

European Commercial - Q1 2022

Q  
SPOTLIGHT  
Savills Research

# European Remote Working- Office Demand Impact



● Remote working ● Collaborative workspace ● Benchmarking resilience

# How has office demand responded to the pandemic?

Two years on for the inception of the coronavirus pandemic, and office occupiers have begun to plan their office occupational strategies around longer timeframes as businesses have come round to working alongside the pandemic. Office take up volumes recovered to 4.9m sq m in H2 2021, 1% above the five year H2 average, as pent up occupier demand resulted in higher deal flow in the final quarter of the year according to Savills Research.

Physical workspace will remain at the centre of businesses’ decision making, however, there remains a disconnect between employer and employee perceptions of productivity. 40% of Savills Office FiT respondents felt that they worked more productively from

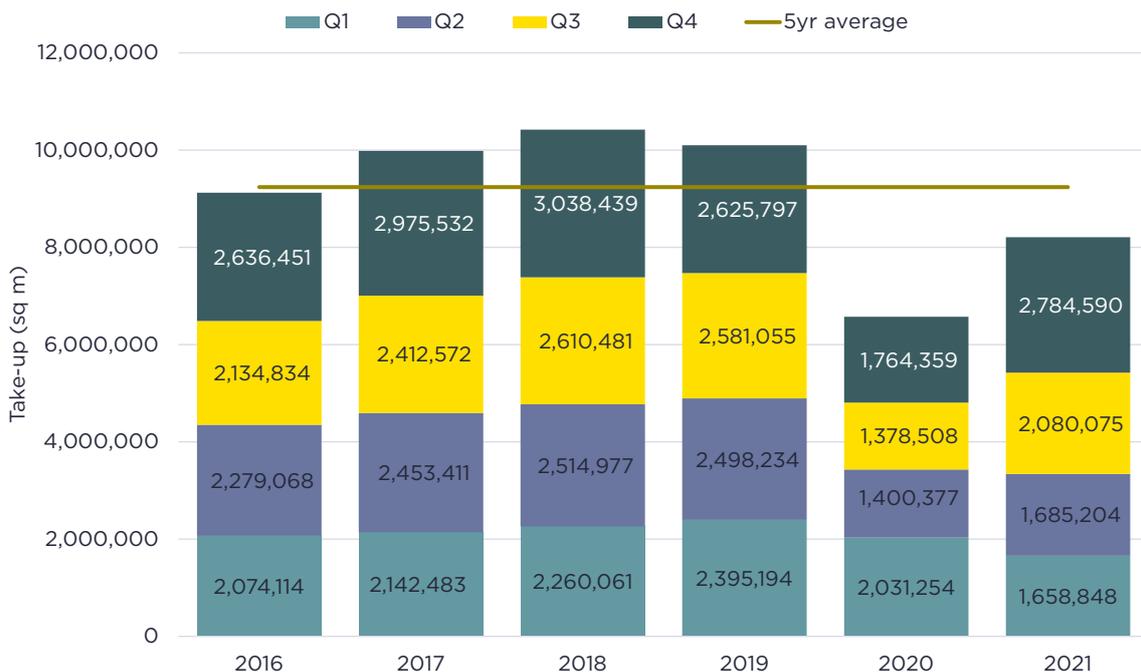
home, which will require new forms of workspace, as outlined in our report: Balancing business needs and employee preferences. However, UBS CEO survey in 2021 indicates that “only 12% of employers agree that productivity is as high or higher when working remotely as working in the office.” In this spotlight report, we analyse the main factors influencing the future demand of office space and calculate how this could impact different European markets over the medium/longer term.

So how can we expect future office occupier demand to react? There are a number of forces at play influencing how demand is likely to change over the next few years, particularly;

- (and the number of employees per desk)
- b) the change in office densities (and the level of workspace per worker)
- c) future office-based employment growth

- a) the change in level of desk sharing

**Chart 1: European office take up (sq m)**



Source: Savills Research

# Analysing drivers of demand

How could office demand change as a result of remote working and what are the factors at play?

## Desk sharing impact

Occupiers are now working out whether they will adopt a more agile working approach in order to reduce the number of desks in their workplaces, although there are regulatory and organisational challenges in adopting changes.

In Denmark, the government has a code with strict requirements for workspaces with respect to area, floors, surfaces, daylight, noise etc. In Poland, minimum workspace per head is based on a cubic metre basis and we anticipate that whilst Warsaw will see an average increase in space per head, Poland's regional cities are anticipated to remain more stable.

German cities have significantly higher levels of floorspace per head, between 23-25 sq m, although with higher regulation regarding workplace occupancy, we expect the desk sharing impact will be more limited. We have also observed a relatively faster speed of return to the workplace in Germany than the rest of Europe and the public sector continues to plan predominantly with one office workstation per employee.

We have also adjusted the Netherlands, given that it already had among one of the highest proportions of remote working prior to the pandemic, so the downside risk of desk-sharing on office demand is likely to be more limited. Latest evidence also points to a more developed hub and spoke occupational model emerging across the Netherlands, supporting new demand. We expect this theme to become more prominent in markets where transport connectivity is most developed, reducing overall commute times. We also anticipate a relatively lower level of desk sharing in Brussels due to the relatively higher public sector occupier base, which has historically kept its occupational strategies more constant.

Savills analysis of occupiers across Spain indicates that 60% of occupiers are adopting 40% flexibility in their workplaces. Tech, insurance and telecoms companies are opting for the most agile workplaces, whereas legal and banking are opting for

less flexibility and more fixed workstations. Overall, there is no visible impact on the quantum of floorspace demanded thus far. Tenants who are making reductions in workstations, such as adopting a 60% flexibility ratio, may reduce their overall demand, although these companies are doubling their open-plan working areas in some instances, particularly whilst social distancing is still in place.

## Office density effect

Workers will require a wider range of workspace in a post pandemic workplace, increasing the level of workspace per head, due to the space being used for more collaborative tasks, including meeting rooms, breakout areas, town-hall space and silent working areas, for example. We have factored in a 10-15% increase in demand for workspace, subject to pre-pandemic levels of occupational density. Higher density office stock markets will require a relatively higher level of additional space per head to facilitate more collaborative forms of working.

As discussed in Savills Office FiT report 2021, the need for flexibility is becoming essential for employers, and ensuring the appropriate technology, including workplace sensors and wide-angle lenses, will be vital to ensure inclusion. Ensuring workplaces are adaptable to meet user needs will remain a focus for occupiers. Increased allocation towards bike storage, showers, restaurants and lobby areas are also among some of the major changes we have observed.

## Office based employment growth

As hiring intentions remain positive, European cities' office based employment growth is now expected to reach 1.3% pa over the next five years, with Luxembourg (+1.9% pa), Stockholm (+1.8% pa) and Madrid (+1.8% pa) expected to see among the fastest growth, according to Oxford Economics.

Dubai's growing expat community is driving the expected 3.0% pa employment growth, boosting future demand for office space, particularly in the oil and gas, and financial services sectors. What's more, visa quotas generally depend on the size of office space for each company, so with companies

looking to grow their headcount, they will also seek to increase office occupancy.

## Occupancy peaks

The major challenge for businesses is around managing occupancy peaks throughout the week. If the theory around workers wanting to attend the workplace on Tuesdays, Wednesdays and Thursdays holds true across the majority of employees, then the impact of desk sharing could be more limited, and the office density impact will become more dominant. These peaks could be cushioned by flexible workspaces, which occupiers can use as overflow space at busy periods for a rental premium.

## Sustainability

Newly developed, more sustainable office stock is often more efficient than older stock, increasing the potential for higher office densities. For example, floor to ceiling windows and fewer structural pillars allow larger floorplates and maximise usable space. Occupiers will likely pay higher rent for newer, energy efficient premises.

However, it is important to consider repurposing and refurbishing older buildings to avoid releasing embodied carbon when delivering new space. Where possible, older buildings should not be demolished in favour of new buildings, to avoid wasting resources and materials.

Companies focussing on the social element of ESG will begin to increase their average floorspace per worker to meet employee expectations. Increasingly, a company's real estate will represent the company's values and culture, which may also involve removing private offices to increase visibility and transparency throughout the business.

Office stock in the Netherlands must be of a minimum EPC grade C by 2023, rising to grade A by 2030, and office stock which does not meet this criteria will become obsolescent. Over the longer term, this will add to the polarisation in demand for prime vs secondary office stock, creating new refurbishment opportunities to improve building specifications.

# Impact on office demand

Given the different drivers of demand, how could this impact overall office demand in the medium/long term?

Overall, we anticipate the net effect of desk-sharing to outweigh the increased demand for workspace per worker over the next five years, implying an average 10% fall in demand for office space by 2026.

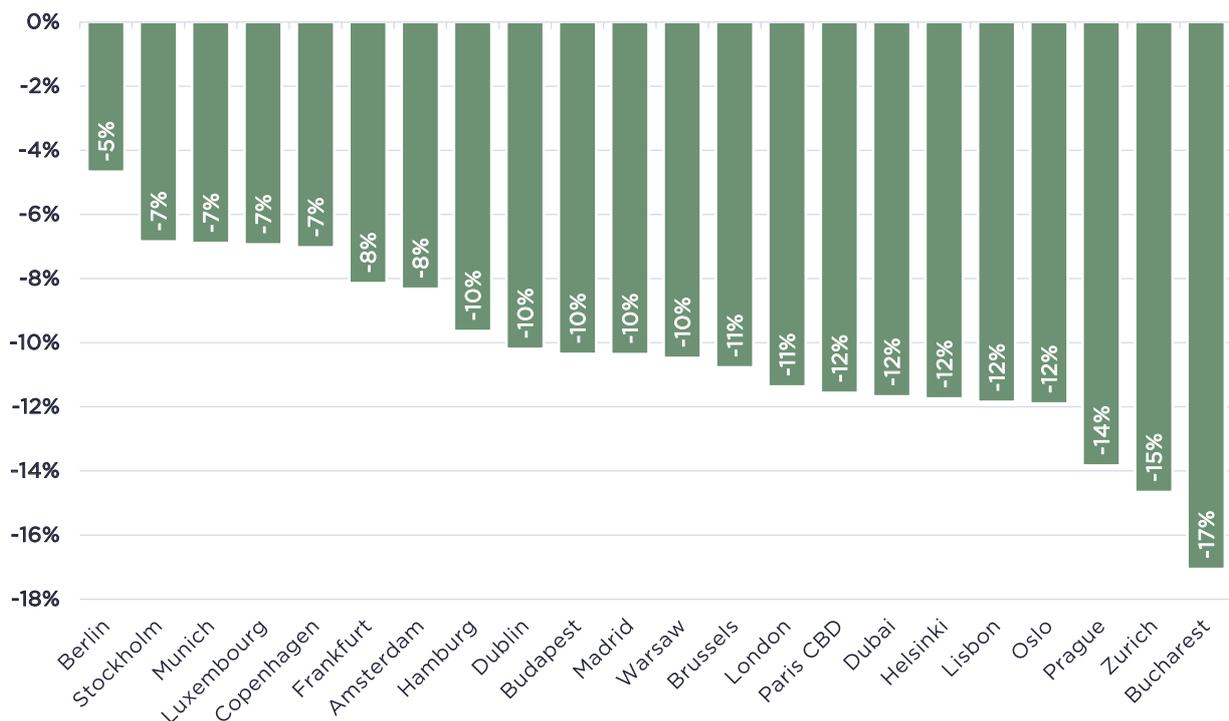
We have modelled for the desk-sharing impact to account for a 30% reduction in demand for office space (on the basis that employees choose to work from home either one or two days per week). However, we have modified this in the markets where we see higher levels of workplace regulation and/or higher levels of work-from-home pre pandemic support demand, including Copenhagen, Amsterdam, Stockholm and the German top four markets.

Our model assumes the occupational changes have been implemented by 2026, and from then, office-based employment growth will be the main determinant of demand, currently expected to deliver 1.3% pa.

Whilst desk sharing is likely to have a negative impact on demand for office space, we expect the average level of space per worker will increase office demand by an average of 14% as a result of more agile working strategies following the pandemic. This reflects the various occupational densities across each city, with the most densely populated office markets requiring a higher proportion of new collaborative space.

We anticipate demand to remain most resilient across Germany and the Northern European markets, including Berlin, Stockholm, Munich, Luxembourg and Copenhagen. Southern European and Central Eastern Europe (CEE) cities are likely to see a more negative impact on office demand, although larger cities will tend to benefit through stronger levels of office based employment growth. However, the reduction in demand is less likely to impact the Grade A market, and more likely to impact Grade B demand as occupiers seek higher quality workspace. Companies will continue to review their occupational strategies in the medium term as they review what “flexible” looks like for their company and employees.

Chart 2: Potential work from home impact on office demand by 2026 (%)





### **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 Head of Occupier  
Services

+44 (0) 752 591 1865

[christina.sigliano@savills.com](mailto:christina.sigliano@savills.com)

#### **Research**

##### **Mike Barnes**

European Commercial

+44 (0) 20 7075 2864

[mike.barnes@savills.com](mailto:mike.barnes@savills.com)