

Adaptive Spaces

Return to Office: Germany

VIEWPOINT

Hybrid workplace models are the new normal. The office will continue to play a key role for employees and companies in the future as an environment for exchanging ideas, communication and as a knowledge marketplace.

CBRE RESEARCH
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The Office is Dead – Long Live the Office!

The office market is experiencing a paradigm shift: Office function and design are being redefined by the digitalization and flexibilization of the working world. Hybrid workplace models (New Work) are evolving into the new norm in a knowledge society and against the backdrop of demographic and cultural change in the labor market.

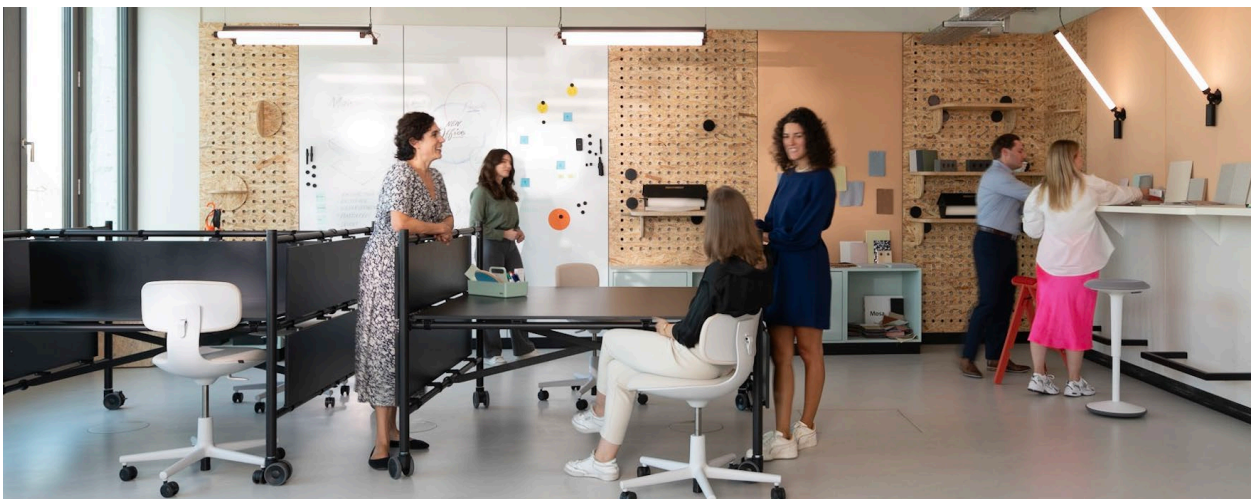
Low occupancy rates in Germany's offices are a wake-up call for employers. The fact that the office has a decisive influence on productivity, employee retention, corporate culture, innovation, and therefore on long-term performance, is increasingly filtering through to many companies' senior executives – and not just since the pandemic in 2020.

The one-size-fits-all solution applied to office design is a thing of the past. Instead, companies are now engaging in developing individual and holistic workplace strategies tailored to their specific framework conditions and requirements. In these endeavors, they are adopting a proactive approach by joining forces with their employees to meet the challenges, opportunities and risks of hybrid workplace models.

According to the **CBRE Occupier Survey 2023**, the majority of employers are aiming to bring their workforce together for most of the working week. These attempts vary at the corporate level depending on the sector, company size and department. A formalized home office guidance is merely a building block in this context as the basic need for the strategic optimization and rationalization of conventional office concepts is immense.

In the scenes behind the current economic challenges, new structural demand patterns that harbor medium-term risks and fresh opportunities in the long term are crystallizing on the leasing market.

- **New normal:** work processes, routines and preferences are changing. Most employees prefer hybrid and flexible working models, which necessitates a rethink and adaptation at the corporate level.
- **Optimization:** rationalizing and upgrading conventional office space to balance the trade-off between employee preferences and work processes in balance with corporate goals and culture.
- **Flight-to-quality:** greater requirements placed on site and location, the quality of a property, ESG and wellbeing, along with technology and workplace designs to make the office the preferred place for work



Hybrid work models are gaining ground

According to the **CBRE Live-Work-Shop Report 2023**, three quarters of Germany’s office workers prefer hybrid work models, with physical attendance of three or more days a week. At the same time, two thirds (65%) would like to spend all or most of the time in the office. Only 25% want to work full time from the office and only 10% from home. No doubt that the latter solution is convenient and confers benefits on the individual. However, in terms of social interaction and collaboration with colleagues, and against the backdrop of separating private and professional life, quite apart from strong, long-term identification with a company, this option cannot compete with the office.

Employees can be incentivized to spend more time in the office principally through location-specific factors, such as commuter-friendly connections to local transport and an attractive surrounding environment. Furthermore, premium office design permitting greater differentiation in the working environment depending on the respective activity and enabling a greater use of technology is hugely important (see Figure 1).

These factors are decisive for employers in implementing workplace strategies, stay-versus-go analyses and leasing decisions in the move to make the office the preferred location for working and exchanging ideas.

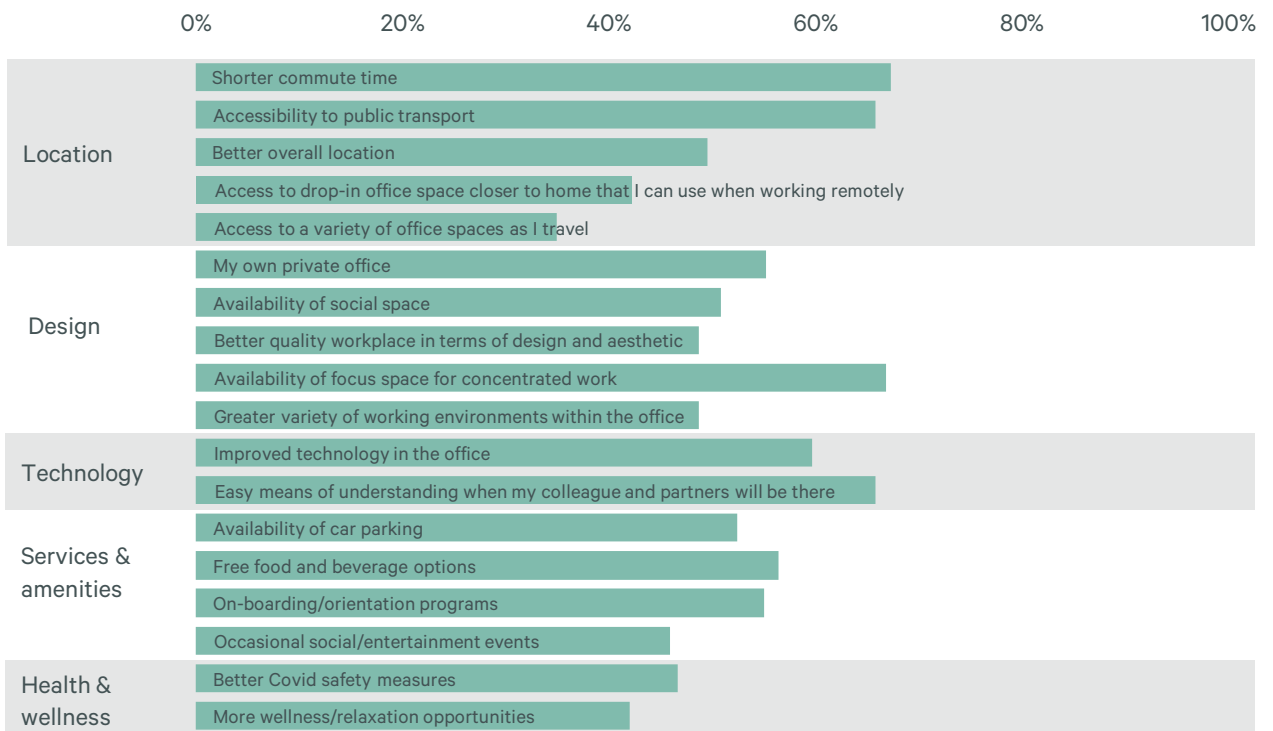
Office workers preferring a hybrid workplace model

75%

Office workers wanting commutes of 30 minutes or less to the office

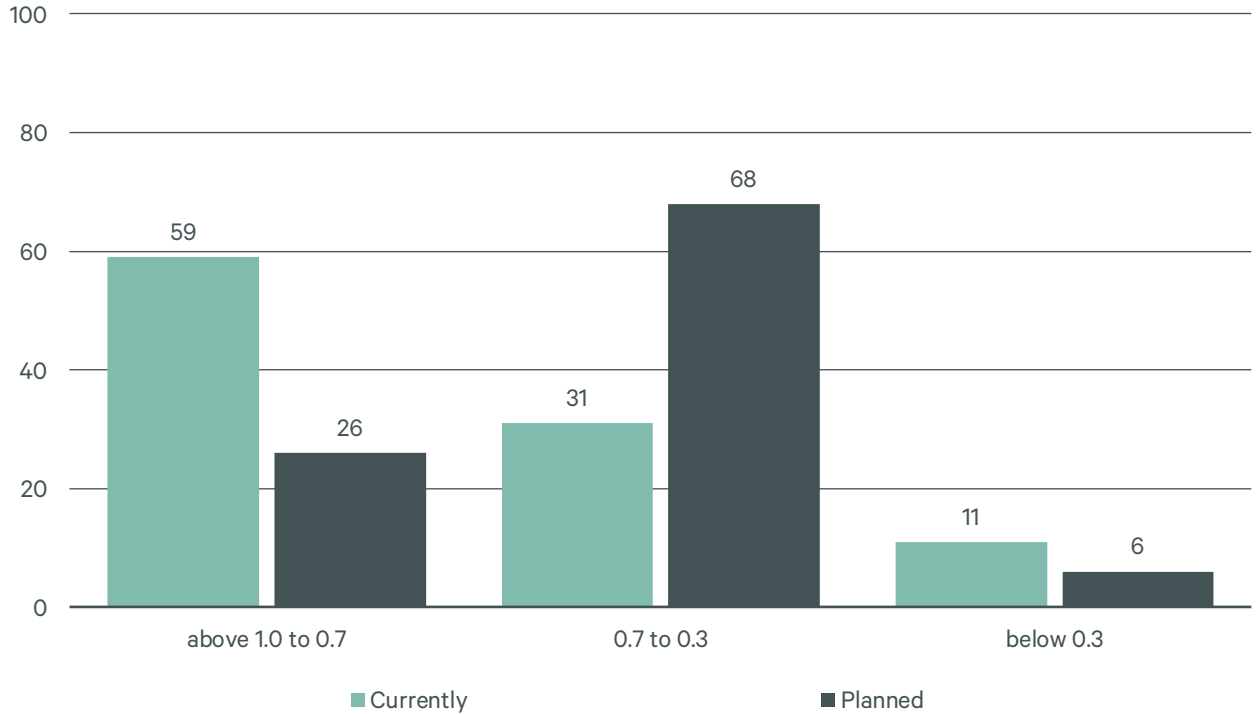
81%

FIGURE 1: Desirable factors from an employee standpoint for frequenting the office more often



Source: CBRE Live-Work-Shop Report 2023, response from German office workers

FIGURE 2: Preferred desk ratio of German companies (ratio of employees to workstations)



Source: CBRE Occupier Survey 2023; response of German companies

Quality over quantity

The office is an integral asset of a company’s business activities in a knowledge economy. It lies at the heart of the brand and the brand’s value proposition for clients, shareholders and the workforce. In terms of innovative strength, productivity and corporate culture, the office in its function as a knowledge marketplace remains superior to an overly progressive emphasis on working from home. The advantages of face-to-face interaction in promoting the collaborative efficiency of employees for solving problems, project teams and organizations have been amply corroborated.

It therefore comes as no surprise that only 3% of companies surveyed globally want to go “full remote” (CBRE Occupier Survey 2023), and according to the ifo Institute (2023) a mere 9% of all German companies are planning to reduce their office space.

Employers are nevertheless confronting greater challenges that include: 1. acknowledging the new reality of flexible and hybrid working; 2. aligning this new reality with corporate goals and cost/benefit considerations through developing an individual and holistic workplace strategy. Successful implementation brings with it the imperative of a change management process, with specific requirements for space being defined once this process is complete.

Companies wanting to relocate to better quality office space

68%

Companies wanting to implement workplace strategies geared more strongly to activities

60%

Companies engaging in strategic rethinking

German corporates and SMBs (Mittelstand) are cognizant of the challenges and the opportunities, but also of the long-term risks to a company of home office guidance that is too heavily weighted (see Figure 3).

Corporate real estate managers (CREM) are developing new workplace strategies and implementing hybrid models that better reflect their individual situations compared with the conventional solutions of the last decades. The preferred strategy of German companies includes upgrading their office premises, flanked by targeted reduction and consolidation. The principle of “quality over quantity” is pursued in this context, with technology harnessed more intensively, along with flexible leasing structures, all of which manifests more efficient desk ratios and greater effectiveness through the activity- and project-based use of space (see Figures 2 and 4).

The office space of the future needs to be flexible and equipped with the requisite technology to ensure that employees are content to commute to the office even after hybrid workplace models have been introduced. Indeed, the office of the future needs to function as a place of active communication, collaboration, and above all of socializing, which will make it a marketplace of knowledge and more than just a cost center on the balance sheet. Realizing the full potential of contemporary office space is a key lever in the competition for employees and talent, but also for generating ideas and innovation, and therefore for promoting the long-term success of a business.

Contemporary and sustainable office premises that stay on trend will continue to play a central role for companies in the future as well – as a calling card and business hub, as well as an important link in vibrant city centers that host living, shopping and working.

FIGURE 3: Statements from CREM managers of German DAX companies



Source: CBRE Research

The office of the future will be geared toward employees and activities

The office of the future will put the needs of the employees center stage. Activity-oriented office space concepts will be determined by hybrid working and sustainability. The office as a place of encounter and communication is the leitmotif. The tenet of “one size fits none” applies more than ever as the working environment must be adjusted to suit the specific corporate culture – and not vice versa. Adjustment encompasses the following aspects:

- **Hybrid work:** wellbeing, technology, connectivity, flexibilization, modularity, desk ratios, office as a destination, work from anywhere, work-life balance
- **Sustainability:** ESG, green leases, smart building, cradle to cradle, net zero operational carbon, certifications for building and interior with regard to materials and wellbeing aspects

A balance must be found between the various aspects, along with identifying the “must haves” versus the “nice to haves” with a view to reconciling costs with benefits and also for avoiding a potential conflict of goals. Smart building and building automation are, for instance, deployed in the context of green leases in order to fulfil energy sustainability standards. However, occupiers’ wish for controlling the fresh air and temperature (wellbeing aspects) may run counter to this.

Along with sustainability, new styles of working are the greatest structural driver. The office of the future is a destination that employees choose for a specific occasion, for an internal meeting or a customer event, for instance. Floor plans now focus on “we-space” that is accessible to all employees and for flexible use depending on the activity and occasion.

FIGURE 4: Stylized floor plan of a contemporary, activity-oriented office



Source: CBRE Workplace Consulting

Case study: CBRE Berlin (BEAM)

In relocating to BEAM, CBRE Germany has taken a step toward the office of the future. The new CBRE HQ in Berlin was mainly motivated by endeavors to strengthen the company's DNA, while reinforcing a strong business community and corporate culture. Employees now have improved options for collaborating effectively in a contemporary, hybrid work environment.

The office design incorporates the trends and findings of surveys from the time after the pandemic, flanked by an integrated change management process, and reinforces the focus on new works, zones and room modules. The purpose of the office is to foster collaboration, innovation and a sense of community, which impacts positively on the performance, innovation and wellbeing of the staff. In BEAM, CBRE has signed a green lease and is committed to sustainable fit-out and implementation.

Further highlights:

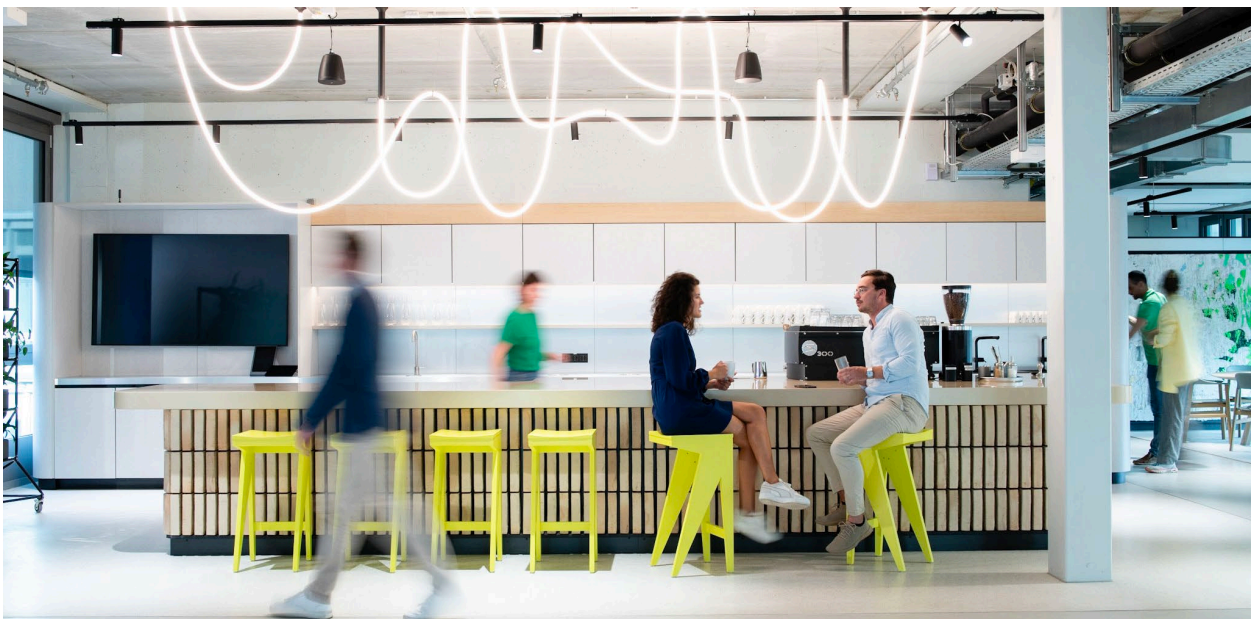
- Combining three locations in Berlin and housing 250 employees in office space totaling 4,200 sq m
- State-of-the-art and flexible working worlds, including a roof terrace, with LEED and WELL certification targeted
- Optimal conditions for activity-oriented work with a desk ratio of 1:2 (workstations to employees)

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Our Workplace Consulting Team has created contemporary and flexible working worlds for our new office in BEAM, deriving guidance from the principles of activity-based working concepts. Each activity has the right workplace - for creativity and communication, concentration and collaboration. This approach enables us to strengthen our internal network while promoting integrated services and service quality for our customers.

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Kai Mende
Managing Director
and City Lead
CBRE Berlin

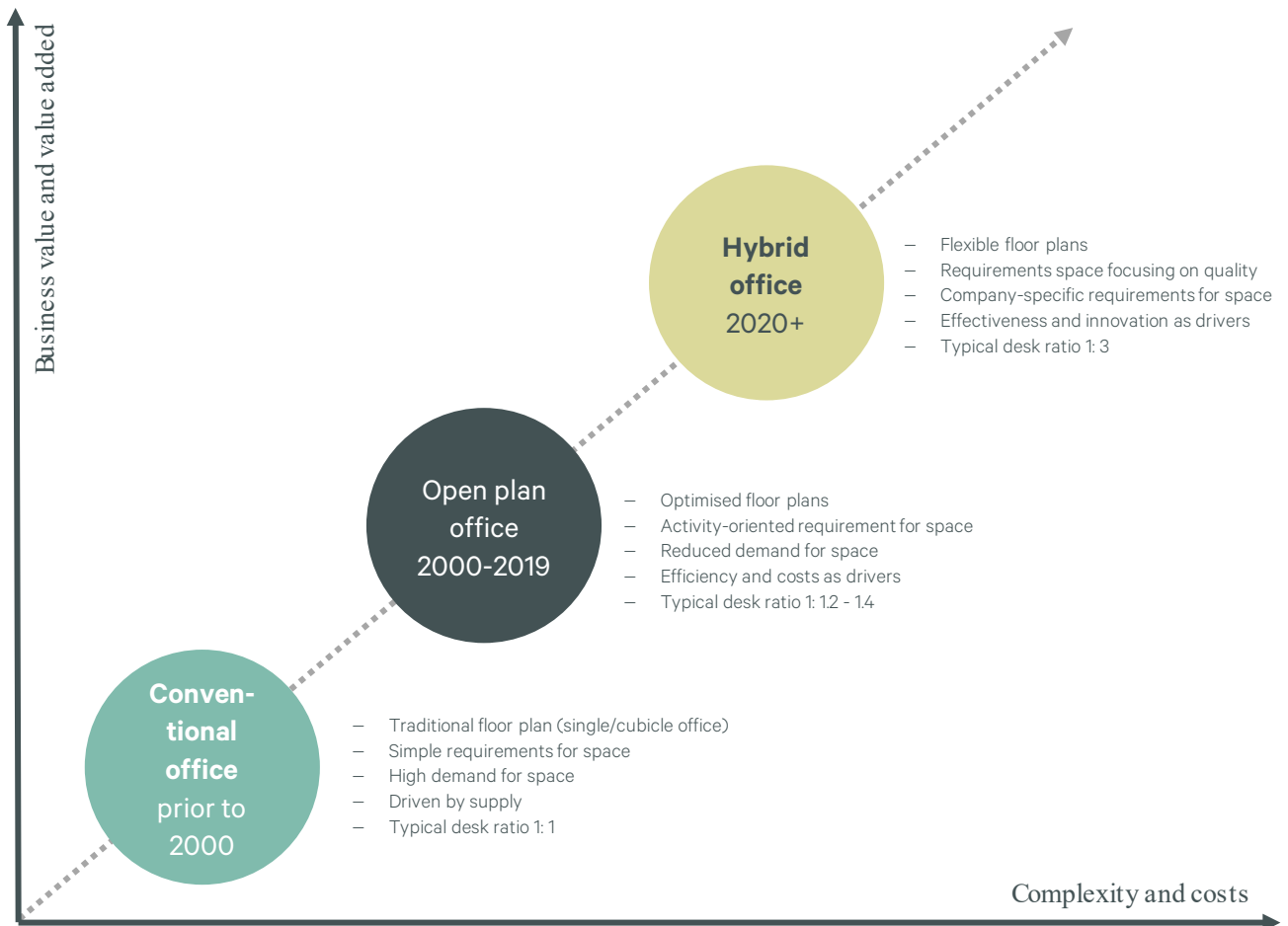


The next stage in office evolution?

The office has continued to develop – and not only since working from home was stepped up during the coronavirus pandemic. With a knowledge society steadily evolving, the ongoing development of technological work-related equipment, and changing business models, the function, design and the layout of offices have undergone substantial change in recent decades. The famous “cubicle farm” of the 80s and 90s, and the status symbol of the corner office, has been relegated to the past for good reason.

Complexity, and therefore the cost of a workplace strategy, is growing against the backdrop of the more sophisticated requirements employees and companies place on their office space. However, value added for business activities and the ability of a company to compete increase at the same time. Companies are therefore looking at a positive trade-off that can be mapped along the evolution of categories such as layout, requirements and demand for space, accompanied by falling desk ratios. Whereas, in the past, conventional offices were primarily supply driven and subject to simple requirements placed on space, the open plan office of the last two decades represented a further development in the direction of improved quality and efficiency while factoring in cost arguments to a greater degree. The hybrid office with its much stronger emphasis on flexibility, quality, effectiveness and innovation, is logical progression of this development and therefore represents the next stage in office evolution (see Figure 5).

FIGURE 5: Stylized development stages and typical office features



Source: CBRE Research

Outlook

Streamlining and optimizing office space requirements are behind some of the key demand-led trends and are set to remain so for the foreseeable future.

Excess demand in the segment of contemporary, ESG-compatible office space in attractive city center locations with good transport connections is set to hold steady in the medium term, as well against the backdrop of pipeline constraints and high construction and borrowing costs for developers. The lack of sufficient adequate alternative office space means occupiers' flight to quality is reflected in rising rents in the premium segment in the CBDs, on the one hand, and in below-average rental growth in the less desirable, often older office premises in locations with less optimal transport connections, on the other.

Along with cyclically weak demand due to an ailing economy in 2023/2024, the new structurally determined demand patterns are having far-reaching effects on all market participants. Companies are not alone in facing the consequences – landlords, asset managers and investors are also having to deal with new challenges, leading to significant consequences for the risk profile of the office asset class as a whole (see Figure 6).



The topic of Return to Office and changed occupier behavior constitutes some of the major challenges for the office asset class in the coming years. The importance of ESG and asset management for tenants and investors in endeavors to create appropriate supply will continue to grow.



Dr. Jan Linsin
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FIGURE 6: Assumptions on potential effects for selected players on the office market

	Short term (2-5 years)	Long term (5-10 years)
TENANTS	<ul style="list-style-type: none"> – Adaptation to a hybrid working world – Focus on employees and costs – Redefining office space requirements 	<ul style="list-style-type: none"> – Rationalization and portfolio optimization – Lease flexibilization – Effectiveness and office as a destination – Implementation of ESG and green leases
ASSET MANAGEMENT	<ul style="list-style-type: none"> – Rising competition for tenants – Polarization by location and quality – Adjusting asking rents and incentives – Identification of “must haves” vs “nice to haves” 	<ul style="list-style-type: none"> – Obsolescence and leasing risks – Space as a service and additional amenities – Lease flexibilization – Implementation of ESG and green leases
PORTFOLIO & INVESTMENT MANAGEMENT	<ul style="list-style-type: none"> – Flight to safety – Recalibration of risk premiums by location, quality, ESG and tenant – Identification of sustainable markets and locations 	<ul style="list-style-type: none"> – Portfolio streamlining and adjusting – Redefinition of core – Rising capex/opex; shorter lease terms – Value-add and income focus

Source: CBRE Research



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