

WORDS KELCIE SELLERS, ASSOCIATE, SAVILLS WORLD RESEARCH

Savills predicts an average 8-10% decrease in demand for offices across Europe due to new ways of working

A new era of work

New technologies, demographic changes and the impact of Covid-19 have transformed our views on where and how we work. We highlight the value of technology, talent and diversity, and how the work environment can nurture wellbeing and productivity



The Covid-19 pandemic is the event to have recently caused a seismic shift to office life, but this will be just one of many challenges ahead for the world of work, as well as the role and design of the office.

Over the coming decades, business will have to manage an ageing demographic, changing worker profiles through diversity, increasing worker powers and plateauing productivity.

Ageing is a major long-term challenge. Most countries – especially those categorised as developed – are experiencing a shrinking labour supply as they fail to meet their population replacement rate. Without in-migration, populations will decline, causing an imbalance of workers compared

with the number of pensioners needing support in the relatively near future.

After decades of the one-child policy, China has one of the lowest fertility rates in the world with 1.3 children per woman. While the policy has been dropped, one-child families are still the cultural norm. In Italy, families commonly had more than four children, but now average fewer than two. The US is an outlier with positive youth growth – mainly through migration – despite the country's fertility rate falling steadily since 1950.

Only in developing countries is it a different story. Populations of more than half of Africa's 54 nations will double, or more, by 2050, on the back of sustained high fertility and improving mortality rates.

THE NEED FOR TALENT AND DIVERSITY

Firms will also need to step up to attract and retain talent, with diversity already a high priority for most employers. There is a practical need to increase the entry of people from marginalised and underrepresented groups in the workforce, and to attract more women and older workers. This will be about processes – blind recruitment practices to level the

playing field, and closing wage and benefit gaps. Companies will need to accept flexible working to win the war for talent and to increase participation from parents, more women, and caregivers of all types. The reality will be more employee-focused: blended working arrangements (hybrid or remote), more annual leave and more flexible or fewer hours.

THE GREAT RESIGNATION

Meanwhile, the pandemic has instilled a greater sense of power among workers. Where new demands around working patterns and flexibility have not been met, or individuals have been prompted to rethink their career paths, there has been a swathe of departures in some jurisdictions, which has become known as 'the great resignation'.

Increased worker power has seen a drive for unionisation, particularly in the US, where membership was on the decline. This collective bargaining power is largely about reconnecting wages to productivity growth after decades of large gains in output not being translated into higher real wages for workers.

Present in the background of these other changes is slowing productivity. Growth in productivity has run almost

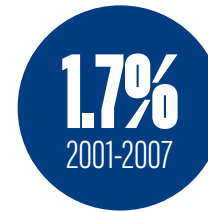
3.5 times ahead of real wage growth since 1949 but is now stagnating, even with a rise in technology. Some countries, such as Iceland, trialled a four-day working week in order to boost productivity and worker happiness. The UAE has moved to a Monday-to-Friday working week, to bring it in line with Western and Asian markets.

Companies will turn to technology, particularly the increased use of robotics and automation, with more individual tasks able to be automated through artificial intelligence and sophisticated algorithms. This will alter both the types of jobs available, their number and their perceived value.

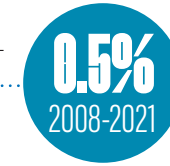
By replacing workers doing routine, methodical tasks (in professional services industries), machines can amplify the comparative advantage of workers with problem-solving, leadership and creativity skills. However, in manufacturing and service industries, there is a risk of worker displacement and the hollowing out of the labour force as the need for large numbers of human workers is removed.

All these trends will filter down to changes to the office, which must now prove its worth. The pre-pandemic emergence of the gig economy and the consequent rise in flexible office

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space is now likely to embed in the working culture. Savills Office FiT 2021 survey says that 12% of workers would be interested in co-working space compared with 3% one year prior.

The type of flexible space on offer is expected to become more diverse, with locations both in city centres and suburban areas. With Savills Landlord Flex Survey saying that coffee shops, hotels and client offices were also popular locations for home working, flexible offices may start to sit between office and home – an office environment without the commute.

Overall, demand for flexible space is also likely to increase with the great resignation seeing more people opt for freelance work. In the UK, enquiries for flexible office space are up 82% on pre-pandemic levels.

Savills Research predicts an average 8-10% decrease overall in demand for offices across Europe as companies adapt to new ways of working. Some of this space could switch to flexible space while others could be repurposed into alternative uses such as residential.

Location-wise, city centres are expected to retain their appeal for offices. In the US, the hub-and-spoke model is likely to

prevail, with flexible offices supporting locations close to residential areas.

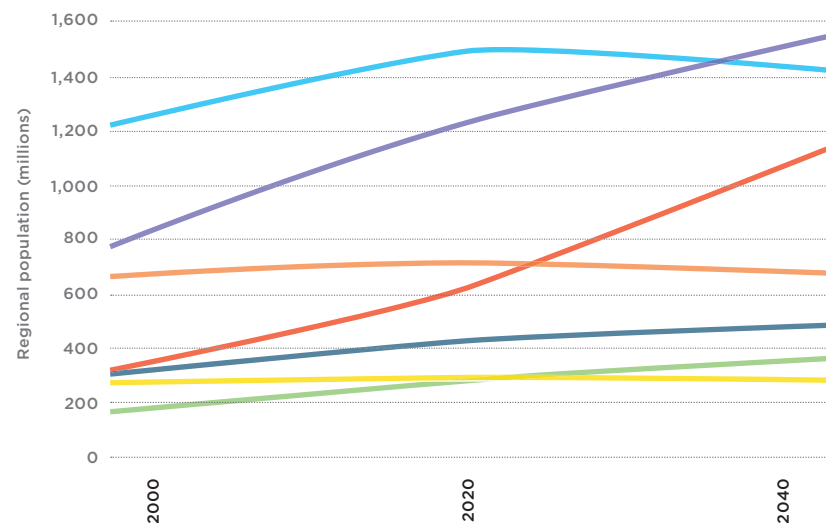
Near term, shortfalls in local or domestic workers can be filled by positive net migration. In the long term, some companies may choose more emerging cities to seek out larger working-age populations, as is being seen in Egypt and Saudi Arabia for Middle Eastern operations.

Inside the office, culture and branding will need to become integral to designing companies' headquarters to reflect the value of diversity, as employers try to win employees back. Office life is finding favour again: the 2021 Savills Office FiT survey reported that 63% believed colleague collaboration is best achieved at the office, while 25% (up from 16% a year earlier) said they concentrate best in the office.

After a prolonged period of working from home, an increased number – 28% versus 18% – also thought the office best facilitates mental health. Space to enhance this needs to be consciously designed and inclusive; offices will be places to meet and build connections, and they need to engage all five senses to increase productivity and worker wellbeing.

Change in global working-age population by region 2000-2040

East Asia & Pacific ■ South Asia ■ High income: OECD ■ Sub-Saharan Africa ■ Latin America & Caribbean ■ Europe & Central Asia ■ Middle East & North Africa ■



Source Savills Research using Oxford Economics



**NORTH AMERICA
Connect your employees**

ANN DUNCAN, VICE CHAIRMAN, CHIEF STRATEGY OFFICER & CHIEF DIVERSITY OFFICER OF SAVILLS NORTH AMERICA

New-found flexibility due to the pandemic is starting to individualise people's experience of working life in the US and Canada," says Ann Duncan, Savills North America. "For many, it's been two years of working from home. During this time, we've changed – employees have high expectations of work and flexibility."

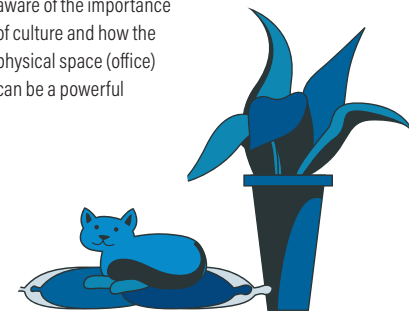
According to the 2022 Microsoft Workplace Trend Index, 73% of employees hope that flex will stay, yet more than 50% of leaders want employees back in the office full-time. "Many organisations here are creating and testing workplace strategies that will work for their organisation and culture while allowing them to still compete for talent," says Duncan.

"Leaders are also aware of the importance of culture and how the physical space (office) can be a powerful

container and expression of the culture," she says. "Creating an office that is healthy, comfortable and safe is fundamental, but providing a variety of space types for people to choose from will help employees thrive."

Understanding your workforce and its diversity is essential. "You might think older people want to go back to the traditional work model, but that's not the case. It's our young people who want to be mentored and coached."

"People need to feel included regardless of where they are working," says Duncan. "Update collaborative technology and create new norms to ensure everyone is seen and heard. With the right intention and focus, it could create a better way of working for many organisations."



**MIDDLE EAST
Reconfigure space for new needs**

PAULA WALSHE, HEAD OF INTERNATIONAL CORPORATE SERVICES, SAVILLS DUBAI

A younger, well-educated workforce is increasing the appeal of emerging Middle Eastern corporate office locations in Cairo and Riyadh. "Both of these markets have a very high youth population. They have an increasingly educated workforce, particularly among younger people. I think that corporate companies are seeing opportunity there," says Paula Walshe of Savills Dubai.

There is significant growth in sectors such as tech, pharmaceutical and professional services. "If you're a manufacturer or a tech developer, then those markets are really attractive to you as the next generation, the next place to be," says Walshe.

Saudi Arabia has ambitious plans for growth and to diversify away from oil and gas. In addition, corporate companies looking to carry out business with the government from 2024 will need to be headquartered in the country.

In more traditional office locations such as the UAE, the lack of prolonged pandemic lockdowns meant the mindset shift towards hybrid and flexible working is not a homegrown trend. Instead, it has emanated from the presence of international corporate occupiers putting in place global policies for staff.

Many international companies have remained in the same space but reconfigured it to hybrid working standards. "They are reorganising to include more collaboration areas, space for people to come in and engage with their colleagues rather than just sit at a desk," says Walshe. Offices are also being reconfigured for video meeting rooms in the UAE, which, prior to the pandemic, had restricted access to video conferencing.

Other companies have upgraded to better quality space, a move led by the war for talent and ESG considerations.



**ASIA-PACIFIC
Serviced offices: an intermediate space?**

SIMON SMITH, REGIONAL HEAD, RESEARCH & CONSULTANCY, SAVILLS ASIA-PACIFIC

While Asia-Pacific is too large to generalise, in many of the advanced office markets, Singapore, Hong Kong, Tokyo and Shanghai, there are few drivers to shift companies out of the office.

All these cities tend to be significant service sector employment hubs with fast commutes through modern transportation systems.

In addition, culturally, life is not conducive to working from home: houses are small by global standards, residential areas are often densely populated (lots of noise, often from new construction) and there is much more multi-generational living. In the summer, air-conditioned offices also offer a welcome refuge for workers.

Multinationals are most likely to consider hybrid working and have also led a wider change in workspace design: flexible desk space, breakout areas and pantries are now more commonplace.

"There is a greater focus on amenity these days and more open-planning," says Simon Smith of Savills Asia Pacific. "Traditionally there have been more glassed-in offices for senior staff but these are becoming much less common."

Another beneficiary for those trialling hybrid working has been the serviced office sector in the region, which, Smith says, is providing a good intermediate space in between the office and home.

There may also still be a long tail to the hybrid trend because of the economic implications. "In Asia's most expensive office markets, you can save a great deal of cost by cutting out office space, which makes the flexible working model suddenly much more appealing. In the more expensive markets, office costs are quite a significant proportion of total operational costs, so that for many is quite a lure," says Smith.



**GLOBAL
Please your employees to keep your culture**

KATRINA KOSTIC SAMEN, DIRECTOR, HEAD OF WORKPLACE STRATEGY & DESIGN AT KKS SAVILLS

"Emotive reasoning is entering decision-making for companies as they think about their working relationships with their employees, as well as their office space," says Katrina Kostic Samen, KKS Savills. "It's not just about class A buildings or floor-to-ceiling glass, but 'does this space really value the experience of me and my staff?'"

That understanding is now more relevant because of the equal discussion that needs to happen to find the sweet spot between employees' demands for flexibility and a company's need to get the right value from its team.

"The pendulum was always in the employer's favour, and it definitely has swung in the past 12 months to the employee, but I do think there will be a shift back to somewhere in between," she says.

"There is clearly a shift in taking account of employee expectations and

workplace experience returning to the office," says Kostic Samen.

There are quick wins, especially those that are tactile and appeal to the senses: paint walls to add colour, hang some art and include plants for greenery. Reorganising space to create smaller meeting areas for video calls, or even bigger spaces for collaboration, might be harder than expected as they often require a shift in acoustic provision and mechanical air flow. And, even if working patterns are still in a state of flux, the main piece of advice is to get started.

"You just get on with it and you keep it very flexible, you design it really well and have an inclusive process on the work strategy and design," says Kostic Samen. "If you wait for the perfect moment to design the perfect office, you'll have missed the opportunity to keep your culture together."