markets. The vacancy rates for office space constructed post-2018 in the three markets were somewhat volatile between 2019 and 2024 as one might expect given different employers’ return-to-office policies over this period. However, vacancy rates still showed a downward trend until the first quarter of 2023 for the U.S. and Detroit and until the first quarter of 2024 for Chicago. Since those times I just mentioned, the vacancy rates for U.S., Chicago, and Detroit office space constructed post-2018 have increased somewhat. In contrast, properties that have been *renovated* after 2018 have seen their vacancy rates rise appreciably (not shown in figure 5). In the U.S., the office vacancy rate for properties renovated post-2018 rose from 16% in the first quarter of 2019 to 24.3% in the fourth quarter of 2024. Over the same span, Detroit’s office vacancy rate for office properties renovated after 2018 rose from 16% to 23.7%. Moreover, Chicago’s office vacancy rate for office properties renovated post-2018 almost doubled, from 11.9% in the first quarter of 2019 to 23.6% in the final quarter of 2024.

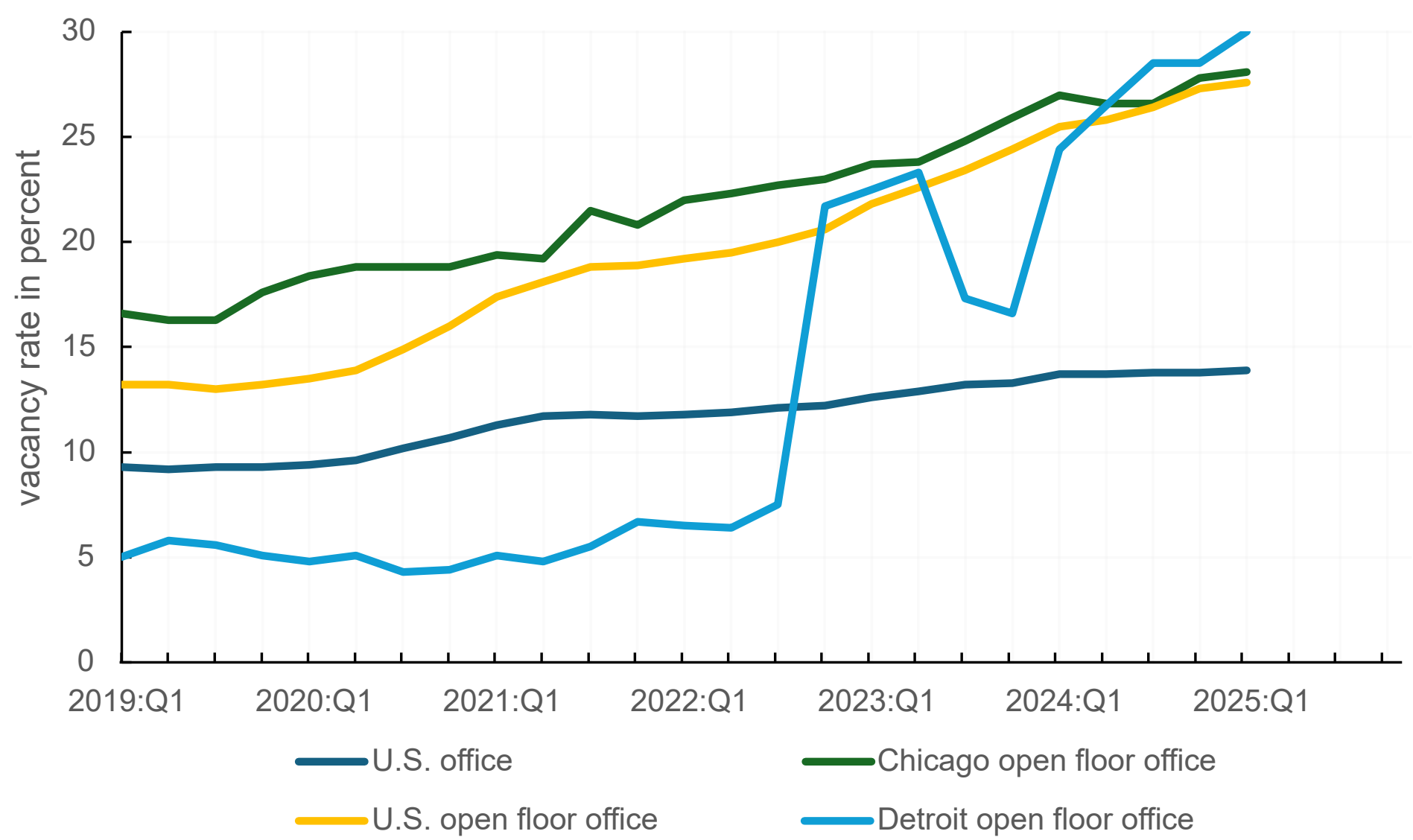
5. Vacancy rates for all U.S., Chicago, and Detroit office space versus vacancy rates for U.S., Chicago, and Detroit office space constructed post-2018



Note: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed.
Source: CoStar.

Pre-Covid, open floor plans were in vogue because they promoted collaboration among staff. Since the pandemic hit the U.S. in early 2020, that trend has become less common in office construction and renovation projects. This shift is reflected in the vacancy rates of existing office buildings with open floor plans, as seen in figure 6.

6. Vacancy rate for all U.S. office space versus vacancy rates for U.S., Chicago, and Detroit open floor office space



Note: See notes 3 and 5 for details on the overall Chicago and Detroit office markets I analyzed.
Source: CoStar.

Because open floor plans represent a relatively recent trend and Detroit’s office stock is old, only a small percentage of office properties have open floor plans. Those properties had a 5% vacancy rate in the first quarter of 2019, but a 30% vacancy rate in the fourth quarter of 2024. Relative to Detroit’s office market, Chicago’s has a higher proportion of open floor plan offices, more closely resembling the U.S. market. The vacancy rate for Chicago open floor plan offices rose between early 2019 and late 2024, but not to the extent that it did in the U.S.

Conclusion

Among the office amenities and building features that I analyzed, it seems that free parking and more-recent construction have the largest impact on vacancy rates. On-site fitness or day care centers aren’t game changers when it comes to filling office space. And it appears that building renovations and open floor plans are not major factors either. Outside of labor market pressures and employer mandates, it appears that a considerable effort will be required from developers, landlords, and tenants across the U.S., including those based in Chicago and Detroit, to bring vacancies back to their pre-pandemic levels.

Notes

¹ See p. 7 of [Flex Index’s Q4 2024 Flex Report](#).

² Office space is divided into property classes. Class A properties are the most sought after because they are the newest built offices with the most up-to-date amenities. Class B properties are older, but still attractive to tenants because they are still in good condition. Class C properties are outdated in terms of their structural conditions and amenities and would need substantial updates. The definitions for Class A, B, and C properties here are based on my look at the commercial real estate (CRE) data and conversations with CRE industry people over the past decade. The three classes are standard industry designations, but notably, the websites of CoStar, CBRE, and other major (CRE) brokers and data gatherers indicate slight differences in their respective definitions. So, I’ve come up with composite definitions of my own.

³ The Chicago market corresponds to the Chicago–Naperville–Elgin, IL–IN–WI, metropolitan statistical area (MSA).

⁴ Net absorption is calculated by taking the sum of the square feet that became physically occupied and subtracting the sum of the square feet that became physically vacant within a market over a specified time period (normally, a quarter or a year).

⁵ The Detroit market corresponds to the Detroit–Warren–Dearborn, MI, MSA plus Lapeer, Livingston, and St. Clair counties.

⁶ CoStar data go back to 1996.

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