



2020 GLOBAL OCCUPIER SENTIMENT SURVEY

The Future of the Office

CBRE Research recently conducted a survey of 126 senior-level global real estate executives to determine how the COVID-19 pandemic will change the location, design and use of office space. The survey findings—the first in a series—will help occupiers and investors identify evolving workplace trends and how sentiment toward office environments changes over time.

CBRE

Key Findings

More flexible work is expected: 70% of respondents indicated that some portion of their workforce will be allowed to work remotely full-time; 61% of respondents indicated that all employees would be allowed to work outside the office at least part-time.

The physical office will remain important: 41% said the importance of the physical office will decrease only slightly and 38% said it will remain as important, if not more.

Cyclical portfolio adjustments are under pursuit: More than 60% of respondents are pursuing lease renewals and more than half have relocation plans on hold. More than 85% are optimizing their portfolios and more than 75% have expansion plans on hold or canceled.

Long-term strategies are under consideration: 70% are confident in setting long-term real estate strategies even amid the pandemic; fewer than one in 10 companies are considering leaving high-density urban cores; one-quarter are exploring suburban satellite strategies. 73% of respondents expect flexible office space will play some role in future strategy.

The workplace is quickly changing: Most respondents indicated workplace transformation is still trending away from dedicated private space and toward shared collaborative space. This is critical for workplace efficiency and satisfying a more hybrid workforce (in-office and remote working) but there is some uncertainty given the health and safety impacts of COVID-19.

Breakdown of Respondents

126
RESPONDENTS*

50%
ARE FORTUNE 500 FIRMS

20%
OF THE FORTUNE 100

60%
GLOBAL

25%
AMERICAS

21%
BANKING &
FINANCE

13%
INDUSTRIAL &
MANUFACTURING

16%
TECH, MEDIA
& TELECOM

11%
BUSINESS &
PROFESSIONAL
SERVICES

*Survey closed June 17
Source: CBRE Research Client Survey, June 2020.

Since lockdown measures were broadly instituted worldwide in March, companies face an unprecedented crisis. After rapidly mobilizing and closing their offices, global corporate real estate executives, in close coordination with company leadership, have risen to the challenge of cautiously beginning the reopening process with strict health and safety protocols. CBRE's survey reveals a blend of cautious optimism with pragmatic concerns. Executives recognize that reopening workplaces during an active pandemic is an uncertain endeavor.

LEADERSHIP IN A CRISIS

Beyond immediate tactical concerns of their COVID-19 response, corporate real estate executives are facing strategic obstacles unlike any seen since the Global Financial Crisis. Companywide support is critical for real estate executives to navigate an uncharted market shaped by both the surprising resilience of office-based employees suddenly forced to work from home and by a global economic downturn.

PORTFOLIO STRATEGY

Occupiers face major strategic decisions about remote working, urban vs. suburban locations and how flexible office space should factor into their plans. These challenges will require an ability to step back from the near-term pressures of reopening workplaces to focus on what's critical in the long term. Cost savings will be top of mind if recessionary conditions persist, with some occupiers reporting that they are aggressively pursuing consolidation, contraction and exiting as real estate portfolio strategies. As confidence improves, companies will consider whether to pursue any relocation and expansion plans that are currently on hold.

WORKPLACE STRATEGY

The [future role of the office](#) is the biggest question facing corporate real estate executives today. Even prior to the pandemic, remote working was a well-established trend as employees became less dependent on the physical office to successfully perform their jobs. In the future when working in the office, employees will have more choice in the spaces they use to accomplish their work, provided they can do so safely. And they'll have more technology and services to integrate their physical and digital worlds, accelerating many of the design trends that were occurring before COVID-19.

The pandemic has created unprecedented opportunities and challenges for commercial real estate occupiers that likely will usher in a new era of innovation and creative problem-solving. The industry will develop new tools and technologies to make the office a greater source of efficiencies and the hub for collaboration and innovation.

Leadership in a Crisis

Despite uncertainty about an end to the pandemic and the economic downturn, the business outlook is generally positive.

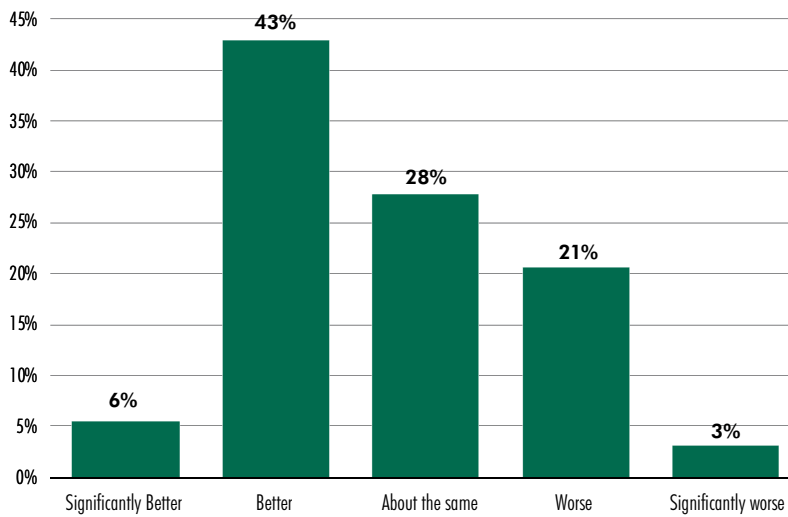
Companies will institute agile real estate strategies based on lessons learned.

The COVID-19 experience will lead to permanent changes in real estate strategy.

Relative optimism about the business environment

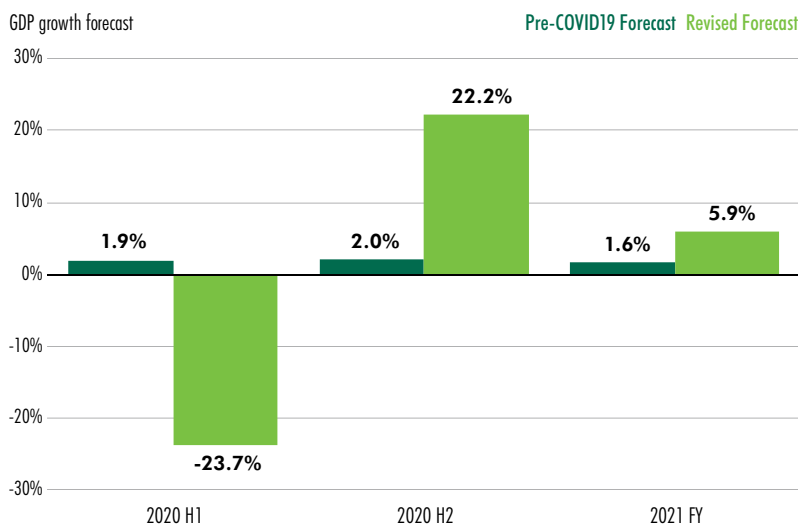
The overall business outlook underpins any real estate decision. At the time of this survey, almost half of the respondents believed the business outlook would improve in the next six months, while a quarter thought it would worsen (Figure 1). CBRE's baseline economic forecast is for a strong global economic recovery to begin in the second half of 2020, limiting global GDP contraction. However, a return to pre-COVID economic growth levels is not expected for several years (Figure 2). China is already recovering and positive U.S. economic indicators are coming back. Yet recent pockets of resurgent virus outbreaks around the world are increasing the possibility of downside scenarios.

Figure 1: Compared with today, what do you expect the state of the business environment will be in the next six months?



Source: CBRE Research Client Survey, June 2020.

Figure 2: COVID-19 Impact on Global GDP



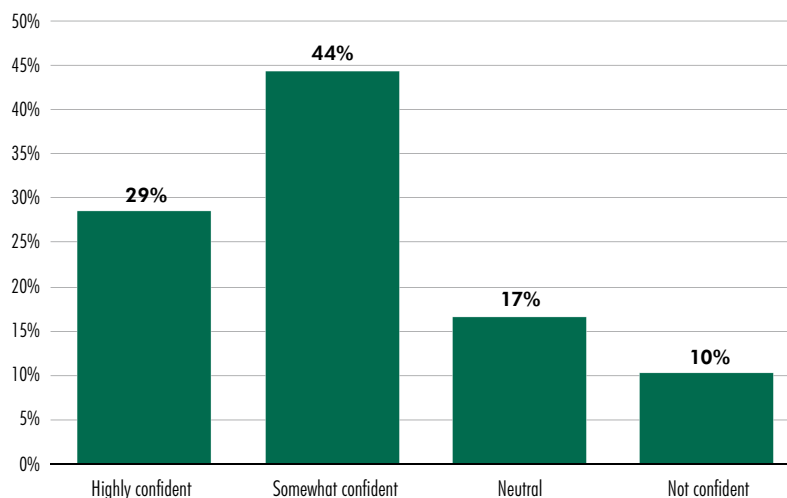
Source: CBRE House View, May 2020.



Relative confidence in real estate strategy follows suit

More than 70% of survey respondents are confident in formulating a long-term real estate strategy and very few report a total lack of confidence (Figure 3). There is consensus that confidence will build over the next six to 12 months. Most respondents feel that lessons learned in pursuing their current real estate strategies, given the lack of precedent, will give them the best guidance for the future. Given that many markets are still in early stages of reopening and under threat of a second wave of infections, occupiers are well-advised to remain proactive in monitoring behavioral changes between markets to guide future global real estate strategy.

Figure 3: How confident are you in your ability to formulate a long-term real estate strategy today?

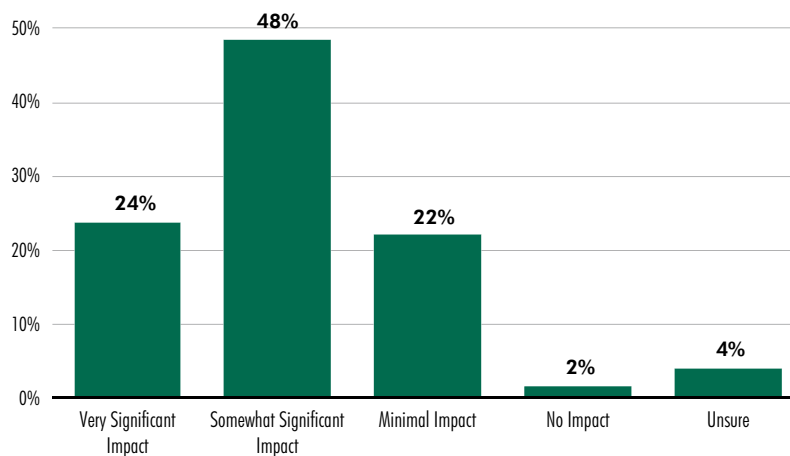


Source: CBRE Research Client Survey, June 2020.

A leadership vision of impactful change prevails

Most respondents feel that the COVID era will have a lasting impact on real estate strategy, even if the exact steps to implement it remain uncertain (Figure 4). More than 40% of respondents say the C-suite will have a strong influence over long-term real estate strategy, which represents an opportunity for a level of strategic decision-making that is different from the past. These changes may differ from country to country because of varying business cultures, but one thing seems certain worldwide: COVID-19 will accelerate the transformation of many offices with regard to technological advancements, workplace health and safety, and employee-centric policies.

Figure 4: Five years from now, what impact will the COVID era likely have on long-term real estate strategy?



Source: CBRE Research Client Survey, June 2020.

Portfolio Strategy

Real estate transactions dependent on timing and market dynamics are most active in the current environment.

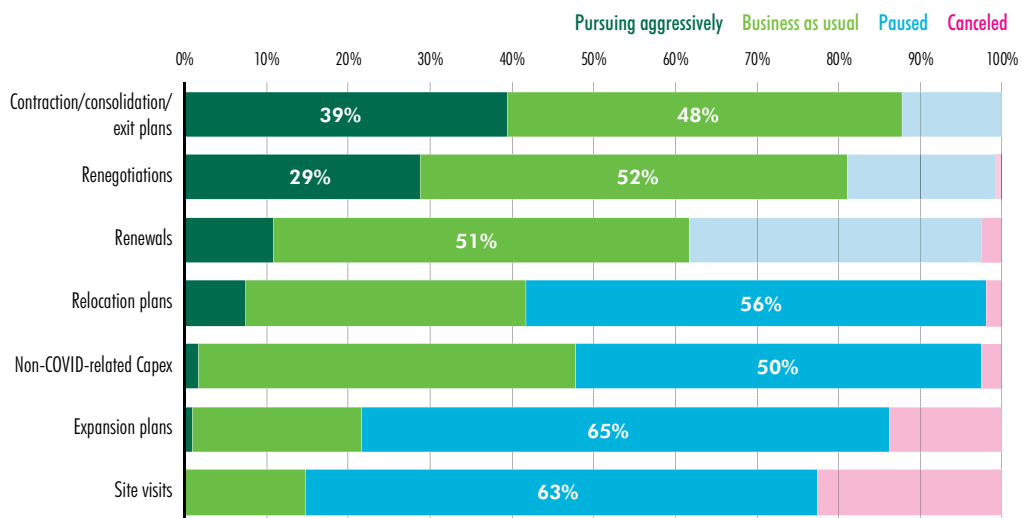
Long-term portfolio strategies are under scrutiny as companies contemplate the impact of a more remote workforce.

Flexible office space will remain a useful tool with safety and privacy requirements high on the occupier agenda.

Immediate decisions respond to recession

As in any recessionary period, most office strategies currently underway have a critical timing element or cost-savings benefit, including consolidations, renegotiations and renewals (Figure 5). This is not surprising given the decade-long growth cycle that did not always favor occupier negotiations. As with any recessionary period, office occupancy and rental rates will be impacted to varying degrees depending on market fundamentals. Occupiers will adjust their portfolio strategies accordingly. Strategies for more or new space are largely on hold. This clearly indicates that decision-making is somewhat fluid, as strategies are developed in consultation with the highest levels of corporate leadership.

Figure 5: Due to COVID, how are the following portfolio strategy decisions impacted?



Source: CBRE Research Client Survey, June 2020.

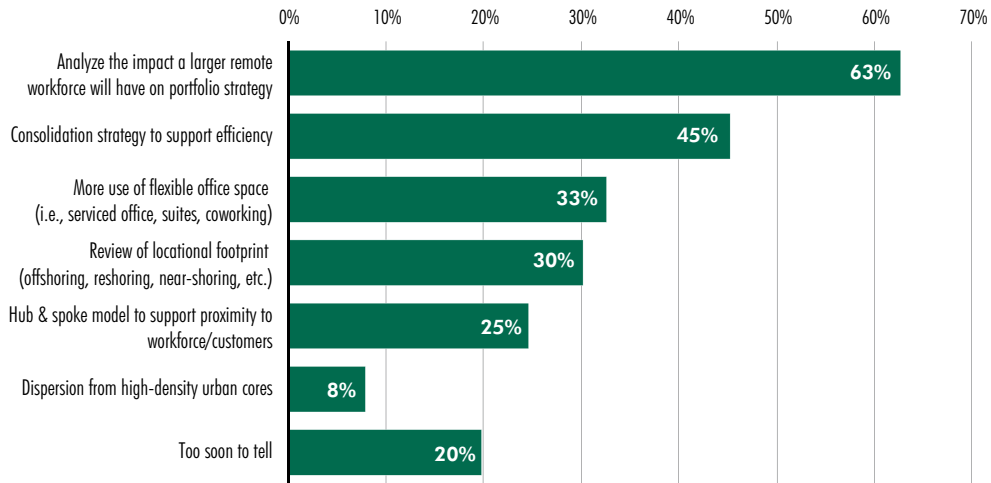
Long-term strategy under considerable discussion

Some of the key aspects of real estate portfolio decision-making have risen in prominence during the COVID-19 outbreak: urban vs. suburban locations, core vs. flexible locations and now more than ever home vs. physical office work. These complex decisions are influenced by near-term health and safety concerns, corporate culture, employee preferences and leadership biases.

CBRE's occupier survey found that many companies are considering accommodating a more remote workforce since the COVID-19 pandemic (Figure 6). Certain benefits and risks are being weighed. While a more distributed workforce may reduce the risk of having a single headquarters building, corporate culture and connectivity could be adversely affected in unplanned and undesirable ways. A more distributed network of locations may offer employees shorter commute times but at greater capital and operating cost.

Many different strategies are currently under discussion, but most aim to satisfy evolving workforce needs.

Figure 6: What future portfolio strategies are under consideration?

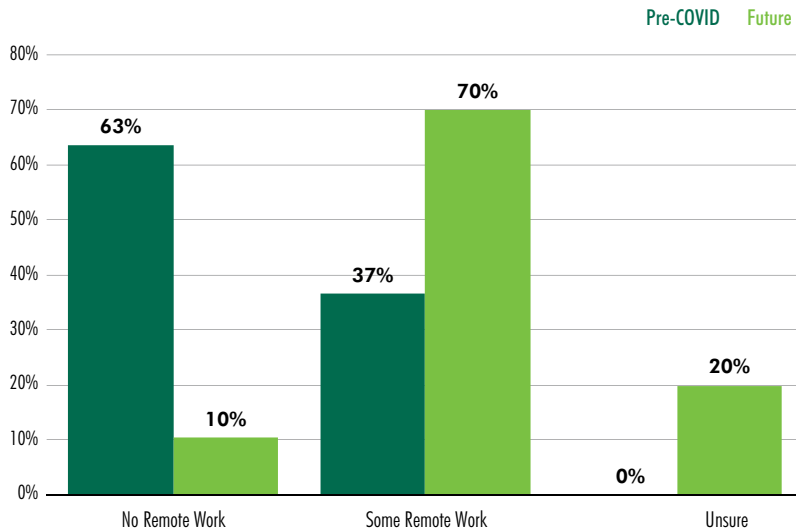


Source: CBRE Research Client Survey, June 2020.

More remote work expected

As detailed in [CBRE’s Global Outlook 2030](#), employees who spent at least some of their time working remotely were a moderately sized but high-growth segment of the workforce even before COVID-19. Now, survey respondents indicate a significant acceleration of this trend and therefore it could be the single biggest lasting change in real estate strategy. In the pre-COVID environment, 63% of respondents indicated their company had no full-time remote work; today, only 10% expect no remote work policies in the future. (Figure 7).

Figure 7: Compared with pre-COVID, what is the future of full-time remote work in your company?

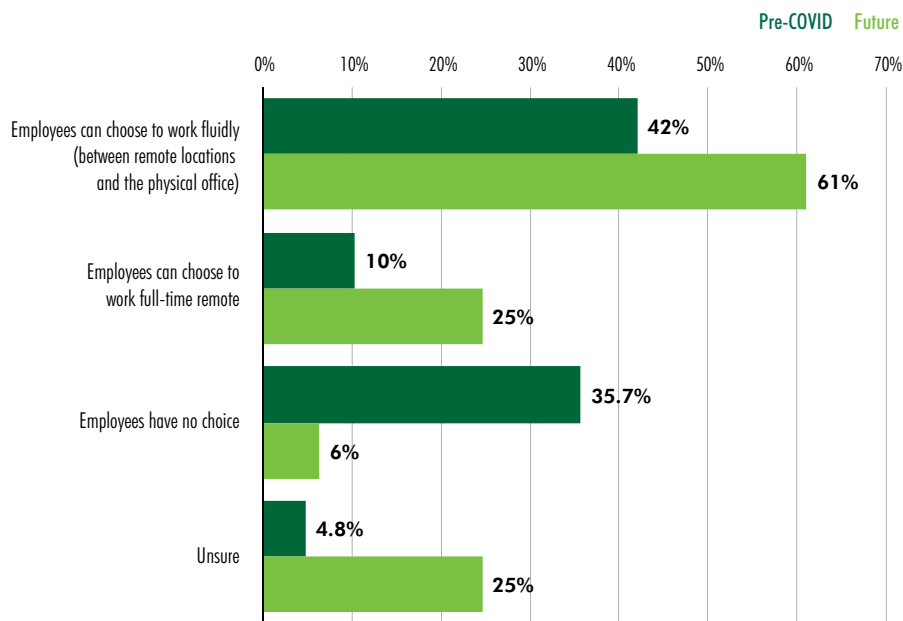


Source: CBRE Research Client Survey, June 2020.

A remote vs. hybrid workforce

Remote work is often considered as an all-or-nothing proposition where an employee is either full-time remote or full-time in the office. However, CBRE's workplace research over the past several years shows that employees prefer having both options as a hybrid approach. In theory, a hybrid workforce works fluidly between remote locations and a physical office provided by the employer. Employees can choose which location will be most productive for them without the expectation to be in any one place five days a week. While one-quarter of respondents indicated that their employees could choose full-time remote work in the future, 61% indicated that they will offer their employees this hybrid arrangement (Figure 8). This signals that employers will foster more trust among their employees by offering them more choice on where they work each day. Overall, we see a future where employers maintain ultimate decision rights over allowing employees a choice of full-time remote work options.

Figure 8: Compared with pre-COVID, what is the future of your company allowing employees to choose when and where they work?



Source: CBRE Research Client Survey, June 2020.

A future for high-density urban cores

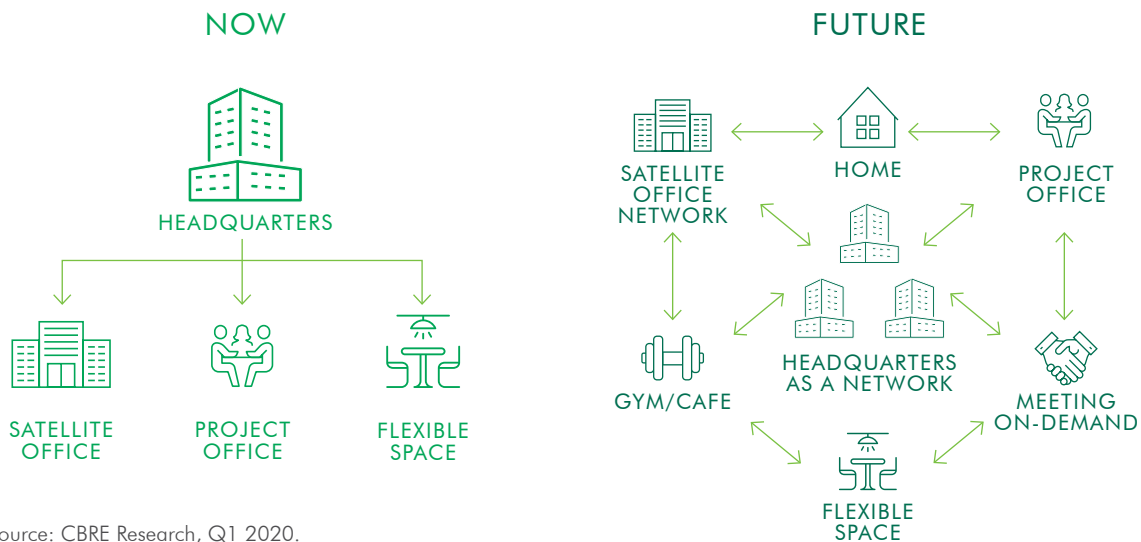
Large corporate occupiers have traditionally favored urban locations for their accessibility, amenities and business clustering. But these highly dense mass-transit-oriented urban cores have been hard hit by the COVID-19 pandemic, causing lingering health concerns about returning to the office.

So, is the wind changing in a suburban direction? There currently does not seem to be much sentiment to move out of high-density urban cores. The role of the city center headquarters likely won't disappear, but employees will have more choice over where they work. City locations may serve as a more transient cultural base for employees in a broader real estate footprint that may include an employees' home working environment and satellite locations near workforce population clusters (Figure 9). This might mean that the CBD office is a more natural or frequent destination for some employees (urban-dwelling millennials and Gen Zers) than for others (suburban-dwelling Gen Xers).

When given the opportunity, employees may choose to work remotely (not necessarily at home) to avoid the time and cost of commuting into the urban core. But at other times, they may choose the urban core location to interact with colleagues in an environment that affords them the amenities, technology and space that are critical to their productivity, enjoyment and connections with others.

In the U.S., there has been a clear uptick in interest for suburban office locations—mostly in the dense, transit-dependent metros of the Northeast—but not many transactions have occurred. It will be interesting to see if established suburban markets near city cores gain ground on their downtown counterparts. The quality, unit size and availability of office real estate outside of CBDs is not uniform across the U.S. This could be an area of opportunity as the multi-node concept in real estate evolves.

Figure 9: A Hybrid Workforce Network



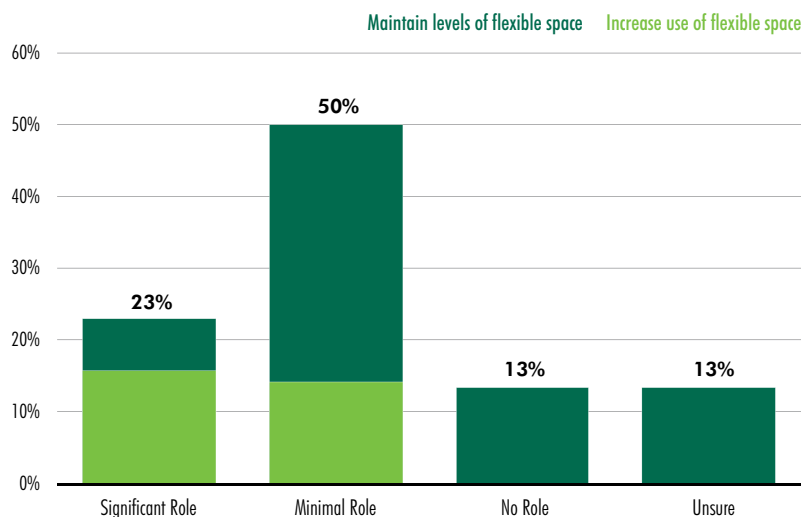
Source: CBRE Research, Q1 2020.

A future for flexible office space

The high-growth flexible office space market has slowed due to the COVID-19 pandemic and an aggressive over-expansion of some flex providers. Nevertheless, occupiers are still considering flexible office space as a stopgap to delays in new construction or as an alternative to at-home work. No capital commitment and no risk of being stuck with unneeded space is a compelling combination when the future is even more uncertain than usual. Companies with flexible office space have been able to shed it relatively quickly as part of their downsizing strategies.

73% of survey respondents say flexible office space will be a part of their long-term real estate strategy (Figure 10). In many cases, these companies now plan for flex to play a greater role in their future portfolio strategies.

Figure 10: What role will flexible office space (coworking, serviced office, suites) likely play in your long-term real estate strategy?



Source: CBRE Research Client Survey, June 2020.

Flexible office space providers will emerge from this recessionary period as stronger and better regarded than before. Landlords are recognizing that they can play a larger role in the success of this market by offering their own flexible space solutions or in partnerships with third-party providers. Additionally, the marketing of flexible office space will highlight the health, safety, privacy and security benefits that are critical for enterprise occupants.

Workplace Strategy

Employees' desire for choice will accelerate workplace evolution.

The office plays an important role in employee collaboration and innovation, and new metrics are being considered to measure its effectiveness.

In addition to the office, there is a need for the tools, technology and training to integrate the physical and digital worlds.



Workplace flexibility takes on new meaning

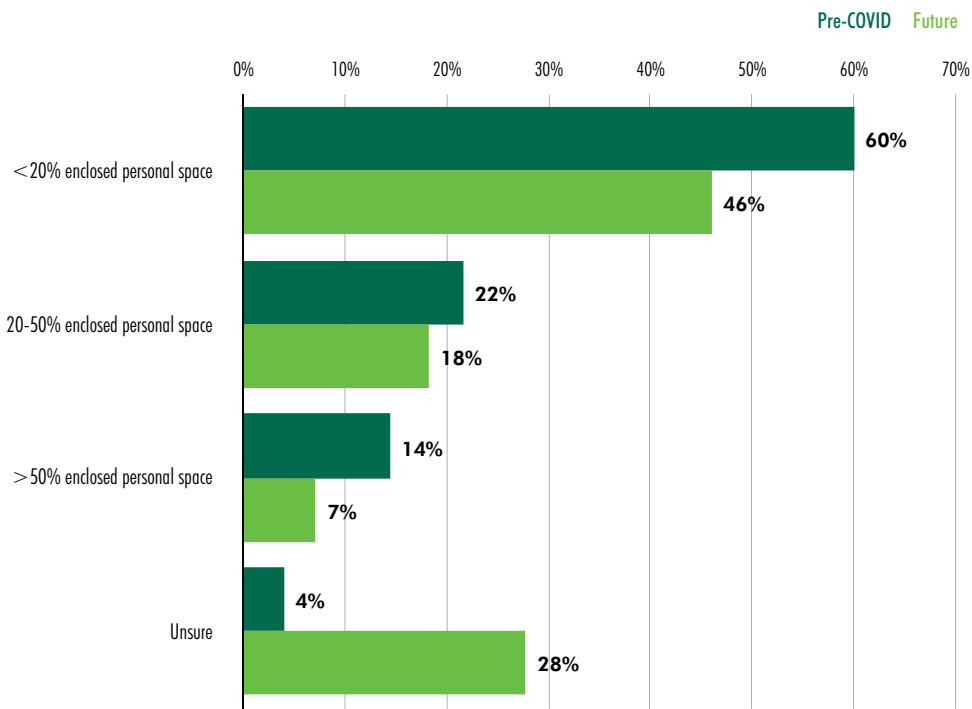
There has been a significant acceleration of the decade-old trend toward greater workplace flexibility. Historically, this trend has predominantly centered around flexibility within the physical workplace by providing a greater variety of space types that employees can leverage to get work done. 83% of respondents reported that at least moderate changes were already underway before COVID-19 to give employees more choice of spaces in which to work. In the COVID-19 era, corporate leadership and the workforce at large are now in alignment that flexibility in which to work remotely must also be an option.

As companies plan for increased workforce mobility, how the workplace satisfies that mobility while remaining efficient and effective becomes an important calculation. This might be a relatively simple calculation for employees who will become full-time remote. If employees can choose a more hybrid way of working—as research suggests is their desire—the office design, the services provided and the supporting technology all must be carefully considered. As worker flexibility increases, so too must the flexibility of the office that supports them. Research indicates that as more workers adopt a hybrid way of working, a common way to increase space utilization and efficiency is to use a shared-space model. This translates into savings that can be partially reinvested into improved space standards, enabling technology and enhanced employee services.

The open vs. enclosed office debate

Most respondents indicated that before COVID-19 the future of workplace design would feature less enclosed personal space and more open space. Before COVID-19, 60% of respondents said their companies were moving toward space design with less than 20% enclosed space (Figure 11). Today, this sentiment has slightly decreased due to uncertainty over the appropriate design to address safety concerns of a returning workforce. Under a shared-office model, enclosed space becomes an important factor to satisfy the quiet and privacy that workers need at certain times. Offices that support hybrid ways of working today tend to have a greater proportion of enclosed private spaces that can be shared among occupants in addition to open collaborative spaces. As the response to COVID-19 evolves, future refinements to workplace design, occupancy and policies are expected.

Figure 11: Compared with pre-COVID, what is the future of workplace design in your real estate portfolio?

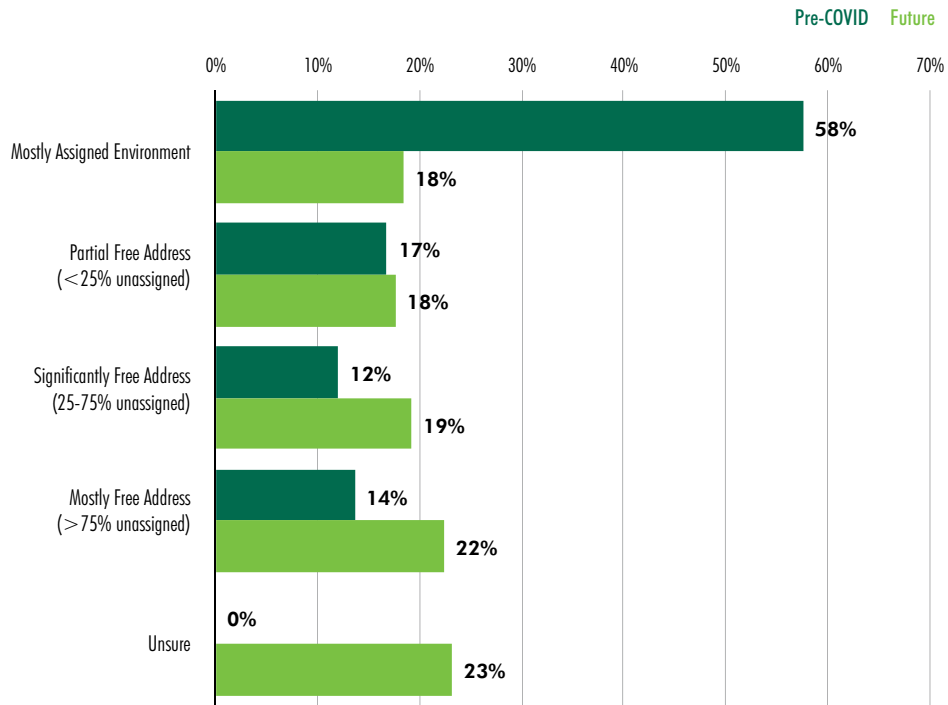


Source: CBRE Research Client Survey, June 2020.

The assigned vs. unassigned debate

“Free address” means that employees are not assigned to an individual desk and instead share a network of spaces (offices, workstations, collaboration space, focus rooms and amenities). Without the need to exclusively assign desks to employees, occupiers can have fewer desks than people and rebalance the workplace toward serving a more dynamic population. Although many companies were talking about this new workplace trend before COVID-19, fewer than half were thinking about implementing it: 57% of respondents indicated that future seating allocation would still be largely assigned before the COVID outbreak vs. only 18% since it began (Figure 12). While counterintuitive in a future work environment characterized by heightened safety concerns, the finding suggests that workplace executives do not see a future where every employee gets their own assigned workspace. That sentiment also seems to match the needs of a more mobile workforce. While there is a fair amount of uncertainty, 58% of respondents indicate that they will adopt some level of free address in the future, with the sharpest rise in before and after COVID-19 sentiment occurring in the category of greater than 75% of total space being free address. Free addressing likely will increase as companies monetize their shared space to offset increased real estate and occupancy costs.

Figure 12: Compared with pre-COVID, what is the future of seating assignments in your real estate portfolio?

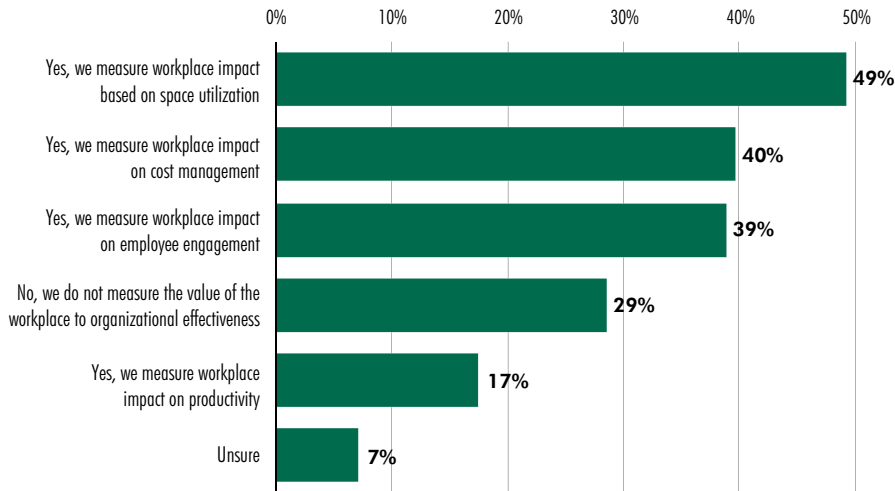


Source: CBRE Research Client Survey, June 2020.

A measure of workplace effectiveness

Workplace effectiveness is most commonly judged by space utilization (49% of respondents), which will become even more important in a hybrid workforce world (Figure 13). Like retail stores do with shoppers, office effectiveness could be measured by employee foot traffic. Measuring the effect of the workplace on employee engagement is also becoming increasingly important. Yet some companies are not measuring effectiveness of the workplace at all or are unsure how to measure it. In a world where the role of the office is changing and traditional metrics are not as meaningful, finding innovative ways to measure space effectiveness will become a critical piece of ensuring the value of office space. In [CBRE's 2020 EMEA Occupier Survey](#), 44% of respondents said that within three years they expect the basis of space procurement and accounting to shift from area and headcount to service level and quality of user experience. This reinforces the need for an effective method of measurement supported by technology.

Figure 13: Is workplace value on organizational effectiveness currently measured?



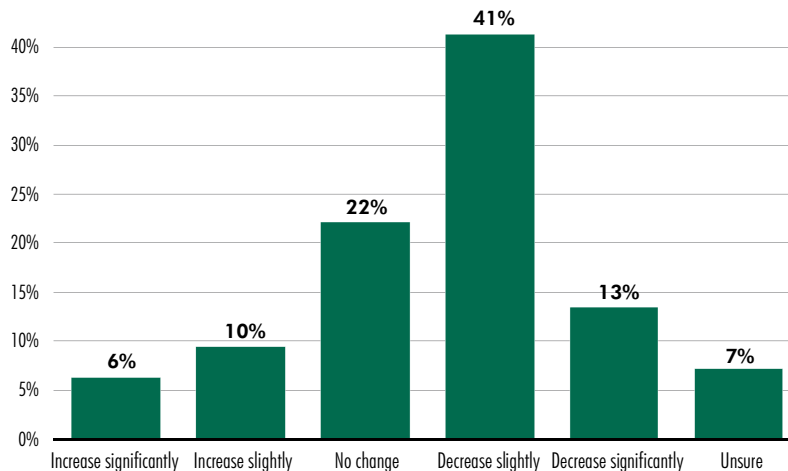
Source: CBRE Research Client Survey, June 2020.

The importance of the physical office

As employees shift to a more hybrid way of working, the importance of the physical office is in question. Historically, employee sentiment about the offices they work in has been mixed. In the COVID-19 era, the office will compete with remote-work and flex venues. The majority of respondents expect some decrease in office significance and more adoption of remote working.

Yet even with more flexibility to work remotely, only a minority of respondents (13%) believe that the importance of the physical office will decrease significantly (Figure 14). A great office may be more important than ever as a place for employees to collaborate, innovate and be productive. And it can serve as a key tool for employers to engage and attract talent, and to reflect the company’s brand and culture.

Figure 14: In a stable environment, what change in the importance of your physical office will occur?



Source: CBRE Research Client Survey, June 2020.

What's Ahead?

In the post-shutdown environment, workers enabled by technology and emboldened by their experience in working away from the office will have increased expectations for the office to which they return. The flexibility to manage work routines between a network of places (including home) will lead the most sought-after employees to be discerning about where they work and why. Working away from the office has proven successful but has decreased social interaction, networking, mentoring and collaboration, and at times strained work/life balance—all critical elements of career growth and organizational productivity.

The function of the office will shift away from traditional work processes and oversight to more collaborative, educational and social needs of a growing hybrid workforce. This is not much different from the evolution of the office before COVID-19, where the workplace was seen as a primary facilitator of collaboration, innovation and productivity. It is now more critical than ever for companies to take this journey as the workforce is on an accelerated path of change. The role of corporate real estate executives will be elevated to meet these new workforce demands and navigate a more complex work environment.



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