UBS Asset Management

The office renaissance: Adapting to a new era

The office renaissance is not just a buzzword but a significant shift in how we perceive and utilise workspaces. Just as monarchs transition while the institution remains, so, too, does the office sector evolve while maintaining its core essence. This article explores the multifaceted transformation of office spaces, highlighting trends and future implications for both businesses and investors.

The office as a workspace

There are, of course, multiple trends happening at the moment that are influencing the sector. For one, working from home. As the author of this piece sat down to write it, he was sitting at his desk at home! He later finished it in the office, where some ideas and points in this piece were discussed with colleagues, highlighting that the office is still the important cross-fertilisation venue that it always was! This is unlikely to change, even if the brunt of the work can be done anywhere in the world – including from home.

The author also sits in Switzerland, and contrary to the most recent developments in the United States, for example, where a new administration is at the forefront of bringing everyone back to the office, there are no such top-down cries for action from the Swiss government. So "working from home" has to be understood on the country or, preferably, on the city level. Industries also use the office differently, with financial services and legal industries requiring more office attendance than technology or other general professional services. Equipment-dependent industries, such as life sciences and manufacturing, are also high on the list when it comes to office attendance.[1]

We also have different offices coming. Long gone are the worker-bee types of offices with endless rows of employees in cramped cubicles. Now, companies are looking for space that boasts air-quality monitoring, circadian lighting systems, green walls and sensory experiences designed to enhance employees' productivity and wellbeing. The design of the office is also more intentionally creating a seamless transition between working from home and in the office, such as improved video conferencing facilities, more face-to-face collaboration spaces and one-person-only rooms intended for confidential meetings. The office of the future is also designed to monitor, manage and steer occupancy: desk-booking systems, smart phone employee login apps, and remote access from anywhere programs, just to name a few examples.

And, of course, sustainability will play an increasingly important role, even if regulatory push on the matter may change in the near- to mid-term future. By now, there is a tenant-level financial incentive in steering energy consumption via lighting and HVAC controls, for example and this will continue to push companies to develop and build offices that are meeting such standards and needs.

There is no doubt the office as a workplace will transform – it already has in many cases! It is also clear society's need for office space is changing.

The office as an infrastructure

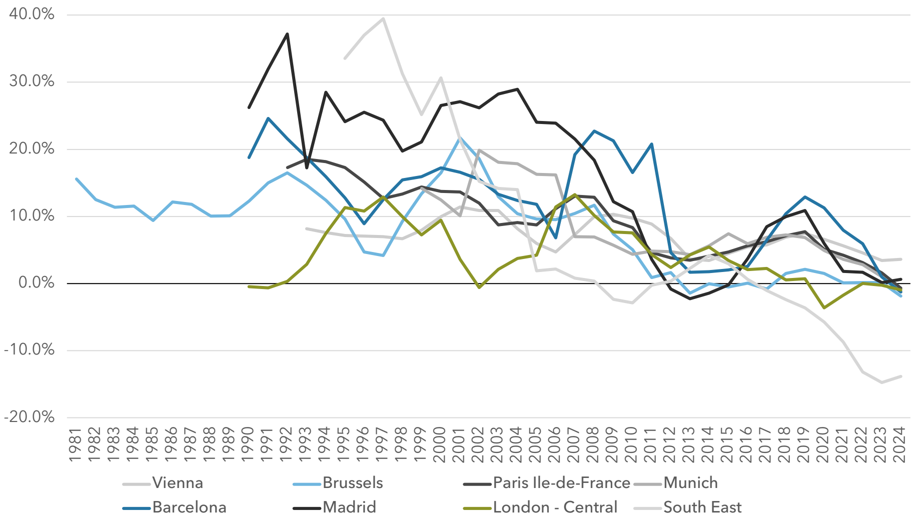
Every economy needs infrastructure to grow and deliver goods and services to its population. Roads, harbours, bridges and power plants are just a few examples. This is the economy's real capital: Resources that are used to produce goods and services without being consumed themselves.

Real estate is also real capital: We do not consume the building, but rather what the building provides, i.e. shelter for whatever economic activity is taking place within it, be it for living (residential), storing (warehouse) or producing a service (office). And the fact of the matter is we only need so much of the infrastructure "office".

Generally, economic development tends to move the economy from being dominated by agriculture, then manufacturing, and finally, increasingly, the services sector. A growing service sector needs to be housed somewhere, and since many services are produced in offices, the stock of offices tends to grow with the service sector over time. In the most developed economies, e.g. the United Kingdom and the United States, the value added from the services sector equals more than 70 percent of GDP, according to the World Bank. This ratio currently stands at 55 percent in China (2023 value), up from 22 percent in 1980. Expect the stock of offices to grow rapidly in low- and middle-income countries, as their economies follow the usual development of being driven by the services sector. In developed economies, however, expect the need for office space to plateau – or drop, especially in high-income economies. Even significantly. Demographics alone are a clear driver. The working-age population in the European Union, according to the newest World Bank forecast, is expected to drop by nearly 20 percent by 2050. That's only 25 years, which, coincidentally, is the same number of years since we were relieved our computers had not crashed due to Y2K. Twenty-five years is a blink of an eye in economic development terms. And, broadly speaking, Europe is not lacking office space.

Consider, for example, that there are currently more than 5.6 million square metres of empty office space in the Paris region of France, according to CBRE. The Regional Observatory of Commercial Real Estate in Ile-de-France (ORIE) estimates that

Figure 1: Five-year growth of occupied office stock, selected European cities (1981–2024)



Source: CBRE

converting empty offices — by demolish-and-rebuild or office-to-residential conversions — could provide 8.8 million square metres of housing, which is in short supply in the region. The future of many offices will be housing for families.

This contraction in office stock should not surprise us. For the past two decades or so, multiple European cities have seen the growth in occupied-office stock drop. That growth has now turned into contraction in some areas. Consider Figure 1, which shows the five-year growth of occupied-office space in multiple European cities. The trend is clear, and it is a question of time when more regions will join the South East region of England in having a contraction in occupied office space. The population statistics are clear on this after all: Many cities do not have the working-age population to fill more offices.

But is the office dead, then, as an investment? No, clearly not, given the transformation that is taking place in the sector in terms of the type of office needed, as discussed earlier. There is a reason why rents for prime, centrally located offices in, for instance, Paris, London, Munich, Valencia, Bristol and even the South East region of England have risen by a third or more since the COVID-19 pandemic: The right types of offices are in short supply, and tenants are willing to pay for them if they meet their evolving needs. The offices that do not meet those needs, however, are not necessary: They are a bridge to nowhere by now. Tear them down or convert them. Move on. Cities also need to understand this necessary change given that, in many cases, in-place zoning rules stop investors from converting redundant offices to best-in-use buildings, e.g. housing for families. Cities need to be much more flexible when it comes to zoning rules.

New sector, new thinking

The office sector has already stepped into its future: slick, sustainable and less voluminous than before. Investors need to change their thinking on how they approach the sector. Simply building an office and waiting for working-age population growth to fill it doesn't work anymore. If you are going to apply this strategy, do so in middle-income and other fast-developing economies. In high-income countries, investors need to get more granular, know the local industries, and know the local tenants and their preferences for the type of office they are looking for and where they'll be located. Investors also need to accept that some of their current offices are obsolete and best used for conversion.

The old office is dead, and the new office is here. Investors who adapt may find opportunities for attractive returns.

[1] US Office Attendance Policies Midyear 2024

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