



Office market after the crisis

Working from home will rise slowly, if at all

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The COVID-19 crisis raises the question of whether the increased shift towards working from home will ultimately reduce demand for office space. The longer the crisis continues, the more people will get used to long-distance co-operation – and the more efficient remote communication may become. However, employees and teams experience the corona crisis very differently. Much depends on how well a team worked together pre crisis.

Increase in working from home in 2020 to dampen demand

Creating new teams or introducing new people into a team of remote workers may turn out to be a challenge. In particular, communication needs of both employers and employees are likely to be elevated in the direct aftermath of the crisis. For that reason, we do not think that working from home will really catch on in 2020 – which means that a significant impact on overall demand for office space is unlikely.

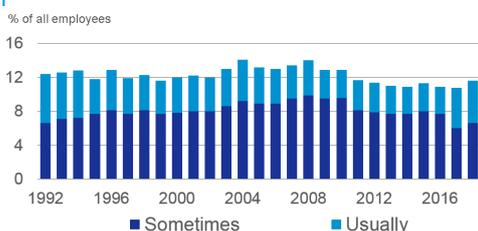
In the longer run, working from home might become more widespread

In March 2020, small and medium-sized enterprises (SMEs) were able to apply for support from the federal government for setting up remote working environments. Once the COVID-19 crisis is over, subsidies or tax incentives for this purpose might become even more important. There might be broad political support for such measures, which would reduce commuting and therefore also help to reach the government's carbon goals. Working from home might become more widespread as the current crisis accelerates the digitalisation of workflows even in those sectors where working from home was a rarity before, for example in the public sector.



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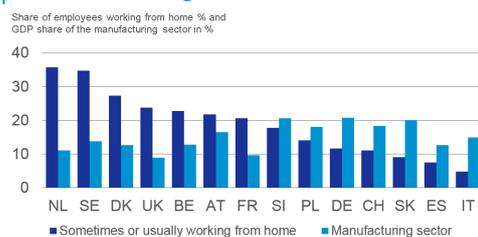
15-64-year-old employees working from home



Sources: Deutsche Bank Research, Eurostat

Still, there are several arguments against this scenario. There may be legal and regulatory reasons which prevent people in many jobs from working exclusively from home. While this hurdle is not insurmountable, a number of surveys among employees confirm that working from home may be unhealthy. In particular, people say that they find it difficult to draw a clear line between work and spare time. A more widespread adoption of remote working may also be hindered by structural reasons, such as the importance of manufacturing for the German economy as a whole. As a rule, countries where manufacturing contributes a smaller share to GDP tend to have more people working from home. In Germany, the percentage of remote workers is slightly below the EU-27 average and has remained highly stable over the past 30 years. In addition, it is roughly the same for all age groups and for men and women. Roughly 12% of all staff work from home sometimes or regularly (EU-27 average: about 14%). The percentage is higher in most neighbouring countries, above all the Netherlands (36%). All in all, the number of remote workers looks set to rise only gradually in Germany. It may increase by several tenths of a percentage point per year. We therefore do not expect major effects on demand for office space. In fact, "social distancing" might temporarily even increase the average floor space per employee (currently: about 23 sqm).

2018 Working from home vs. Manufacturing



Sources: Deutsche Bank Research, Eurostat, World Bank

What developments might end the office property cycle?

During the past ten years, the percentage of remote workers would have needed to rise by about 1 ½ percentage points per year to offset the average annual increase in the number of office workers by c. 100,000 in the 126 biggest German cities. Once the corona crisis is over and activity has normalised, the percentage might have to rise less if, contrary to our expectations, demand for office workers slowed considerably. In that case, vacancies would rise, as numerous office properties are currently under construction. In this scenario, a significant increase in the number of remote workers, say by more than 1 pp per year, might spell the end of the office property cycle.

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