



Future Workplace Index 2.0

November 2022

EY

Building a better
working world

1. **An economic downturn will have a huge impact on real estate decisions, but not in the way you think.** Recession risk persists: Although many forecasters project a soft landing, others expect a recession to begin at the end of 2022 or start of 2023. Almost 60% of respondents will invest in real estate, while another 33% will downsize their investment. Regardless of action, the looming downturn is forcing leadership to scrutinize their office portfolios.
2. **Employers are adjusting the role of the office to compete with the competition for talent.** A prolonged, tight labor market still has employers doing all they can to attract and retain their workforce. The company's overall working model needs to accommodate hybrid working or be left behind. According to the survey, a surprising 40% of companies have either started using a four-day work week or is considering implementing one.

Another way employers are incentivizing their workers is making sure there is a healthy work-life balance in place. The hybrid work culture seems to be one answer to work-life balance, as it reduces commute time and subsequent exhaustion. While commute times have remained much lower since the pandemic, physical office occupancy levels within the top-10 markets have increased since Labor Day, according to Kastle Systems which tracks occupancy levels with their security systems.

3. **Despite the rise in remote working, the office is far from dead.** Almost 40% of respondents are either using or considering leasing in a major market, while 41% are deploying or considering leasing in suburban markets.



It's notable that the role of the office may be taking place between the employer and employee. A recent survey from a major technology company shows that bosses and workers fundamentally disagree about productivity when working from home. According to the survey, most bosses worry about whether working from home is as productive as being in the office, while workers felt they worked as, or more, efficiently from home. With Generation Z expected to make up a large portion of the workforce over the next decade, managers will need to understand how this young generation likes to work and what motivates them.

4. Hybrid models are established, and preferred, but complex. The working format in many companies has dramatically changed from a model where most employees spent most of their time in the office to a more dynamic model where employees have more freedom and control over when and where they work. Companies need to consider which amenities and technology to invest in, as well as the right amount of space to accommodate hybrid working culture.

At the start of the pandemic, a lot of office space available for sublease flooded the market. Mainly due to mandatory office closure and forced remote working, companies reevaluated their office footprint. Over two years later, the overall amount of sublease space still continues to be elevated. Major markets such as Chicago, Manhattan and San Francisco have recently reported a rise of sublease space on the market. Rite-sizing the amount and type of office space will be crucial for companies.

5. A mix of flexibility and technology is top priority. Our survey reveals 64% of the leadership group polled believes flexible working options motivates the employees to do their best. Most are looking at making use of health and wellbeing, management apps, and other hybrid work technologies.

While companies acknowledge an office presence with their new work model, the trend of “flight to quality” has gained momentum. A high-quality building with sustainable features will carry less transition risk going forward, making it more valuable than its peers and easier to attract environmental-conscious tenants and investors. With changing work patterns and tight labor markets, occupier flight to quality is expected to persist.



1

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2

Employers are adjusting role of the office to compete with the race for talent.

3

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4

Hybrid models are favored but can be complex.

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An economic downturn will have a huge impact on real estate decisions, but not in the way you think.

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Despite historically high costs and rising interest rates, **58% of the survey respondents plan on investing more into their real estate** due to the impact of the downturn.

However, another 33% plan on downsizing their real estate footprint. **That's a combined 90%+ of respondents making changes**, one way or the other, due to the downturn.

The economy contracted by **0.6% in the second quarter of 2022** (real annualized), following the **1.6% decrease in real GDP during the first quarter**. Consumer prices rose by **8.2% in September**, with many predicting that the high inflation may begin to subside over the next few months.

The economic downturn will force leadership to make important decisions about their real estate portfolios.

3.5%

September US unemployment rate

- ▶ Down from 3.7% in August
- ▶ Employment above pre-COVID-19 level, but 2.6m below trend
- ▶ Wages, up 5.0% (y/y), lagging far behind rise in consumer prices

-0.6% growth

Q2 2022 US GDP real growth

- ▶ 1.6% contraction in Q1
- ▶ Gross domestic income (GDI), an alternative metric, increased
- ▶ Weakening consumption and declining investment

8.2%

Year-to-year increase in September CPI

- ▶ Forecasts predict that high inflation may begin to subside over the next few months
- ▶ Many commodity prices have fallen, some steeply, since late June
- ▶ Producer prices fell in September (y/y)

263k job gain

For the overall economy in September

- ▶ Below the 315k increase in August (revised)
- ▶ Job openings down sharply in August
- ▶ Weekly new UI claims have rose after falling for five consecutive weeks

-0.5% to 0.2% growth

Expected for 2023 in the United States

- ▶ 2023 recession in more forecasts
- ▶ Despite the weak Q1 and Q2, rebound is expected in the third quarter 2022
- ▶ Weak Q4 expected
- ▶ Inflation, interest rate hikes, hiring difficulties pose risks

75 bp

Increase in federal funds target rate expected at the November 1-2 FOMC meeting

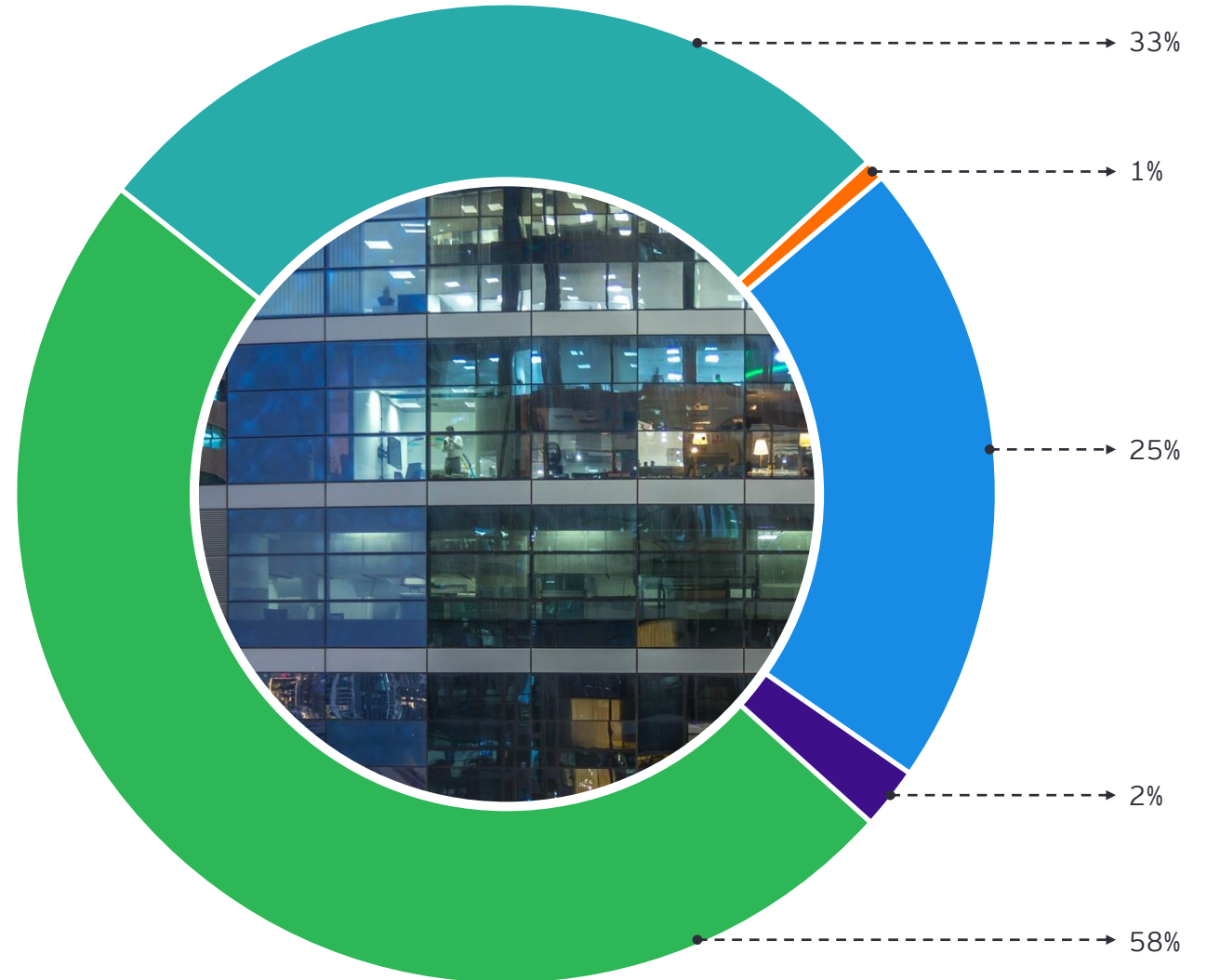
- ▶ Market expectations are for the target rate to reach 4.25% by year end
- ▶ Ongoing reductions in the Fed's balance sheet may also reduce liquidity and dampen demand

Economic risks/uncertainties: high inflation, interest rate hikes, weakening growth, tight labor market

Many companies are planning on investing back into their real estate after rising rates and inflation affect the market.

In which of the following areas, if any, is the current inflation or interest rate environment impacting your real-estate decision-making?

- Investing
- Downsizing
- The inflation and interest rate environment is not impacting decision-making
- Don't know
- Other



Employers are adjusting the role of the office to compete in the race for talent.



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Companies are slowly migrating back to the office, but there is no “return to normal.” **The number of days employees are working in the office vs. home is relatively evenly spread among five scenarios.** With the labor market still extremely tight, attraction and retention of talent remains a key goal for company leadership.

Hybrid work models are here to stay. Just 29% of companies have employees working only from the office. More than 70% employees are working from home at least 2-3 days a week.

How employers communicate support for hybrid work – while making the office a place employees want to be – will be critical. Most companies of all sizes encourage employees to work from the office together on specific days. However, many larger companies give employees the full freedom to work from where they please.

The retention and attraction of talent is still a huge factor. More than 20% of companies are already implementing a four-day workweek, while another 46% are planning and/or considering the shorter week. The banking and capital market industries lead the way with 27% reporting using, or considering using, a four-day work week.

Companies that do not quickly **define structure and policy around operating from multiple work locations** will be left behind. Among survey respondents, 62% report putting more focus on virtual collaboration and virtual relationship development over the last two years.

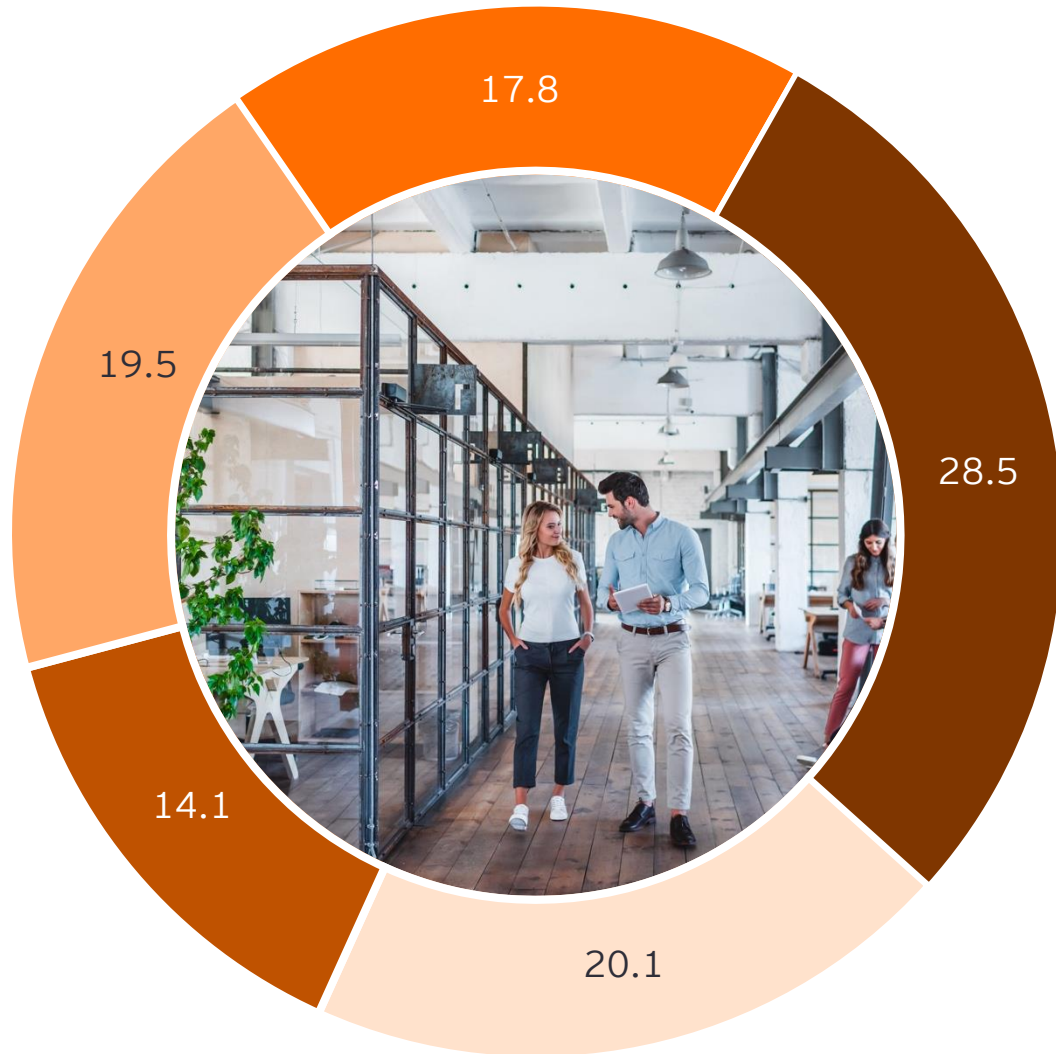
87% of companies report that most or all employees worked from the office prior to the global pandemic.

Were any of your employees/team members working in an office (not home office) prior to the pandemic?

- Yes, all
- Yes, most
- Yes, some



The hybrid office has found a home.

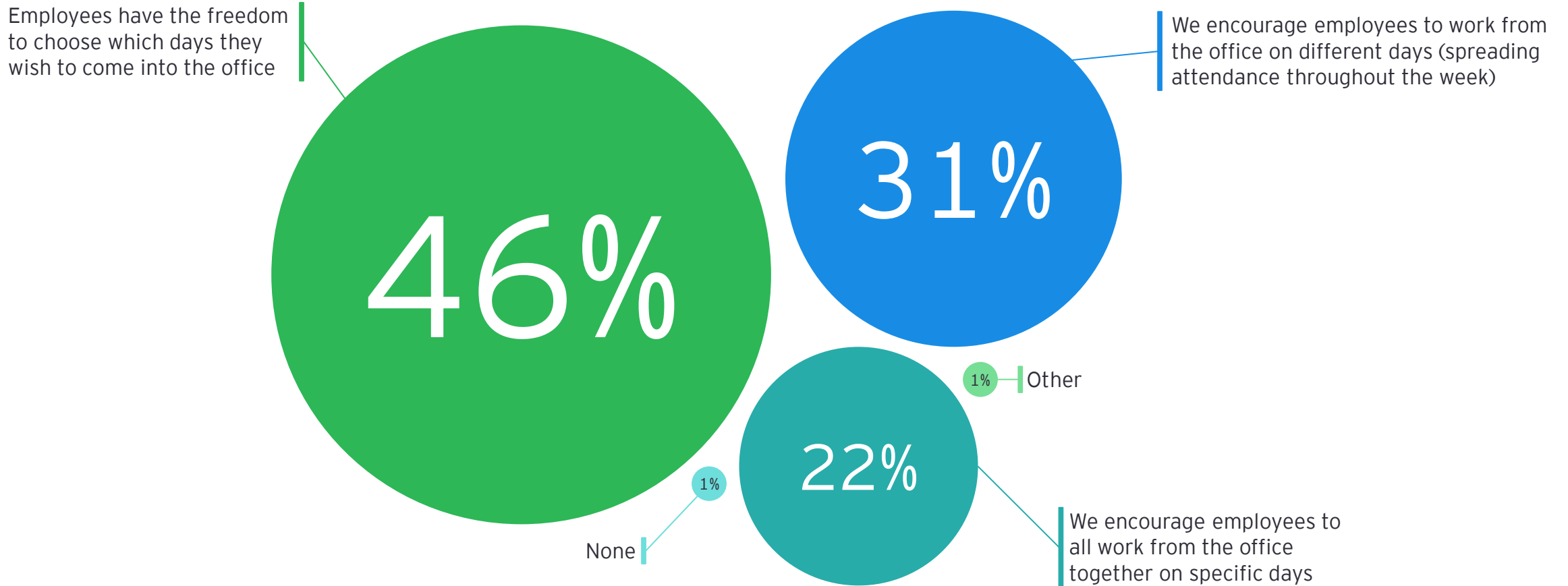


Currently, what percentage of your employees are taking the following approaches to work location?

- Less than one day a month in the office – fully remote working
- Typically, one day a week in the office, occasionally more – mostly remote working
- Hybrid – two to three days of remote working
- Typically, three to four days a week in the office – mostly office based
- Fully office based – less than one day a week of remote working

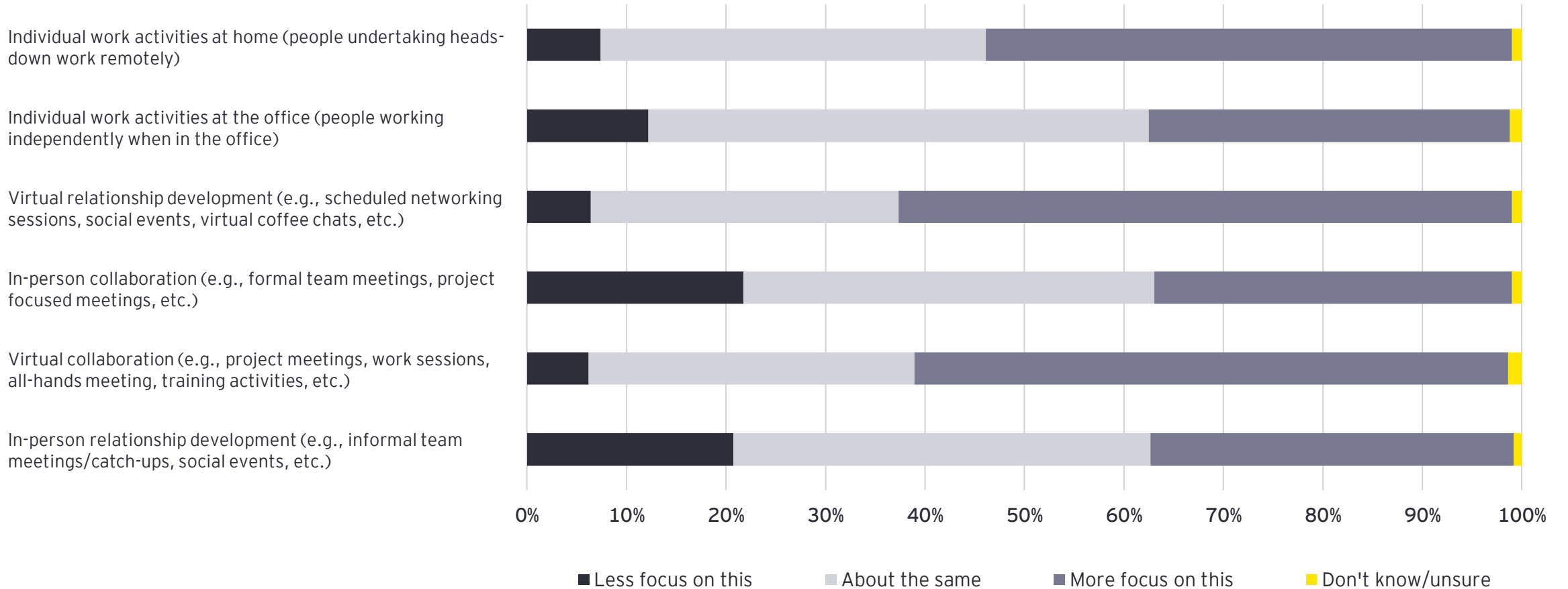
Collaboration continues at the office.

Which of the following best describes your approach to encouraging employees into the office?



Collaboration continues at the office.

Which of the following best describes how your approach to collaboration and independent work has changed over the past two years?



Don't write off the office just yet.



The office has been reframed and restructured to fit employees' needs.

The office is still a crucial component of company structure. Some 75% of respondents report either making no change or increasing (38%) the amount of office footprint since the pandemic.

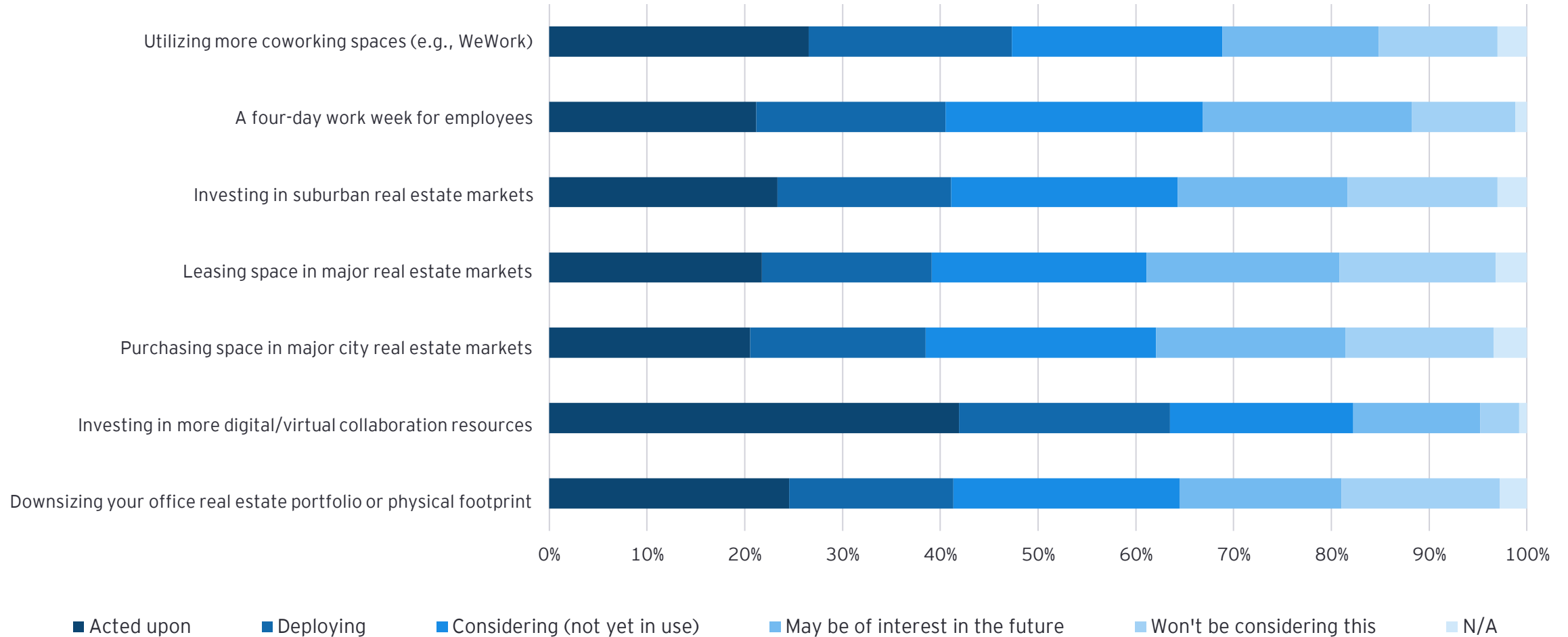
Just within the last 6-12 months, 30%-50% of companies have added to office layouts, including café and lounge spaces, open workspaces, and outdoor amenity spaces, among others.

Flexibility continues to be a major focus. Among respondents, 42% are planning or considering more coworking spaces, while another 27% have already been using coworking space.

Leaders are using **leading-edge technology**, including digital collaboration tools, the latest hardware and software, learning and development opportunities, and in-person events to get employees interested in returning to the office.

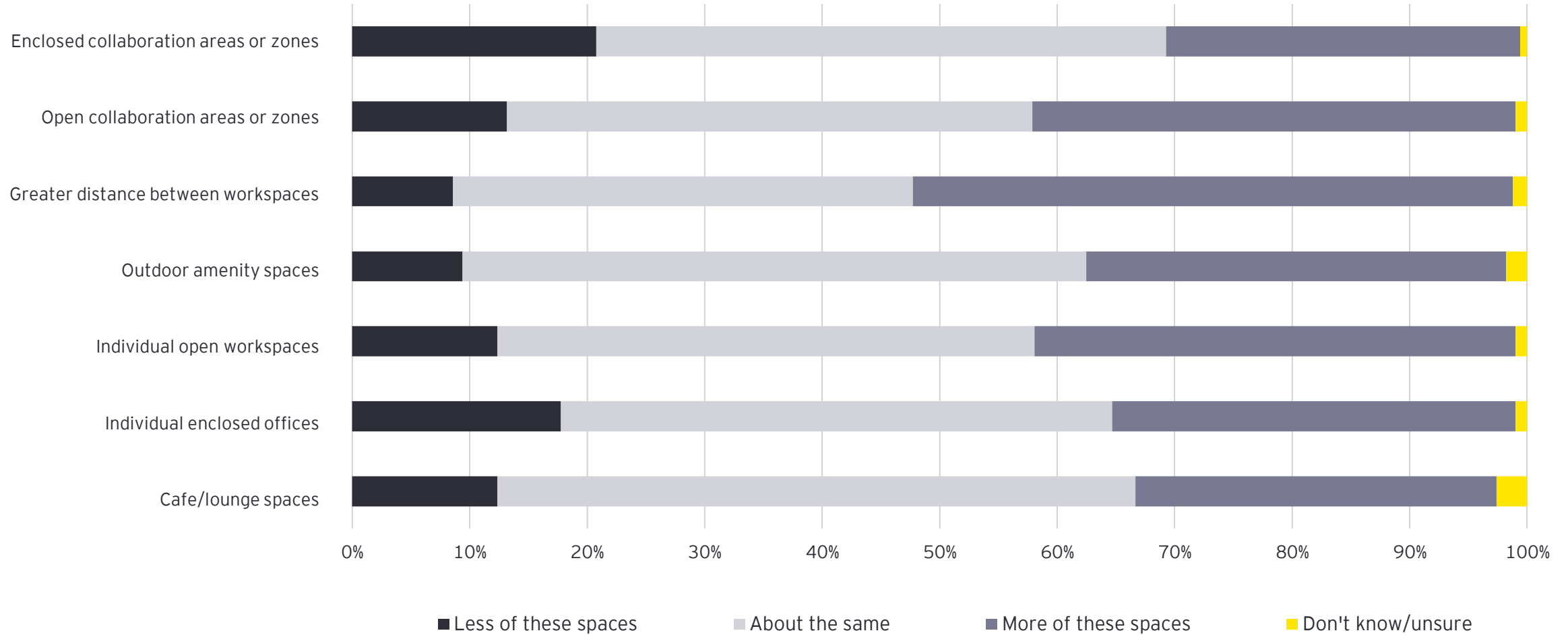
Leaders are becoming more strategic about working models.

Which of the following strategies are you currently deploying, or might you consider adopting?



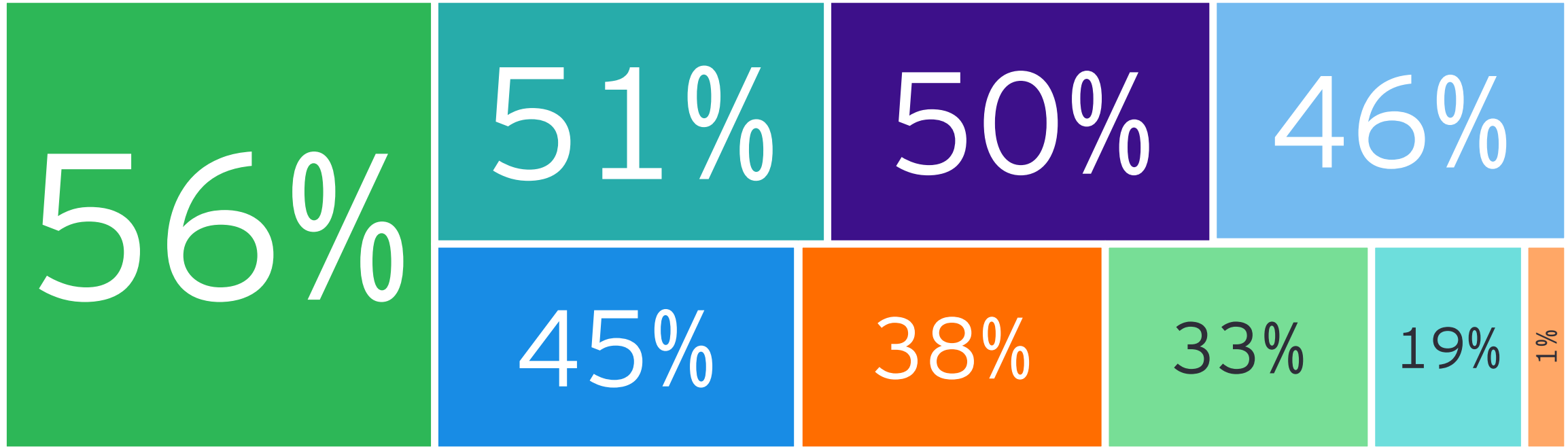
Leaders are becoming more strategic about working models.

Which of the following strategies are you currently deploying, or might you consider adopting?



Many companies are incentivizing office-based collaboration.

Which of the following programs, if any, has your organization deployed to encourage employees to return to the office?*



- Predictable flexibility (i.e., work schedules)
- Employer provided coffee/barista
- Childcare programs (implemented or extended)
- Leading-edge workplace and collaboration technology
- Employer provided breakfast, lunch, snacks, etc.
- Pet care programs (implemented or extended)
- In-person social events and activities
- Reimbursement for commuting travel costs (e.g., public transport costs, gas, parking, etc.)
- Other (please specify)

*Respondents were able to pick multiple answers, therefore total percentage will not add to 100%.



Hybrid work is established,
but managing it is not.

4



Hybrid work is established, but managing it is not.

Hybrid work locations are here to stay. But blanket statements around the “right” place to work are misleading; the optimum balance of office and remote work is a complex and highly specific blend.

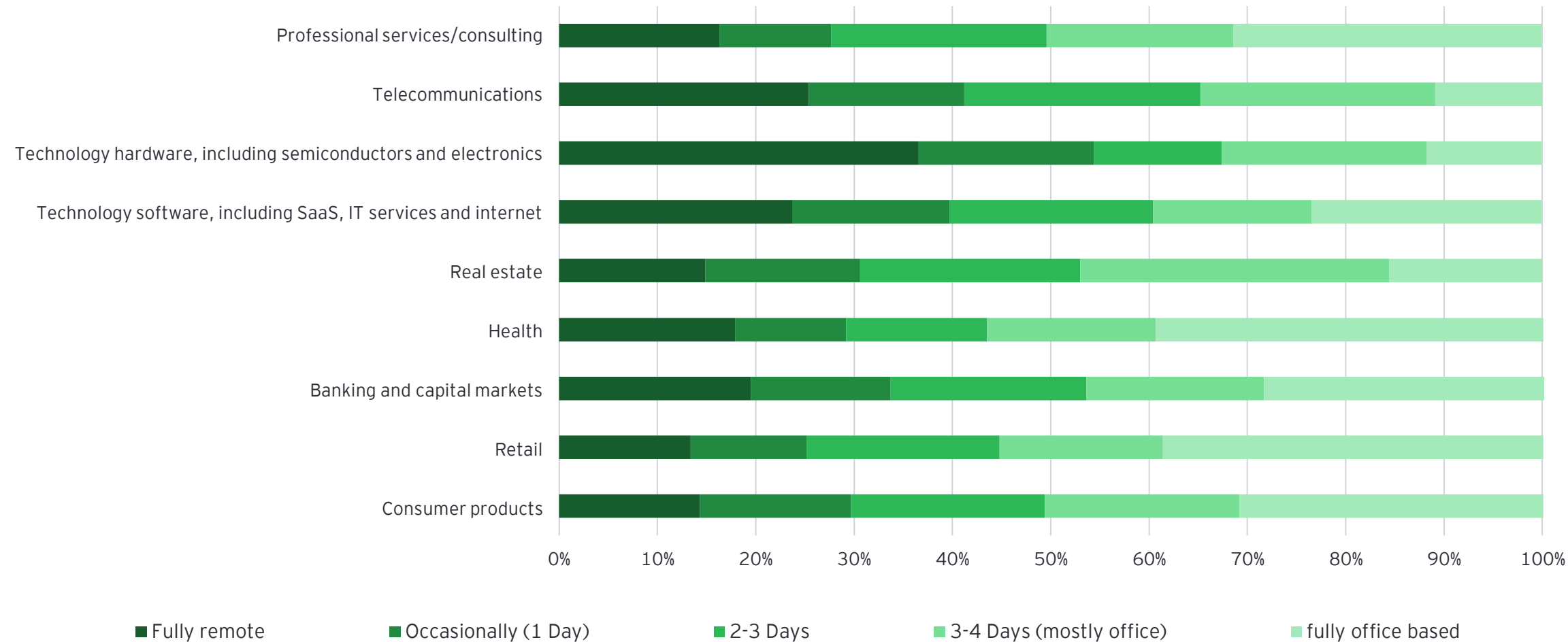
Multifaceted working patterns have a major effect on real estate strategy, including the amount of office space and the cost of amenitizing that space. Almost 60% of leadership polled are either using or will soon be using reservation systems for space use and/or occupancy tracking.

Smaller companies of up to 5,000 total employees have **roughly half of their staff reporting to the office at least three days a week,** and larger organizations (25,000+ employees) are not far behind with about 44% in office at least three days per week.

Employees in health and retail services show the **highest percentage of workers back to the office (almost 40%).** The real estate industry (16%), technology hardware (12%) and telecom (11%) show the lowest.

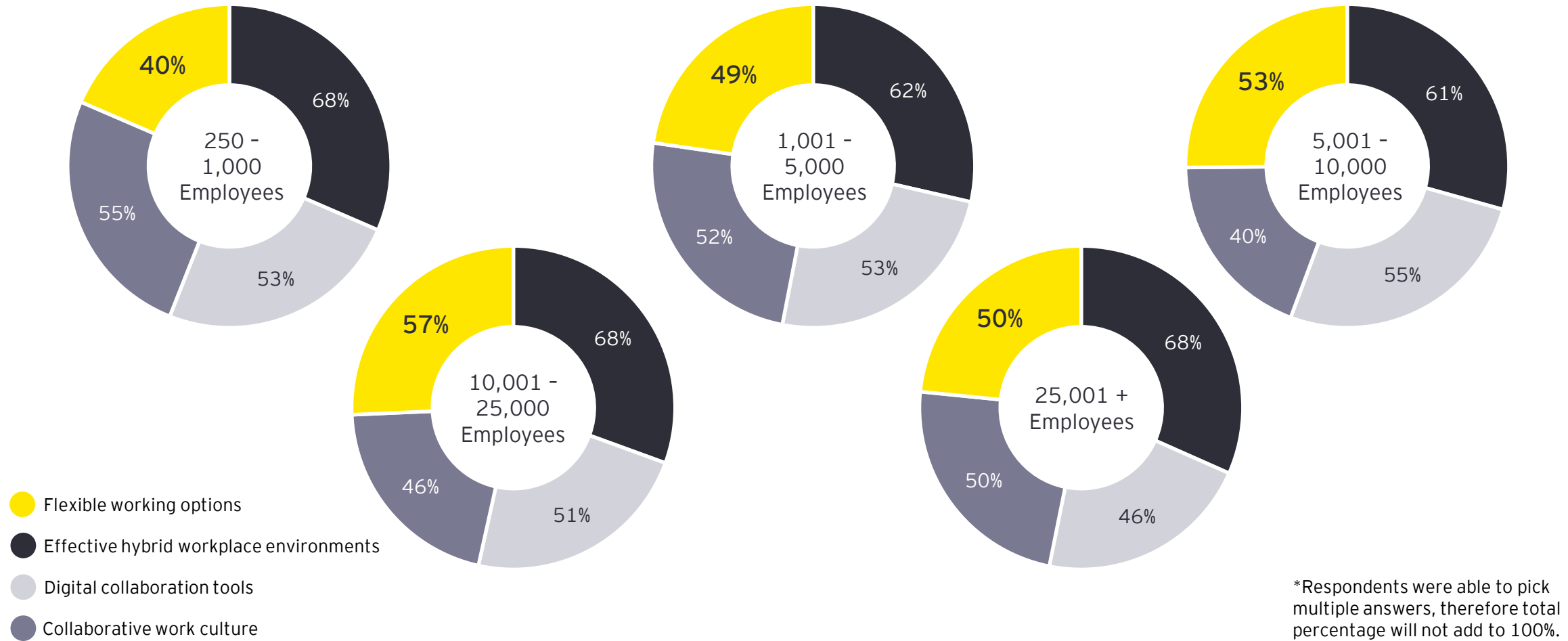
Some industries are more dependent on office-based work, while others rely on remote work as primary.

Which of the following best aligns with the business activity of the organization within which you currently work?



Most larger companies believe a more flexible work culture unlocks their employees' best performance.

When it comes to the type of workplace that unlocks your employees' best performance, what motivates them most?*



*Respondents were able to pick multiple answers, therefore total percentage will not add to 100%.

A mix of flexibility and technology is paramount.

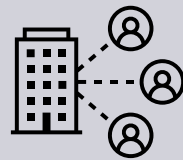


Hybrid work models require clear guidance.

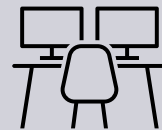
64% of the leadership group polled believes flexible working options motivates the employees to do their best. Most are looking at making use of health and wellbeing, management apps, and other hybrid work collaboration technologies.

Part of the flexible model needs to include in-person collaboration. Leadership has deployed incentives such as social events and activities, employer-provided breakfast and/or lunch, and reimbursement of commuting costs.

Driving improvements in productivity are:



Flexible working options (in-office, at home, other remote locations, etc.)



Effective hybrid workplace environments



Digital collaboration tools



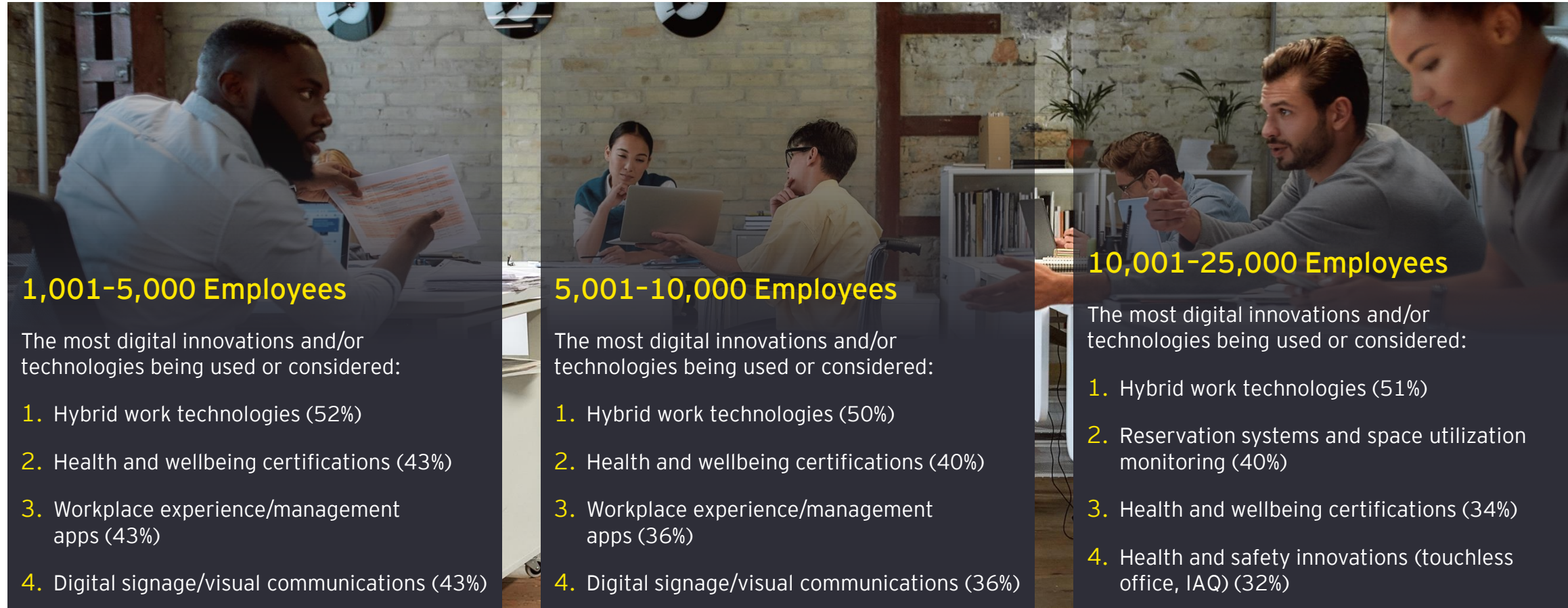
Opportunities for mentorship



In-person learning and development opportunities

Technology priorities are targeted to flexibility, wellbeing and collaboration.

Which of the following digital innovations and/or technologies are you currently making use of, or might you consider adopting?



1,001-5,000 Employees

The most digital innovations and/or technologies being used or considered:

1. Hybrid work technologies (52%)
2. Health and wellbeing certifications (43%)
3. Workplace experience/management apps (43%)
4. Digital signage/visual communications (43%)

5,001-10,000 Employees

The most digital innovations and/or technologies being used or considered:

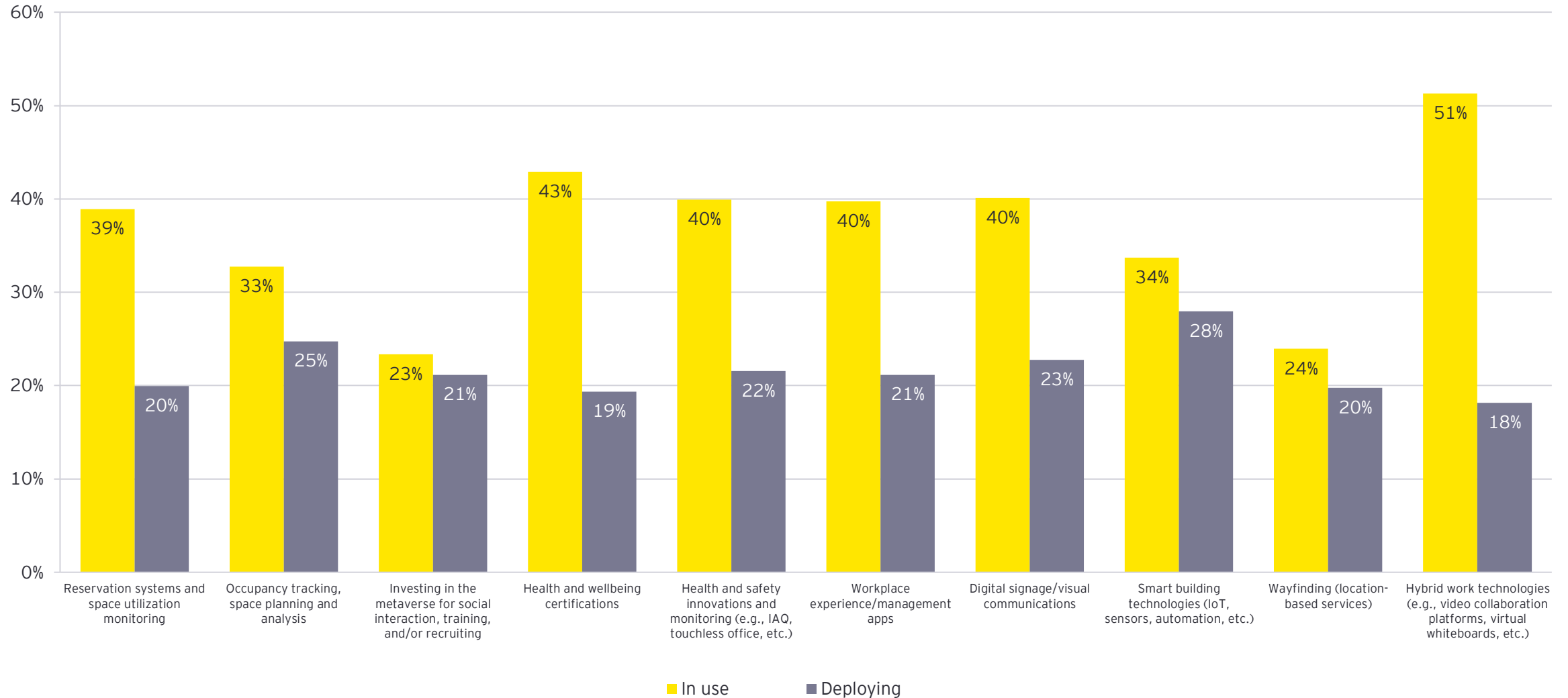
1. Hybrid work technologies (50%)
2. Health and wellbeing certifications (40%)
3. Workplace experience/management apps (36%)
4. Digital signage/visual communications (36%)

10,001-25,000 Employees

The most digital innovations and/or technologies being used or considered:

1. Hybrid work technologies (51%)
2. Reservation systems and space utilization monitoring (40%)
3. Health and wellbeing certifications (34%)
4. Health and safety innovations (touchless office, IAQ) (32%)

Technology in use or being deployed



Conclusion

The working structure in many companies has dramatically changed from a model where most employees spent most of their time in the office to a more dynamic model where employees have more freedom and control over when and where they work. Companies need to consider which amenities and technology to invest in, as well as the right amount of space to accommodate hybrid working culture.



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