Adaptive Spaces

2023 Office Occupier Sentiment Survey: Global Summary

REPORT

Five Global Trends Driving Real Estate Portfolio Optimization

CBRE RESEARCH
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Executive Summary

CBRE's 2023 Global Occupier Sentiment Surveys feature insights from more than 400 corporate real estate executives across multi-national and domestic companies around the world. These insights uncover trends about the future of work and the changing role of the office in the United States, Europe and Asia-Pacific. Based on the collective data from these surveys, we have identified five trends that will guide global organizations as they optimize their portfolios:

01

Office utilization patterns globally are below pre-pandemic levels but continuing to rise.

02

Globally, the office remains a core element of corporate culture.

03

Focus on portfolio optimization means more than downsizing.

04

Occupiers trade quantity for better quality space.

05

Occupiers seek more flexibility in lease terms and building services.

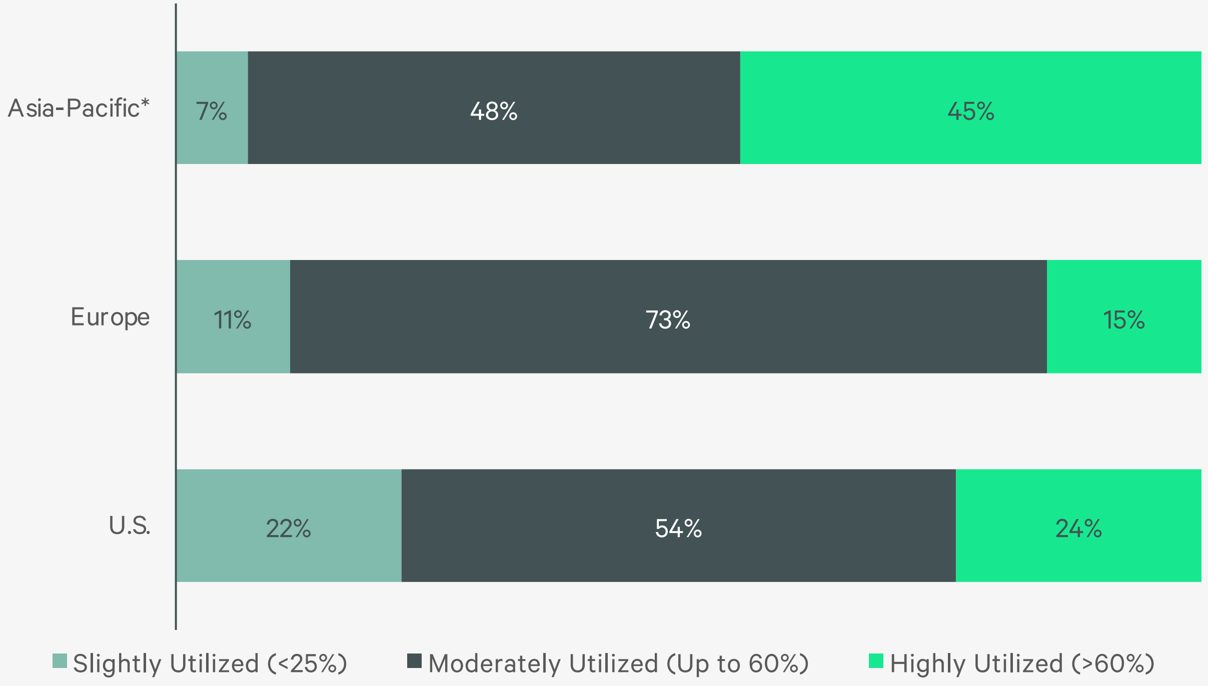
Office utilization patterns globally are below pre-pandemic levels but continuing to rise.

Office attendance worldwide varies significantly, yet no region is reporting that attendance is completely back to pre-pandemic levels. Asia-Pacific has the highest attendance of any region, with 45% of respondents reporting that office space is highly utilized, compared with only 15% and 24% respectively in Europe and the U.S. In Europe, most organizations have adopted a balanced hybrid approach, thus translating to moderate utilization. The U.S. has a more even distribution between companies that prefer in-office and those that prefer remote work, resulting in more respondents reporting slightly utilized or highly utilized space.

Even within the regions, office attendance varies by location. In Asia-Pacific, Greater China, Korea and Japan have the region's highest levels of office-based working. In the U.S., Texas markets have consistently led in utilization, though New York City and Chicago have seen improved momentum in 2023. In Europe, U.K. utilization levels have been rising gradually since Spring 2023, although the European Occupier Survey suggests higher utilization in large western European markets, such as France and Germany.

Several factors contribute to the varying degrees of office utilization in different locales. While the duration of pandemic-induced remote work is a consideration, pre-pandemic norms and behaviors, local culture, commute times, tenant industry and public transit all play a role in how strong or weak a return to office may be.

Figure 1: Average Weekly Office Utilization Rate (headcount/desk count)



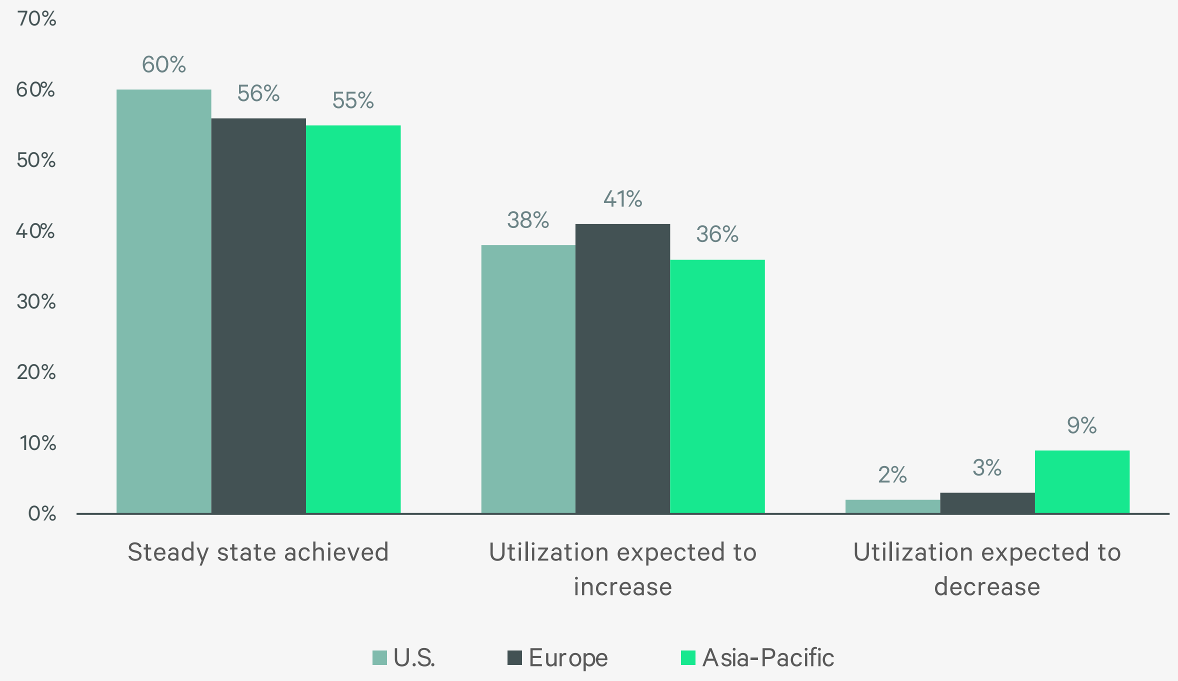
* Asia-Pacific: "Moderately Utilized" includes Up to 70%; "Highly Utilized" is >70%
Source: CBRE Research, April 2023.

Most respondents globally report that office attendance has reached a steady state, making a return to pre-pandemic levels unlikely. However, utilization is expected to rise, with up to two-fifths of respondents across regions believing office attendance will increase over the next year. This is especially true of larger firms that have lagged in returning to the office. In Asia-Pacific, where attendance is significantly ahead of the other two regions, the increase will be driven by western firms whose office attendance in the past has often been slowed by global policies.

Office attendance in Europe and the U.S. is slowly ticking up as organizations shift from a largely voluntary approach around office attendance to more formal requirements. Respondents to the latest Occupier Sentiment Survey report that 66% of companies in Europe now have guidance in place for office attendance, compared with about 41% a year ago, and in the U.S. 65% of companies have a requirement in place versus 31% one year ago.

Most of those who expect a rise in utilization believe it will occur later this year, and many are taking steps—employee consultation, communications programs and training—to help facilitate an increase.

Figure 2: Expectations About Office Utilization Patterns



Source: CBRE Research, April 2023.

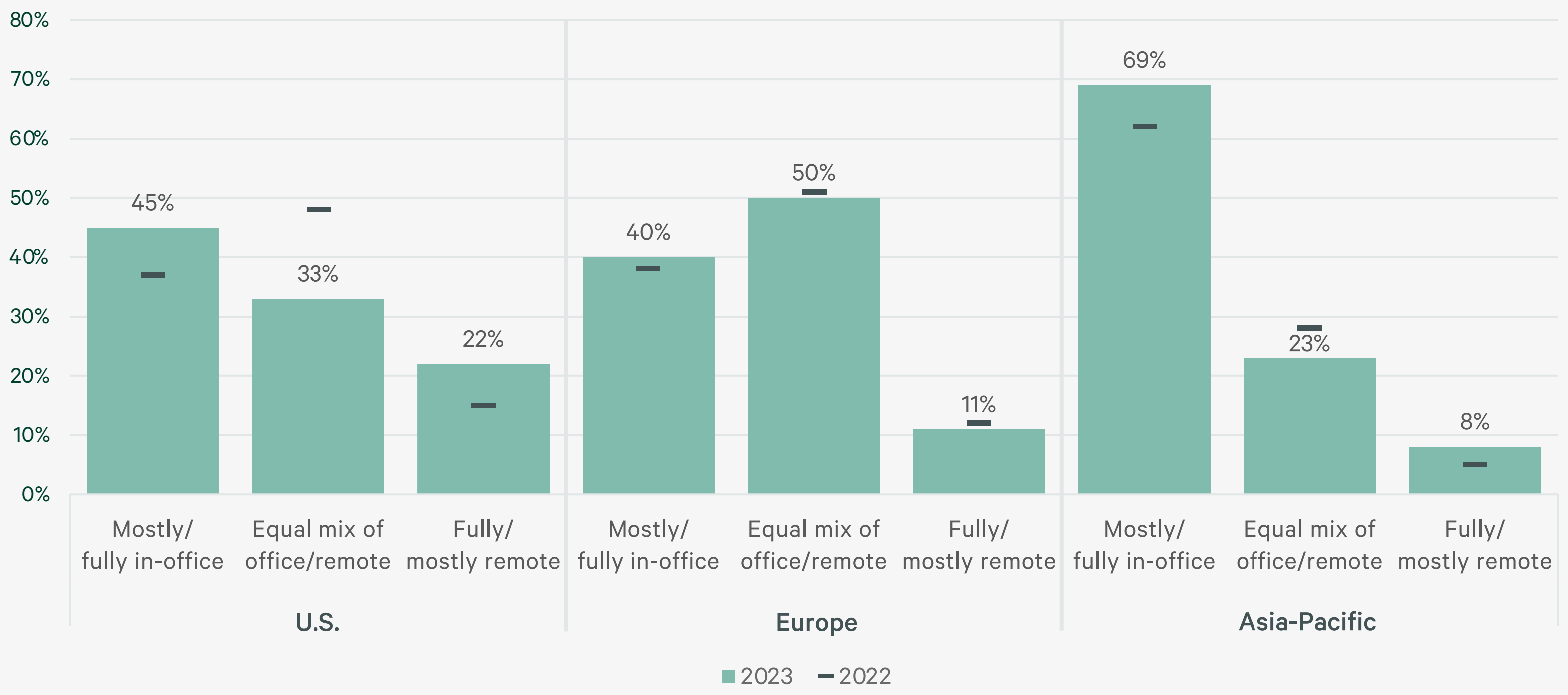
Most of those who expect a rise in utilization believe it will occur later this year, and many are taking steps—employee consultation, communications programs and training—to help facilitate an increase.

Globally, the office remains a core element of corporate culture.

Although office utilization goals differ, overall, there is a strong commitment to the office across regions. More than 90% of respondents in Asia-Pacific and Europe and nearly 80% in the U.S. want employees in the office for at least half of the week. Few occupiers globally support mostly or fully remote work.

European companies have maintained their desire for an equal mix of in-person and remote work, but that model has lost favor over the past year in the U.S. In the U.S. and Asia, the share of respondents that support an "office-first" culture grew by eight percentage points and seven percentage points respectively from last year. U.S. respondents that promote a "virtual-first" culture also grew by seven percentage points to 22%, well above the other two regions. The shift away from an equal split of time spent in and out of the office is likely why U.S. respondents are more likely to report space is either highly or slightly utilized while most European occupiers report moderate utilization.

Figure 3: Company Goals for Steady-State Office Utilization



Source: CBRE Research, April 2023.

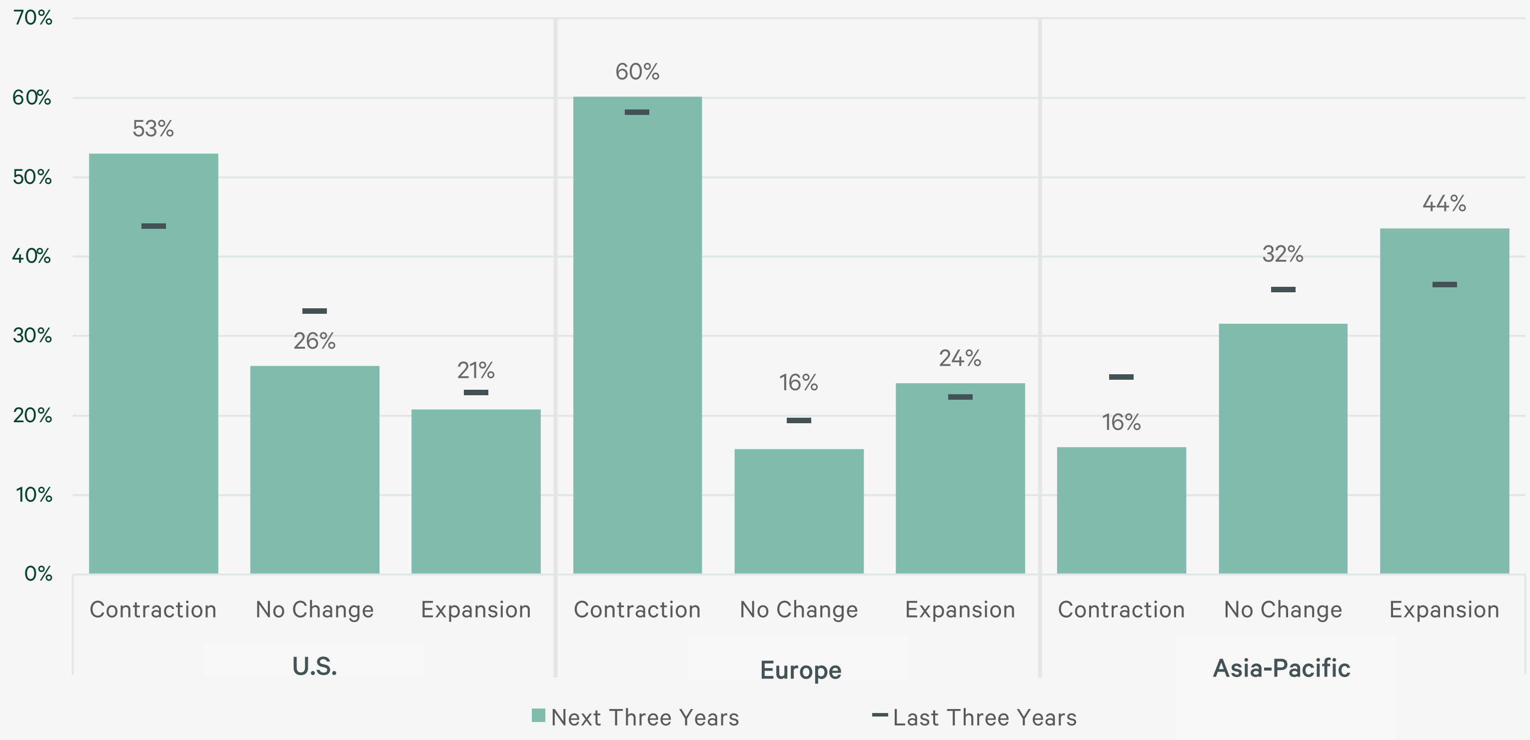
Focus on portfolio optimization means more than downsizing.

Portfolio planning strategies vary across regions, but the general trend is toward smaller but higher-quality portfolios. Over the past three years, Europe and U.S. occupiers were split over whether their portfolios would shrink, expand or remain relatively unchanged. But over the next three years, most respondents in both regions anticipate further rightsizing, influenced by hybrid work and pressures to reduce costs. Those that believe their portfolios will shrink expect a 10%-30% reduction.

In Asia-Pacific, where utilization is highest, only 25% of occupiers shed office space over the past few years, and even fewer (16%) expect to reduce their footprint over the next three years. Approximately 44% expect their corporate real estate footprints to grow, with most anticipating a 10%-30% expansion.

Occupiers intend to reduce their space by letting leases expire, subleasing excess space and consolidating into fewer locations. Subleasing excess space is a key strategy for more than 60% of respondents in the U.S. and Europe, compared with 41% in Asia-Pacific. As a result, historically high levels of sublease space exist in the U.S. and Europe, as well as Australia, Singapore and Hong Kong.

Figure 4: Real Estate Portfolio Status Over Last Three Years, Next Three Years



Source: CBRE Research, April 2023.

Occupiers intend to reduce their space by letting leases expire, subleasing excess space and consolidating into fewer locations.

Occupiers trade quantity for better quality space.

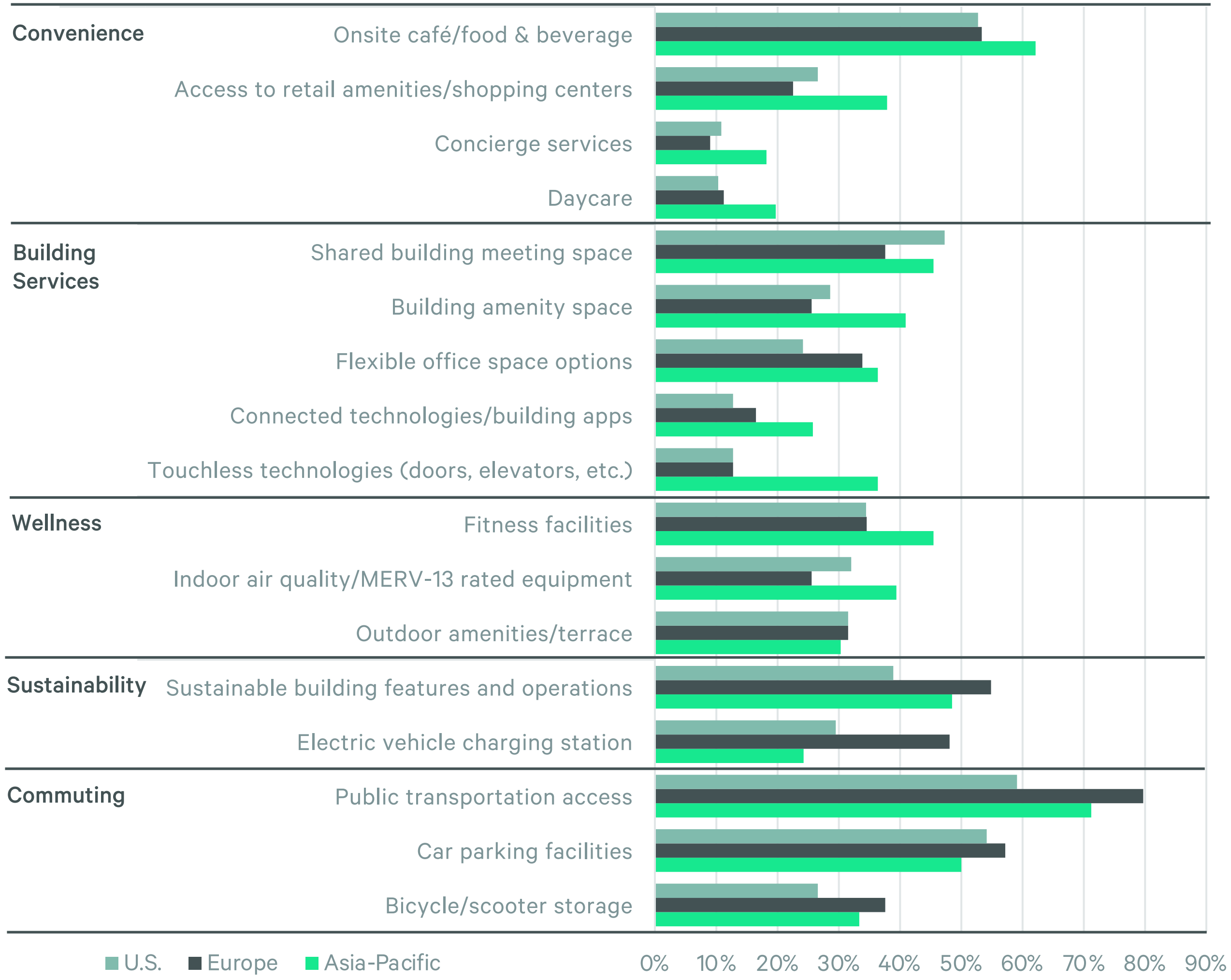
While renewing in place and negotiating better terms remains a favored strategy around the world, many occupiers are also motivated to trade up to better-located office buildings with more amenities, even while they lease less space. The planned moves to better-quality office space reflects the greater value many workers place on their work environment than they did before the pandemic. Prime office rent growth remains positive, although slowing, in many global markets because of this flight to quality. Decentralized or suburban office locations remain less popular strategies.

Global respondents agree that access to public transportation is among the most sought-after office amenities. Europe placed the strongest importance on public transport (80% of respondents in Europe compared with a global average of 66%). Other features that ease the commute burden are popular, including car parking facilities and bike storage. Onsite food and beverage, shared meeting space and fitness facilities also remain favored across geographies.

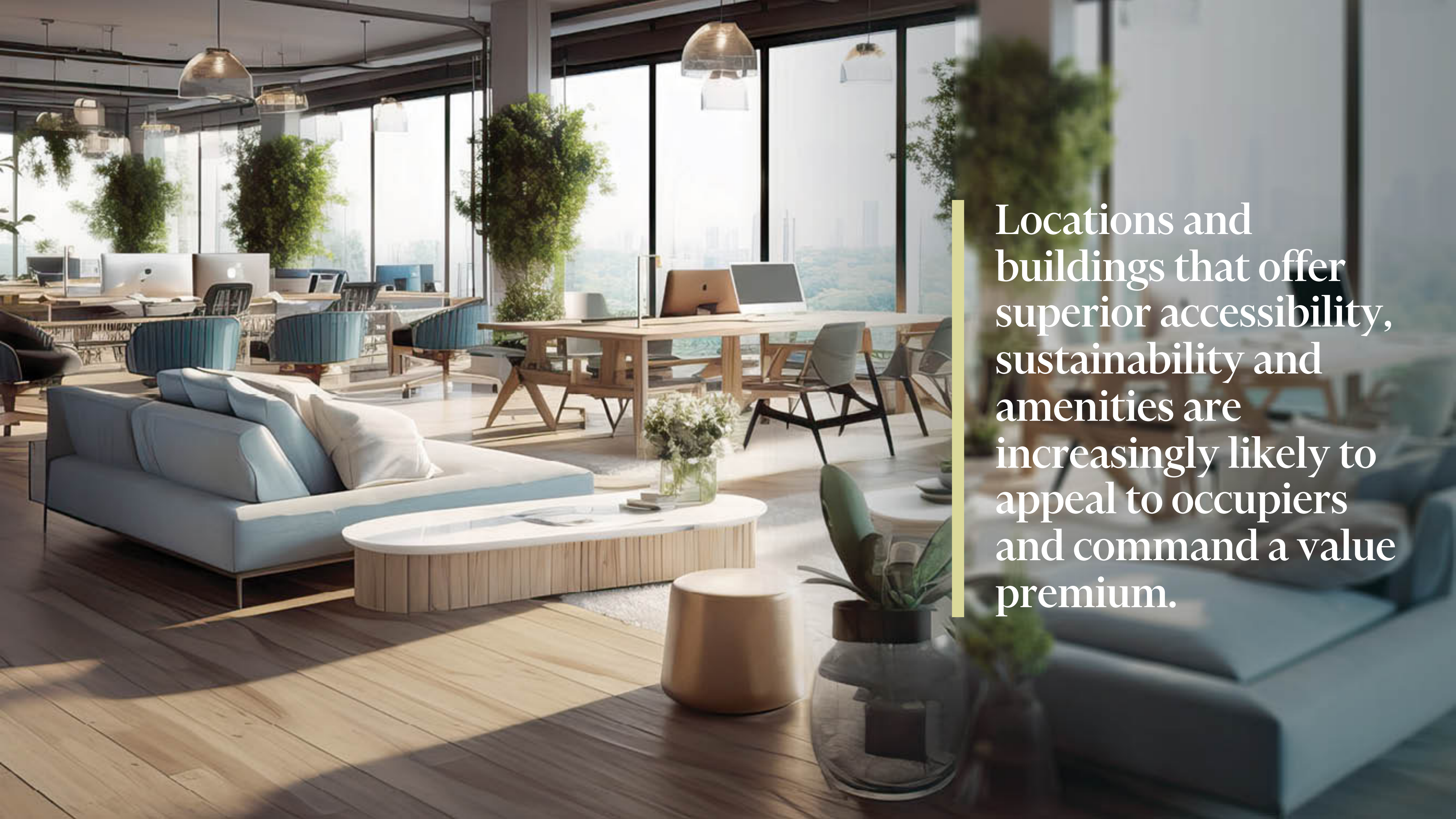
Preferences for sustainable building features, especially among large occupiers that have pledged net-zero emissions goals, have grown in importance. Europe also had the highest share of respondents that emphasized sustainability features, reflecting increased ESG regulation and higher energy prices.

In summary, locations and buildings that offer superior accessibility, sustainability and amenities are increasingly likely to appeal to occupiers and command a value premium.

Figure 5: Most Desirable Building Amenities for Occupiers



Source: CBRE Research, April 2023.



Locations and buildings that offer superior accessibility, sustainability and amenities are increasingly likely to appeal to occupiers and command a value premium.

Hybrid work and the resulting space planning inefficiencies have increased organizations' desire for employee desk-sharing. Today, 56% of occupiers in the U.S. and Asia-Pacific have a 1.0 or less employee-to-desk ratio, while most European respondents indicate a ratio of 1.01 to 2. Over the next two years, only 25% of U.S. and 30% of Asia-Pacific respondents expect to keep their ratio below 1.0%. Most respondents globally aspire to a desk-sharing ratio between 1.01 and 2. Although occupiers had a similar target when asked the same questions two years ago, more may be taking action now due to accelerated hybrid work trends. Effective communication with staff and change management are essential to realize transformation in the workplace.

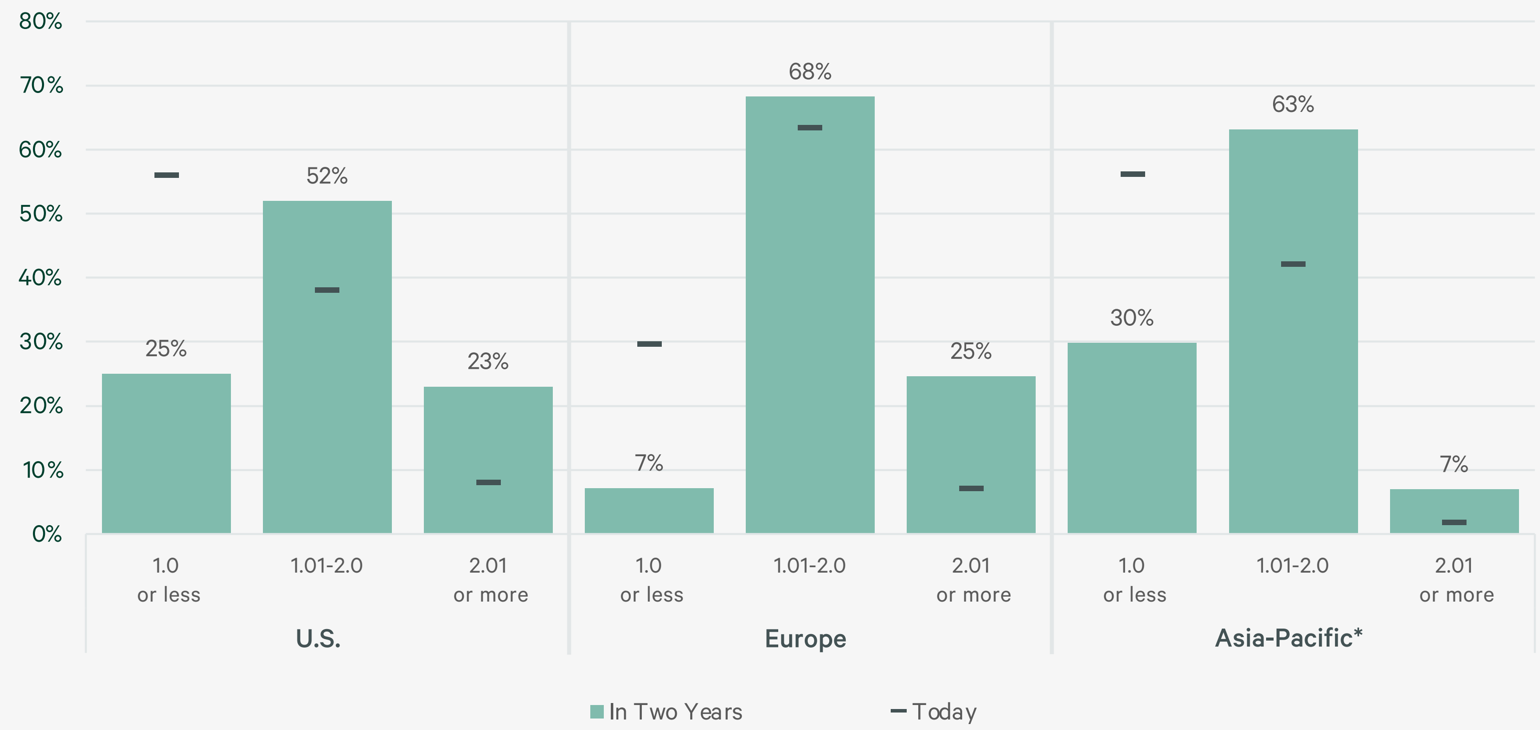
56%

of occupiers in the U.S. and Asia-Pacific have a 1.0 or less employee-to-desk ratio today

<30%

of occupiers in the U.S. and Asia-Pacific expect to keep their ratio below 1.0 over the next two years

Figure 6: Employee-to-Desk Ratio



*Asia-Pacific question asks three-year plans, not two.
Source: CBRE Research, April 2023.

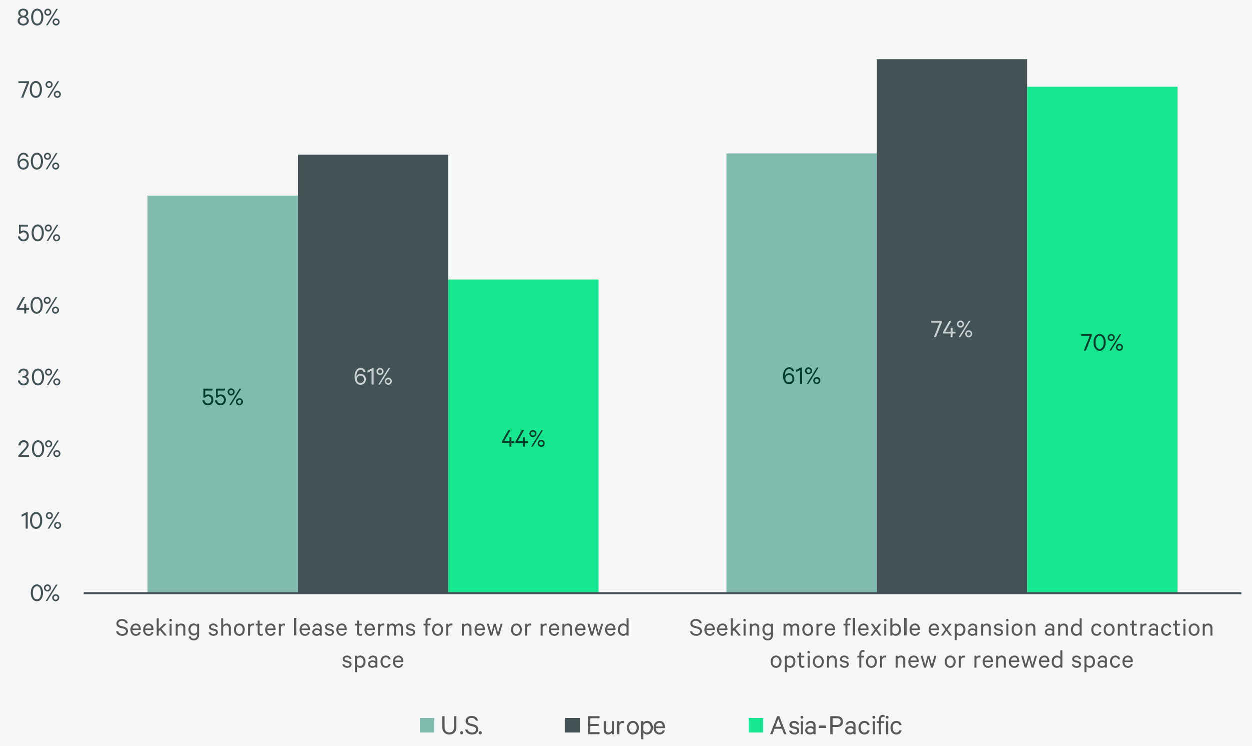
Occupiers seek more flexibility in lease terms and building services.

Traditional lease structures will likely adapt to new working methods—office occupiers don't utilize real estate in the same way that they did pre-pandemic. Occupiers desire more flexibility through shorter lease terms and offerings such as space-as-a-service or shared-space options.

More than half of European and U.S. respondents seek shorter lease terms for new or renewed space, compared with 44% in Asia-Pacific. Lease terms vary across regions; in 2023, the average lease is about seven years in the U.S., 5-6 years in Europe, and 3-5 years in Asia-Pacific. Occupiers also strongly desire flexible expansion and contraction options.

Occupiers are exploring non-traditional arrangements that support agility. They prefer landlords that offer terms including bundling shared building services and amenities into the lease agreement, structuring leases to manage costs based on space utilization and leasing fully built-out spec suites.

Figure 7: Occupiers Seek Flexible Lease Terms



Source: CBRE Research, April 2023.

Other non-traditional arrangements that support agility include bundling shared building services and amenities into the lease agreement and executing a lease in a primary building while gaining access to shared space in other buildings in the landlord's portfolio. Other less-common and difficult-to-execute features include structuring leases to manage costs based on the utilization of space and structuring the lease to respond to a company's performance across a business cycle.

51%

of occupiers in the U.S. desire leases that bundle access to shared building services, amenities and/or flex space

48%

of occupiers in Asia-Pacific desire leases that manage costs based on utilization of space

Figure 8: Potential Changes to Lease Terms to Support Future Working Styles

	U.S.	Europe	Asia-Pacific
Feasible & Highly Desired			
Bundling access to shared building services, amenities and/or flex space into lease agreement	51%	42%	47%
Execute lease in primary building and gain access to shared space in other buildings within landlord portfolio	29%	34%	40%
Fully built-out spec suites/turn-key space	34%	23%	–
Green-lease clauses	20%	42%	–
Feasible & Less-Desired			
Execute multiple traditional leases with the same landlord across portfolio to gain bargaining power	13%	13%	27%
Landlord offering more creative parking agreements (i.e. by the car vs. by the employee)	27%	18%	11%
Shared space arrangement with another tenant under traditional lease structure (i.e. two lessees/same space)	13%	11%	6%
Hard to Execute but Desired			
Structure lease to manage costs based on utilization of space	39%	40%	48%
Structure lease to respond to risk/benefit of company's performance in a business cycle	26%	27%	31%

Source: CBRE Research, April 2023.

As businesses work through the remainder of 2023 and plan for 2024, the way the office supports the future of work will continue to be a central conversation.

The next 12 months will bring an increase in office attendance, especially in markets that have been lagging. Moving toward steady-state office utilization and a clearer economic picture will cause decision-makers globally to act on decisive strategies. Many occupiers are likely to relocate into better-quality space with less square footage, which will continue to advantage the prime office market. Tenants already in desirable buildings will use their leverage to renegotiate more favorable business terms as markets adjust. Portfolio optimization is multifaceted and shifts in occupier portfolio strategies will influence the global office market for years to come.

Contacts

Julie Whelan
Senior Vice President
Global Head of Occupier
Thought Leadership & Research Consulting
julie.whelan@cbre.com

Richard Holberton
Senior Director
EMEA Research
richard.holberton@cbre.com

Ada Choi
Head of Occupier Research
Head of Data, APAC
ada.choi@cbre.com

Jessica Morin
Director, U.S. Office Research
Occupier Research
jessica.morin@cbre.com

Charlie Donley
Senior Research Analyst
U.S. Office Research
charlie.donley@cbre.com

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