

Office Mystery: Who is coming back?

No question: “The” office continues to be an integral part of the modern working world, even after the Covid-19 pandemic and the “remote working” experience. However, the balance between the old world of work and the new more flexible conditions has not been struck yet. Statements from corporates to traditional SMEs do not create a clear picture. At the very least, it seems clear that the classic 100% attendance - at least in terms of service professions - is no longer likely to exist. Whether it will always be “Friday” or the €49 compensatory ticket will become clear from our survey below.

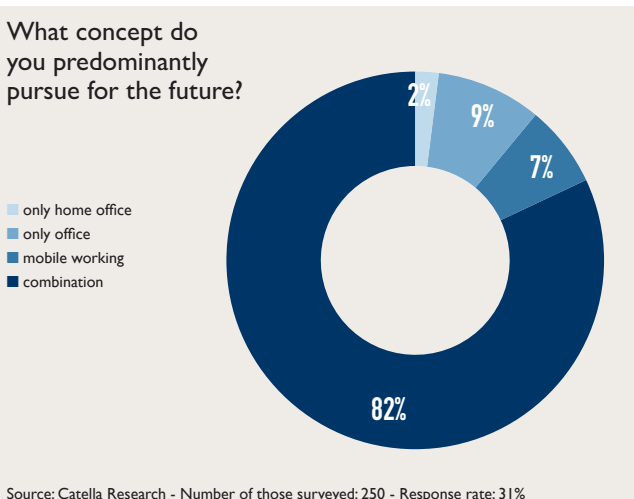
The mantra of flexibility

The home office option not only increases flexibility on the part of employees, but also makes it possible to reduce commuting times. Nevertheless: A lease market that is traditionally oriented towards the long term naturally has difficulty with this flexibility. A modern office building in a central location of a large metropolis traditionally represents, for instance, a clear competitive advantage in the recruitment of talented employees - direct communication included. In this regard, mobility-focused urbanity would be a somewhat unwieldy description of the target coordinates in a search for space, in contrast to the communication-reduced flexibility “at home”. At present, the property industry is still struggling to quantify these market developments.

Statistical sample: In total, the survey was sent to 250 experts in the property investment industry in the DACH region. The response rate stood at 31%.

Conceptual change ahead?

In a changing world of work, what office space fits the demand? The answers to the question about the future model demonstrate a clear position: The demand for **combination** is clearly articulated. The combination of home office use and attendance at the office building seems to have arrived at the decision-making level. This market assessment is also reflected in the results of our survey. For instance, 82% of the market players we surveyed indicated that in the future they would aim for a combined use of home office and office building.



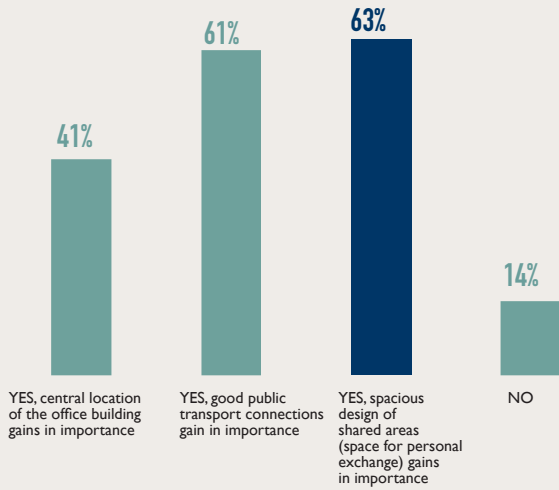
Only 2% of the respondents indicated that in the future they would only use the home office. These data render it clear that, despite the hype years during the pandemic, the office building does not represent a concept of the past. However, it is also clear that in competition with home offices, an office building must offer clear advantages so that employees also prefer visiting the office workplace to the home office on a regular basis - assuming voluntariness. In the modern workplace, an office building is consequently more than just a place for a desk and a canteen coffee. Thus, the results of our survey show that the generous design of common areas is gaining in importance. In our survey, 63% of the respondents indicated that generous space design to encourage face-to-face interaction is becoming more important.

Centrality as a central criterion

The results of our survey show that the personal exchange between employees is of central importance, even in times of intensive home office use. In addition to the changed requirements in terms of the design of office space, the results of our survey show that the demand on the office property market focuses primarily on the central areas of office markets. This is underpinned by current lease developments on European office property markets. Despite the current economic turmoil, prime rents in many major European office property markets remain resilient.

The lease data show that demand for office space is high in the top segments of the European office property market, even in the current mixed situation. The analysis of our survey also shows that office space in central locations continues to be in demand despite home office use. For instance, 41% of the people surveyed stated that the central location of an office property will become more important in the future. The results of the survey in combination with current lease data give rise to the assumption that in the future the demand side of the office property market will focus on modern space in central locations.

Are your requirements for a modern office building changing? (Multiple answers possible)



Source: Catella Research - Number of those surveyed: 250 - Response rate: 31%

Mobility requirement centralised and decentralised element

In addition to the central location of the office building, the results of our survey indicate that good connections to the public transport network are also gaining in importance - both into and out of the city. For instance, 61% of the people surveyed said that good public transport connections to the office building are gaining in importance. One possible explanation for this result is the intensive use of the home office. Increased use of the home office improves the compatibility of the workplace in a large metropolis with a residence in a suburban location or in a residential area in a more rural region. Especially against the backdrop of high housing costs and the limited supply of living space in large metropolises, the attractiveness of decentralised more affordable housing is promoted. However, in order for office employees to be able to combine a decentralised place of residence and a centralised workplace with a home office, it is beneficial to have good connections to the public transport network.

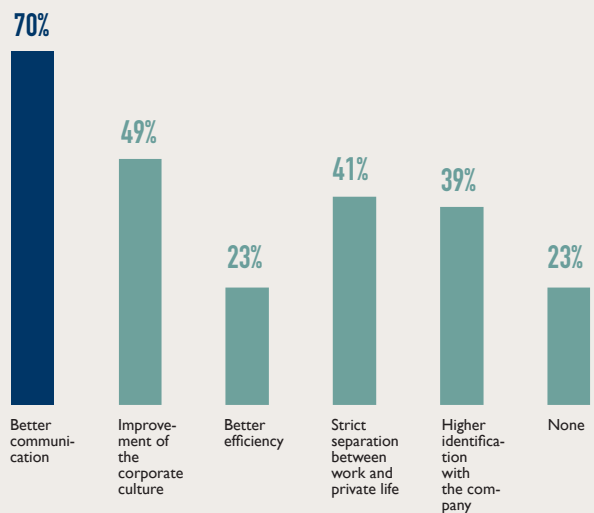
We assume that due to the intensive use of the home office by many employees in the future, the workplace in the metropolis and the place of residence in a rural region can be combined. In order to increase the attractiveness of their own company among potential employees, the outlined development promotes the motivation of companies to demand office space with good connections to the public transport network.

Communication requirement decisive for presence at the office

Even if office employees increasingly use the home office in the future, it is clear that the office building will remain an important element of the world of work. Certain aspects of cooperation and everyday working life can only be achieved from the home office with difficulty. The results of our survey also show which advantages an office building has to offer a company:

- Personal cooperation promotes communication within a company.
- Promotion of the corporate culture.
- 70% of those surveyed expect that personal, direct communication within the company is promoted positively.
- Especially for new employees of a company, personal contact simplifies their introduction to the company.

What arguments for a five-day week in the office continue to appeal to you? (Multiple answers possible)

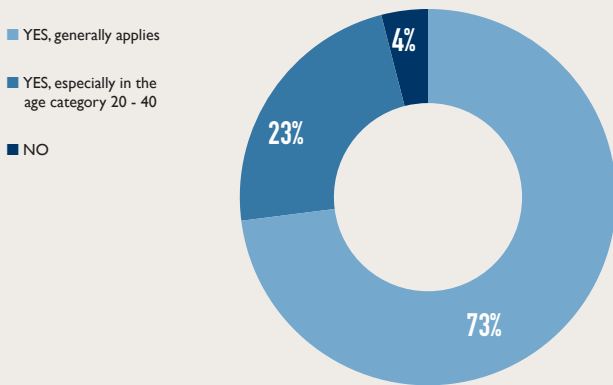


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Not only communication within a company is influenced positively by a modern office building. The analysis of our survey makes it clear that intensive use of the office building obviously has a positive influence on the overall corporate culture. In our survey, 49% of those surveyed said that the corporate culture can be improved by visiting the office building more often. Another positive effect for a company that is promoted by intensive use of the office space by the employees is identification with the company. 39% of those surveyed stated that frequent perception of the workplace in the office building has a positive influence on the identification of employees with the company. These results make it clear that an office building is more than just a cost item on the balance sheet of a company. Positive effects for the company also emerge from an increased presence of the employees in the office building. It is a realistic scenario that companies can also profit economically from these positive effects. If an improvement of the corporate culture as well as an improvement of communication within the company is achieved through intensive use of the office space of the company then this can also have a positive impact on work processes within the relevant company. This can also be reflected in the results achieved by the company.

Hence, it can be concluded that office employees in the future will attach great value to both a modern office building in a central location with good public transport connections and the possibility of a home office. It can thus be assumed that in attracting talented employees, companies will benefit if they allow their employees to use both mobile workplace concepts and modern office space. The results of our survey also indicate that offering the employees mobile workplace concepts can increase the attractiveness of the company to potential new employees. For instance, 73% of those surveyed indicated that they had already experienced that mobile working or working from home was an important criterion in the application process. This high percentage of respondents who assign such a significant role to the possibility of a home office illustrates the high strategic importance for companies to offer their employees the possibility of using a home office.

Do your experiences show that the possibility of working from home and mobile working is an important criterion in the application process?



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FAZIT

Especially against the backdrop of demographic change and the shortage of skilled employees within the German economy, it becomes clear how important it is for companies to increase the attractiveness of their own company on the labour market in order to ensure that they continue to have access to talented employees in the future. The results of our survey point to intensive use of the home office, even after the Covid-19 pandemic many office employees will need to be taken into account.

However, it can also be assumed that there will also be a demand for office buildings in the future. Above all, communication within a company and the identification of employees with a company are improved by a regular visit to the office building. However, current market figures and the results of our survey imply that the office property market will need to adapt to new requirements. For many office employees, the office building needs to be more than just a place to work, in order that they prefer the perception of the workplace at the office building to the workplace at the home office:

- **Thus, the spacious design of the shared areas is clearly gaining in importance.**
- **The requirements for the location of the office building are also influenced by current market developments.**
- **The demand especially focuses on office space in central locations of large metropolises.**

For many office employees, as the results of our survey show, good connections to the public transport network are becoming increasingly important. We expect that office space in central locations of large metropolises with a design that meets the new requirements of the market will continue to be in high demand on the office property market.

However, with regard to older office properties in decentralised locations or in smaller office markets, it is likely that the position of a large number of these office properties in the market will deteriorate significantly - including a further tightening of ESG requirements for these properties.

- **In quantitative terms, we expect a significant increase in vacancy levels for the property / location combination.**
- **However, in the top segment of the office property markets in large metropolitan areas a rise in vacancy levels is unlikely due to continued high demand for office space and the need for “green properties”.**
- **Furthermore, positive growth in prime rents is expected in this segment of the office property market in the years to come.**

Hence, the office building is by no means a concept of the past. However, in a modern working world, office buildings must meet new and higher quality requirements in order to offer advantages over home offices.

About Catella

Catella is one of the leading specialists in the field of property investment and fund management and operates in 12 countries. The group manages assets of around €12 billion. Catella is listed in the Mid Cap segment of Nasdaq Stockholm.

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