European Commercial – March 2023

SPOTLIGHT
Savills Research

European Office Occupancy

• Rising office occupancy • Workspace utilisation • Occupier trends

European office occupancy rates continue to rise

Key points:

- European office occupancy rates have increased from 43% (June 2022) to 55% (February 2023), behind the pre-pandemic average of 70%
- Occupiers show a preference to work during the middle of the week, with average office occupancy rates highest on Tuesdays (63%), Wednesdays (62%) and Thursdays (62%)
- Friday occupancy rates are an average 17 percentage points lower than the mid-week peak.

Introduction and why are we measuring office occupancy?

Three years on from the outbreak of Covid-19 across Europe, and many questions remain over how companies will use office space in the future. Nevertheless, European office leasing activity bounced back in 2022 to reach 2% above the pre-pandemic average, reflecting an increase in hiring, a shift to more energy-efficient space and occupiers seeking to differentiate themselves from competition by providing best-in-class space.

But how are these offices being utilised? How has office occupancy changed, and how does this vary across key European cities? Savills European office occupancy spotlight outlines the major changes and ultimately, what this means for the future of the workplace.

How have we measured occupancy rates?

Savills Research has analysed office occupancy rates based on the average number of office workers over the course of a working week (excluding bank holidays and industrial strike action) for a sample of fully let, multi-let office buildings located in the central business district (CBD) of selected European cities. The data is based on Building Management Systems from Savills European Property Management network taken during February 2023, and attendance is based on one user's access card per day.

How has occupancy changed over the past nine months?

The average occupancy rate across European offices increased from 43% in June 2022 to 55% in February 2023, a 12 percentage point increase. Savills calculates that the average office occupancy rate was circa 70% prior to the pandemic, meaning occupancy rates although climbing, are not back to their pre-pandemic levels. 70% was considered an optimal rate, as a fully utilised office becomes uncomfortable with every seat taken, and below that would mean the office is being underutilised.

What could be the reasons for the change?

There are multiple factors that may be behind the increase in occupancy. Work-from-home fatigue and the increased desire for workplace interaction are likely to have impacted attitudes following an extended period of lockdown restrictions, encouraging workers back to the office to be among colleagues. The ease of in-person collaboration for more creative tasks and perceived job progression and enhanced prospects may also be encouraging employees to return to the office.

Secondly, given the weaker economic outlook and fear of job losses, we may be observing a rise in presenteeism. We are also observing more businesses formalise their hybrid working policies, providing workers with a more definitive structure to work around.

Where is office occupancy currently highest?

The cities recording the highest rates of occupancy in February 2023 were Paris CBD (66%), Madrid (65%) and Stockholm (60%). At the other end, London West End (50%), London City (48%) and Warsaw (46%) recorded the lowest rates of occupancy.

Madrid's high occupancy rate may be a result of a higher proportion of city-centre living, meaning employees have a shorter commute to the office and is therefore more convenient. The cost of commuting may also be a key player in levels of office occupancy- according to Numbeo, the price of a monthly metro pass is the highest in London (€183). On the other hand, the same pass in Madrid (€54) and Paris (€84) proves more cost-effective for workers and may influence their decision to commute.

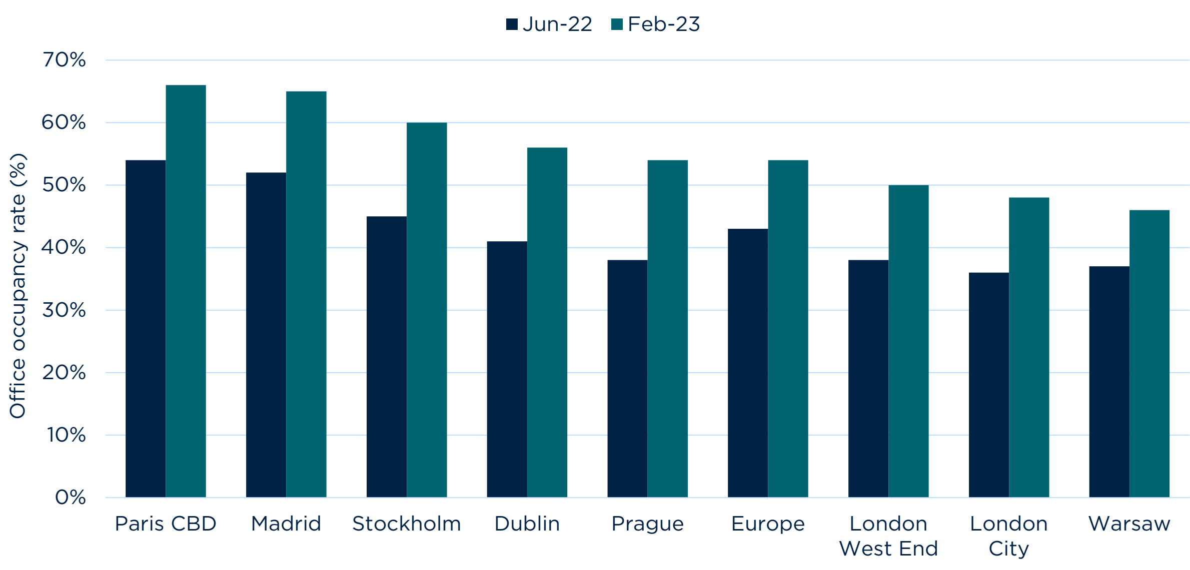
In Warsaw, a remote working culture has become increasingly popular since the pandemic, so much so that in Poland, the formal regulation of remote work will be written into employment law in 2023.

Which cities have observed the largest change in occupancy rates?

Prague has recorded the largest increase in occupancy rates, increasing by 16 percentage points to 54% between June 2022 and February 2023, followed by Dublin, which recorded a 15 percentage point increase to 56%. In Dublin, we may be observing a rise in presenteeism given the weakening economic climate and potential for job losses in the technology sector.

Occupancy in both London West End and London City increased by 12 percentage points between the two observation periods. Although still amongst the markets with the lowest occupancy rates, multiple factors may have led to this increase in occupancy. London City typically consists of a higher proportion of finance and professional services occupiers, who typically now have returned to the office, while London West End has the attraction of a mixed-use landscape that may have encouraged workers back to the office.

Chart 1: Average European occupancy rates: Paris and Madrid lead the way



Source Savills

Which days are workers attending the office and how is this changing?

Analysing office occupancy on a daily basis, Tuesday (63%), Wednesday (62%) and Thursday (62%) are the busiest days which share similar levels of attendance. We have again observed Friday as having the lowest occupancy rate (45%), where occupancy levels are an average of 17 percentage points lower than the midweek peak across Europe.

The market with the highest drop-off rate at the end of the week is Madrid, with occupancy 29 percentage points lower on a Friday than during the peak, likely due to longer working hours during the week and shorter hours on Fridays. Dublin follows, with a drop-off rate of 23 percentage points. This is perhaps the result of more permanent hybrid working patterns, with many occupiers shifting to working remotely at the start and end of the week. Conversely, in Prague, average occupancy is only 7 percentage points lower on a Friday than the peak.

Excluding Friday from the analysis, the average occupancy rate would sit at 61%, much closer to the pre-pandemic rate and reflecting the shift to hybrid working on a Friday since the pandemic.

How did the recent industrial strikes impact Paris' office occupancy rates?

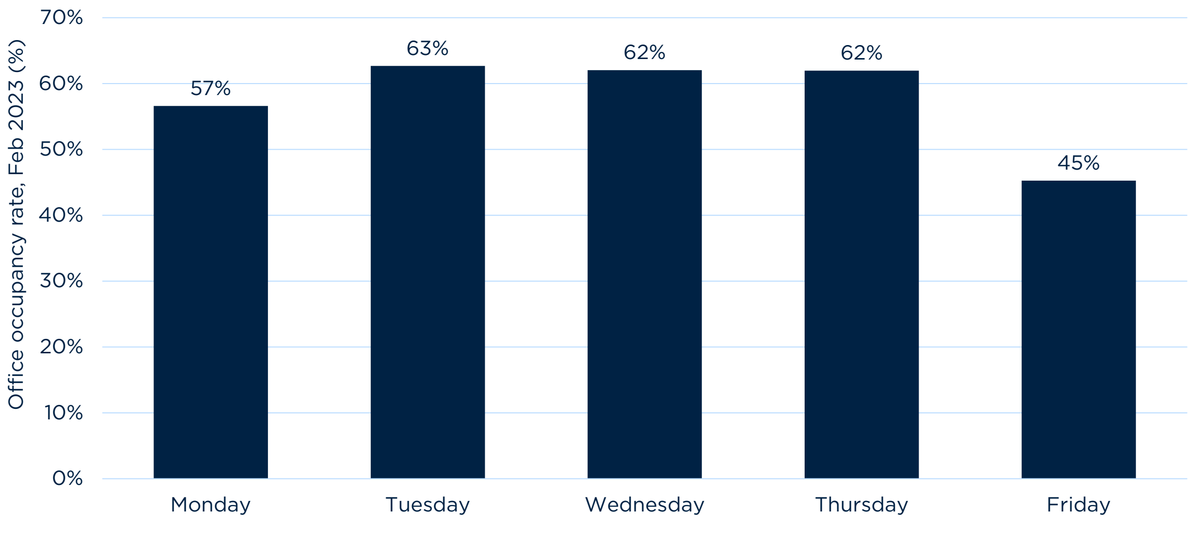
Analysing the data in Paris, we observed two Tuesdays during the observation period where occupancy rates were an average of 35 percentage points lower on the strike days.

What next? Are occupancy rates beginning to peak?

Overall, average occupancy rates will remain lower than pre-pandemic, with fewer employees attending the workplace five days per week. Although, how occupiers use the space will be increasingly flexible moving forward. For example, using the office only on days when in-person meetings are scheduled, and for more collaborative tasks.

We expect some increases in occupancy levels for markets such as London, although with more employees demanding the ability to hybrid work, we expect average European occupancy rates to stabilise at circa 55-60%, reflecting lower levels on Fridays. More focus will be paid on managing occupancy peaks during the middle of the week. Indeed, employers are likely to de-densify their space, in which case total capacity would fall, as fitout and provision of collaborative space will be increasingly important to attract and retain talent - this was a correction that was always needed, particularly in markets with high office densities, such as London and Dublin.

Chart 2: Average daily occupancy rates: peak on Tuesday to Thursday



Source Savills

Guest contributor: Measuremen

Workspace occupancy trends

About Measuremen

Through Workplace Observation Studies (WOS), sensor studies, and experience sampling (using Habital), we collect data from the work environment. In the WOS studies, we measure occupancy, utilisation, and activities performed in the workplace. This data is then collected in our interactive dashboards that contain graphics providing actionable insights. In this report we gathered the data of our 134 WOS studies performed in 2022 as post-pandemic, and compared it with the last full pre-pandemic year (2019). We included data from 128 studies performed in 2019.

Workspace occupancy

A workspace (meeting facility or workstation) is regarded as occupied when it is in use, regardless of the number of people using it. Workspace occupancy rates are calculated in relation to the number of spaces being occupied at any point as a proportion of total desks. According to the data, we have seen a reduction in office occupancy post-pandemic. In 2022, we reported an average occupancy rate of 30%, while in 2019 this was 50%, a 20 percentage point reduction. Furthermore, we note that the 30% occupancy also includes 8% as signs of life. Signs of life refers to occurrences when a desk is in use, but not occupied (for example, a jacket or cup at the desk).

Sector variation

Our data also shows a variation in occupancy across sectors. Finance records the highest occupancy rate of 37%, which is unsurprising given the financial services industry were amongst the fastest to return to the office once pandemic restrictions were lifted. This is followed closely by the energy sector with an average occupancy rate of 35%. Sitting in the middle at the average occupancy rate is the technology sector (31%) where it seems likely that many organisations can, and have adopted hybrid working strategies.

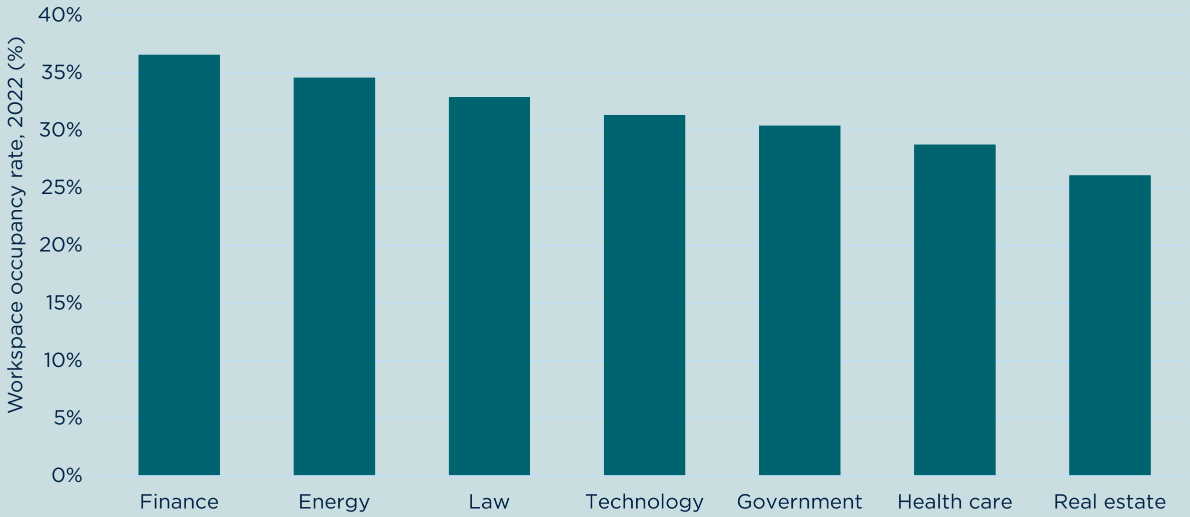
Workstation activities

How have workplace activities changed since the pandemic?

(Fixed) computer work decreased post-pandemic and has seemingly been replaced by an increase in mobile computer work (laptops or tablets). Working on a mobile device is increasing in popularity as this makes the shift between remote and office work a smoother process. We have also observed a 2% decrease in meetings at workstations, which appears to be compensated with an increase in individual calling and video-conferencing.

Observing activities in meeting room facilities, we note that the frequency of in-person meetings has decreased by 15%, while videoconferencing in meeting facilities has increased by 17%; meeting facilities today are increasingly being used for individual calling and mobile computer work.

Chart 3: Workspace occupancy across sectors



Source Measuremen

What next for the workplace?

KKS Savills explores the emerging trends

In the last two years, following a number of working from home mandates due to the Covid-19 pandemic, fringe working trends such as videoconferencing, screen-shared content and working-from-home suddenly became commonplace for most companies. The office was no longer the main place where desk-based computer work was being carried out and as a result, occupancy rates are lower.

KKS Savills has been helping companies assess, repurpose and resize their office space based on their occupancy rates. We create workplace strategies, design office interiors and offer change management. Most companies are faced with one of the following scenarios:

Scenario A

A company has an existing workplace that has low occupancy rates. It has a dated office design made up mostly of cramped traditional desks with very few alternative work settings and support spaces (meeting rooms, quiet rooms, collaboration spaces, social spaces, health & wellbeing spaces, personal storage). The number of traditional desks is reduced down to match average occupancy levels, the space between and around them is made more comfortable and the remaining area is redesigned to house all the modern alternative work settings and support spaces that are required for a mobile workforce to learn, produce, share and celebrate together. In most cases, this generally results in a small to no reduction of overall office area based on the improvements needed to make up for the original lack in modern ways of working.

Scenario B

A company has an existing workplace that has low occupancy rates. It already has a good allocation of modern alternative work settings that support its traditional assigned desk population. In this scenario, the number of desks can be reduced down to match the occupancy levels and an overall reduction of space could be made.

Clear communication of change

When facing a change in the way an office is used companies need to clearly communicate the 'why'. Opportunities and challenges need to be assessed and companies need to decide what is most important to them and their staff. Does a reduction in space / rent / fit-out cost / furniture cost / carbon footprint / energy usage equate to the loss of personalised / assigned workspaces and the effort it can take to learn new ways of working and office protocols?

If you build it, will they come?

Sometimes, even the most modern, well-designed spaces aren't enough to make staff want to return to the office. More than often, we are asked by our clients 'what will entice our staff back to the office?' and the answer can be more of a psychological one than a physical one.

Why people choose to work from home or the office can be a mixture of all or one of the following:

- Day-to-day working facilities – are they better in the office or at home? (this can differ from person to person based on salary, age, role, seniority, country, location and industry)

- Office building amenities – do they offer anything that benefits the user?

- Commute time – is the office and are your colleagues worth the time it takes to get there and see them?

- Colleagues – do you like spending time with them? Do you respect them?

- Company – do you believe in what the company stands for? Are you proud to work for them?

How is this impacting new requirements?

Whilst leasing activity has been off to a more subdued start this year there continues to be encouraging signs for the Central London office market with levels of underlying activity remaining at high levels.

At present, active Central London-wide requirements equate to 9.7m sq ft/ 900k sq m. This is up on the 10-year long-term average by 10%, as London continues to experience strong levels of demand from Financial sector occupiers.

There is yet to be any strong indication from this analysis that occupiers are seeking to take less space. Over a quarter, 26% of occupiers with an active requirement are currently seeking to acquire a similar amount of space (5,000 sq ft/ 500 sq m, less or more compared to their current occupation). Overall, there are more occupiers increasing their space (52%), than decreasing the amount of space they occupy (22%).

Savills Commercial Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

Offices

Christina Sigliano
EMEA Occupier Services
+ 44 (0) 752 591 1865
christina.sigliano@savills.com

Tim Bretten
EMEA Property Management
+44 (0) 7870 555 902
TBretten@savills.com

Daniel Gardner
KKS Savills
+44 (0) 20 7799 8300
Daniel.Gardner@KKS-Savills.com

Research

Mike Barnes
European Research
+44 (0)796 855 0353
mike.barnes@savills.com

Georgia Ferris
European Research
+44 (0) 798 973 3368
georgia.ferris@savills.com

Measuremen

Justin Timmer
Research
+31 6 53 94 72 96
justintimmer@wemeasure.com