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CENTRAL BANKS COMMENTARY

Pro Take: Remote Work's Persistence Helps Keep Housing Prices High Outside Big Cities

Meanwhile, continued soft work-space demand and high interest rates are hurting office landlords and banks with commercial-property exposure

By Yuri Nagano

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Rows of homes in suburban Salt Lake City. PHOTO: RICK BOWMER/ASSOCIATED PRESS

Return-to-office mandates at high-profile companies have grabbed headlines and some big cities are showing more life downtown, but remote work remains entrenched enough to keep population gains in suburbs, rural areas and smaller cities

from reversing—for now at least.

This means higher housing prices outside the big traditional job centers could be persistent.

Housing in the suburbs has seen more demand than in large cities because of office workers doing their jobs remotely since the pandemic, says Andra Ghent, finance professor at the University of Utah's David Eccles School of Business.

While some companies have been calling workers back to the office, such moves haven't been widespread enough to signal a broad turning point, according to Stijn Van Nieuwerburgh, real estate and finance professor at Columbia University's Graduate School of Business. Remote work for at least some days of the week is now offered by around two thirds of U.S. companies, he said.

For the first time in 40 years, rural areas are gaining population rather than losing it, Van Nieuwerburgh added. Traditionally, housing and rental prices are highest at the city center while becoming lower the farther out you go into the suburbs. But that sloping curve has been flattening since the pandemic because housing and rental prices near or in the city centers have fallen or haven't risen as much as the suburbs, he said.

“In smaller cities, the willingness for people to pay more to be closer to the city center has returned to prepandemic levels,” said Ferdinando Monte, associate professor of strategy and economics at Georgetown University's McDonough School of Business. “Office workers prefer to work in the city center only if others do” and bigger cities haven't returned to such a prepandemic state, he added.

“Because people are commuting less frequently, they are willing to live further away from city centers and therefore bid up prices in the suburbs,” said Ghent.

As home buyers grapple with high demand and prices outside the biggest cities, the persistence of remote work could spell more pain for office landlords.

Office vacancy rates could peak in mid-2025 and begin to drop, Van Nieuwerburgh said, but it will take years to work off the 1.1 billion square feet of vacant office space, holding down office rental prices.

Even though the Federal Reserve is expected to cut interest rates further in the year ahead, **it may not be enough** to take away the pain for office landlords and the banks with commercial-property exposure.

In 2025, mortgage interest rates are likely to stay high and become a fiscal burden, Van Nieuwerburgh said. The wall of commercial real estate debt maturities will build until 2027, raising worries about regional lenders, he said. Banks own 60% of commercial mortgages and regional and smaller banks have the highest commercial real estate exposure, he added.

The office market **is experiencing high levels of defaults** amid high interest rates and soft demand. It will take more than the limited rate cuts expected by the Fed to bring relief.

(Yuri Nagano is a Los Angeles-based journalist who focuses on economic issues.)