

# The Future of Remote Work

## Understanding the Long-Term Shift to Hybrid Models

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We are more than three years removed from the pandemic, and it is clear that pre-pandemic working norms are a thing of the past. Most companies – especially larger organizations – have adopted some form of hybrid working model that aims to balance the need for in-person collaboration with the flexibility and other benefits of remote work. There are many factors driving the permanent shift towards hybrid arrangements, but one of the most important is the recognition that offering workplace flexibility is essential to attracting and retaining talent – especially in tight labour markets.

In this report, we examine the pros and cons of remote work and the impact permanent hybrid models are having on the size and nature of office working environments. We also discuss some of the key steps employers can take to maximize the value hybrid work brings to companies and their employees. Our analysis concludes with some thoughts on the key investment implications of the long-term shift to hybrid work models.

## Benefits of Working from Home

There are three main benefits of remote work: 1) financial savings, 2) time savings and flexibility and 3) increased productivity.

### Financial savings

A recent study showed that employees in large U.S. cities who worked 1–2 days at home per year saved an average of \$2,000–5,000.<sup>1</sup> This explains, at least in part, why a Washington Post/Ipsos poll showed that 55% of remote workers said they would be willing to take a pay cut to continue working from home.<sup>2</sup> The financial benefits also extend to employers, with some studies

suggesting companies can save as much as \$11,000 per employee each year from hybrid work, assuming they work two to three days a week from home.<sup>3</sup> These savings come mostly from increased productivity, reduced absenteeism and turnover, lower real estate costs and better disaster preparedness.

### Time savings and flexibility

Another benefit of working from home is the time saved from not having to commute, which on average equates to an extra hour of free time per day (for many, the time savings is much more than that). Remote work also provides greater flexibility during the workday – a major benefit for all employees, but especially those with family or caretaking duties. This translates into higher employee morale, likely resulting in better performance and lower turnover.

### Increased productivity

While research has yielded mixed results, many workers note they are more productive at home because they do not face the distractions of a busy office environment. There is also abundant anecdotal evidence to suggest that many employees are voluntarily putting in more hours when they work remotely, partly on account of time saved from not having to commute, and partly due to the blending of the home and workplace environments.

## Challenges of Working from Home

The primary drawbacks of remote work are 1) isolation and reduced career development, 2) less collaboration and culture building and 3) home distractions.

## **Isolation and reduced career development**

Working from home may lead to feelings of isolation, which is particularly difficult for younger workers who are newer to the workforce. In addition, younger employees who begin their career in a remote environment may find it difficult to stand out from their on-site peers, potentially impeding their career trajectory. Many employers, particularly the larger firms, have responded by allocating more resources to health and wellness initiatives and by incorporating more social interaction and career development opportunities when employees are on-site.

## **Less collaboration**

Employees working remotely tend to collaborate less, which reduces team bonding and can have a negative impact on the company's culture. As a result, there has been an increased emphasis on team building when employees are in the office, as well as greater investment in collaborative technologies to facilitate more meaningful interactions when they are working from home. We expect this to be a long-term trend given that more companies are adopting permanent hybrid working models.

## **Home distractions**

Remote work carries the risk of lower productivity due to distractions in the home. But whether this actually becomes a problem is highly dependent on the employee's personality and work ethic, which employers can assess on an individual basis. From there, they can determine where each employee is most effective and develop a suitable and fair working arrangement to optimize their productivity.

## **Impact on the Office Footprint**

Permanent hybrid working arrangements are leading employers to rethink how much office space they need and reimagine what that space should look like. Long term, we think hybrid models will mean 1) shrinking office space requirements, 2) office design and layout changes and 3) increasing remote technology integration.

### **Shrinking office space requirements**

With more employees working remotely, companies are continually re-evaluating their office space requirements.

Although leased occupancy is down overall versus pre-pandemic levels, office traffic is down much more significantly, with most studies indicating office traffic at 45–50% occupancy.<sup>4</sup> It is important to note, however, that the numbers will vary quite significantly depending on location. A city like San Francisco, for instance, has been much more heavily impacted (due to technology industry layoffs) than Austin, Texas.<sup>5</sup>

Although current dynamics suggest a tough environment ahead for office landlords, there are some green shoots, particularly for flex office providers, given that space requirements remain in flux as companies prioritize agility. A recent JLL survey of over 1,000 commercial real estate decision-makers in 13 key global markets revealed that 43% plan to accelerate investment in flexible space over the next three years.<sup>6</sup> If current office traffic trends persist, office vacancy will eventually follow on the way down – it has lagged so far given the long-term nature of leasing contracts – as most surveys indicate continued intentions to reduce office space over the next year and beyond.

## **Office design and layout changes**

The shift to hybrid work has led many organizations to reconsider their office layouts. Offices are being redesigned to focus on collaboration, employee well-being and workspace flexibility. We are seeing a trend where, on days at the office, more of an effort is made to collaborate and bond, with major changes to office layouts increasingly reflecting this new priority. Underlining the prevalence of this trend, workspaces revamped to optimize collaboration and team building have been and will likely continue to outperform in the real estate market despite the significant costs associated with extensive upgrades.

## **Remote work technology integration**

As hybrid work becomes more permanent, companies will continue to incorporate advanced collaboration tools and establish best practices for their use. These tools should incorporate training and development opportunities for employees to ensure they have the skills to adapt to new technologies and working models. This trend has been a boon to companies that provide video conferencing, cloud storage, collaboration tools and cybersecurity solutions, among others.

## Key Takeaways for Companies & Investors

The next few years will be critical in determining the long-term impact hybrid models have on workplace norms. The sooner employers embrace a hybrid model, the sooner they can take advantage of the benefits of remote work while addressing its shortcomings, resulting in a greater likelihood of a win-win outcome for employees and companies. Focusing on employee engagement, communication, collaboration and well-being is crucial to managing this transition successfully, particularly given today's tight labour market conditions. The future of work will be an evolving landscape, and companies that are flexible and adaptable will be best positioned to outperform their competitors in attracting and retaining the best talent.

The long-term shift to hybrid work has a number of implications for investors. Within real estate, the office

sector will likely remain challenged for the foreseeable future as the current supply and demand imbalance will take time to sort itself out, given the long maturities of lease terms, while converting office space into condominiums or apartments, for example, remains both uneconomical and impractical in most cases. As for beneficiaries of hybrid work, asset classes such as residential and retail in more suburban locations should continue to outperform urban locations, especially considering the lower cost of living in suburban areas.

Looking more broadly, changes to consumer consumption patterns will likely continue to positively impact consumer discretionary companies, assuming hybrid models continue as we expect. Instead of spending money on gas, parking, lunching out and formal clothes, the consumer will likely divert spending towards other types of discretionary items, such as goods and travel. As active investors, we will account for this when examining historical trends to forecast future demand levels for goods and services.

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<sup>1</sup>Jose Maria Barrero, Nicholas Bloom, Shelby Buckman and Steven J. Davis, 2021, "Why working from home will stick," National Bureau of Economic Research Working Paper 28731, updated February 12, 2023 – [https://wfhresearch.com/wp-content/uploads/2023/02/WFHResearch\\_updates\\_February2023.pdf](https://wfhresearch.com/wp-content/uploads/2023/02/WFHResearch_updates_February2023.pdf)

<sup>2</sup>Taylor Telford, Scott Clement and Emily Guskin, "Here's what workers really care about, according to a Post-Ipsos poll," The Washington Post, May 23, 2023 – <https://www.washingtonpost.com/business/2023/05/23/post-poll-remote-work-hybrid-future/>

<sup>3</sup>Telecommuting Trend Data, Global Workplace Analytics, June 22, 2021 – <https://globalworkplaceanalytics.com/telecommuting-statistics>

<sup>4</sup>Sarah Holder, "Meet Kastle Systems, the Covid-Era Kings of Back-to-Work Data," Bloomberg.com, October 13, 2022 – <https://www.bloomberg.com/news/articles/2022-10-13/will-remote-works-ever-return-to-office-this-company-is-trying-to-find-out>

<sup>5</sup>Katherine Feser, "Bucking WFH trend, Austin, Houston and Dallas offices lead nation in usage post-COVID," Houston Chronicle, February 24, 2023 – <https://www.houstonchronicle.com/business/real-estate/article/austin-takes-top-spot-office-use-post-covid-kastle-17801284.php>

<sup>6</sup>JLL, "The Future of Work Survey 2022," July 2022 – <https://www.jll.ca/en/trends-and-insights/research/jll-future-of-work-survey-2022>

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