Adaptive Spaces

Spring 2023 U.S. Office Occupier Sentiment Survey

REPORT

Making Progress on Organizational Change

CBRE RESEARCH
MAY 2023

Executive Summary

CBRE's Spring 2023 Office Occupier Sentiment Survey provides insights from 207 corporate real estate executives with U.S. office portfolios about how organizational strategies to support the future of work are progressing.

Most companies requiring office attendance and many anticipating more attendance this year

Sixty-five percent of respondents to CBRE's Spring 2023 U.S. Office Occupiers Sentiment Survey say their companies are requiring that employees return to the office. Financial/professional services company respondents lead the trend with 71% reporting that their companies now require a return to the office, most of which are stipulating attendance for more than half the week. On the other hand, only 56% of technology company respondents say their firm requires a return, with most stipulating attendance for less than half the week.

Office space generally remains underutilized, although smaller companies are more likely to report higher attendance. Thirty-eight percent of respondents anticipate increased office attendance this year, more so for those currently having the lowest office utilization rates.

Sentiment grows toward either mostly in-office or mostly remote work

Allowing an equal mix of office and remote work seems to be a strategy that is losing favor. Today, 45% of respondents support a mostly or fully office culture (vs. 37% in 2022), while 22% support a mostly or fully remote culture (vs. 15% in 2022). CBRE studies have found that most employees want to work in the office at least some of the time, so understanding employee preferences before shifting to fully remote status is important.

More than three-quarters of survey respondents report offering guidance to help drive intended office utilization patterns. Those with clear policy guidance requiring employee office attendance are achieving higher office attendance rates.

Emerging clarity about the future leading to incremental workplace change

Half of survey respondents report working with other company departments and directly engaging employees to drive change. These initiatives typically result in greater space sharing, enhanced collaboration space and more video conferencing but stop short of efforts that will truly transform the way the office enables the future of work.

Emerging policies include allowing employees to set their daily working hours, having employees in the office on a rotating schedule and instituting a four-day work week. Generally, policies are being refined to set intention, provide clarity and allow predictability for all parties around what hybrid working means.

Portfolio optimization underway with a focus on efficiency and flexibility

Over half of respondents, led by large companies, anticipate further reductions of their office footprints to trim unoccupied space, with most executing this upon lease expirations. Where tenants are negotiating leases, renewals are the preferred strategy. However, more than half of respondents plan to relocate to better quality space. Markets that combine walkability, modern office space, housing and high-end experiential retail are outperforming.

Many respondents say their companies are seeking flexibility in lease agreements, including shorter lease terms and more latitude to expand or contract their total space. Bundling shared building services and amenities such as meeting and flex space also is highly desirable in lease agreements.

01

Current State of Office Attendance

Most companies requiring office attendance but technology companies lag

Most companies appear more decisive this year about office-attendance expectations. Sixty-five percent of survey respondents say that their company now requires some level of office attendance, while only 30% are maintaining a voluntary return-to-office policy. This is in contrast to last year when over half of respondents left a return to office up to the discretion of employees.

Of those that require a return to office, 57% are tracking attendance. However, most have no guidance on enforcement. Considering today's tight labor market, this is not surprising. Employers are carefully requiring more days in the office, while avoiding strict enforcement to hedge against resignations by skilled employees.

Results vary by industry, with technology respondents citing a more lenient return-to-office policy than other respondents. Only 26% of technology respondents require a return to the office more than 2.5 days a week vs. 48% of financial/professional services respondents. Conversely, 41% of technology respondents support a voluntary return to the office vs. 25% of financial/ professional services respondents. This industry difference indicates why some of the more tech-centric markets are lagging in return-to-office rates.

Figure 1: Current Guidance on Employer Expectations for Office Attendance

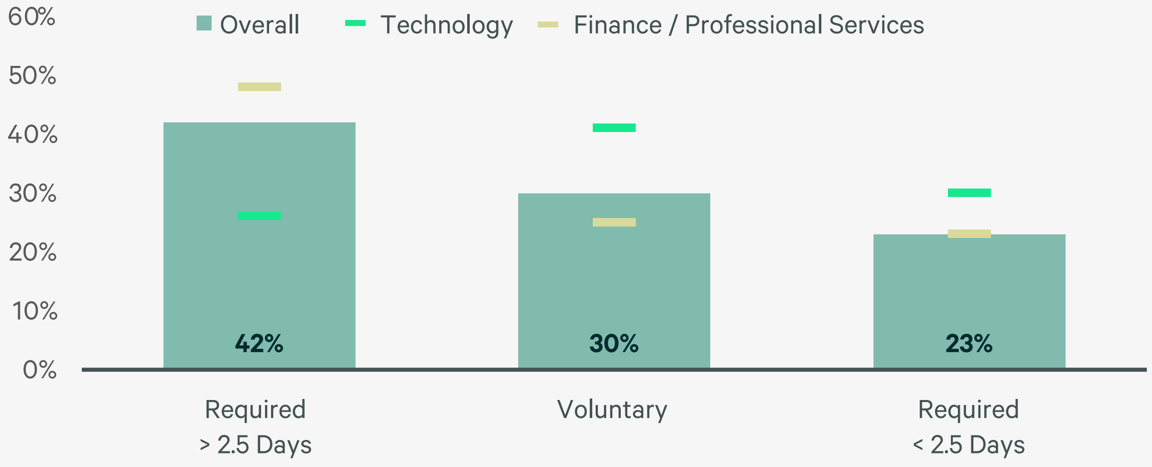


Figure 2: How they are tracking

Tracking via Manager Reporting	46%
Tracking via Badge Swipes / Sensors / VPN Logins	41%
Tracking via Workspace Booking System	13%

57%

Tracking Attendance

How they are enforcing

No guidance provided	52%
Guidance provided but not enforced	32%
Guidance provided and enforced	16%

Source: CBRE Research, April 2023.

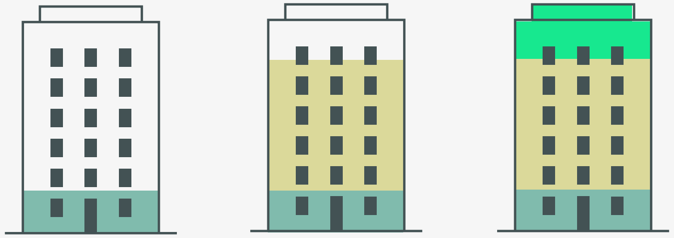
Small companies more likely to have higher office attendance

Office utilization rates vary greatly by company but generally remain subdued. Ninety-four percent of respondents from large companies reported office utilization rates of less than 60%. While the majority of small-company respondents also report office utilization rates of less than 60%, there are five times more of them above that threshold than large-company respondents. Thirty-five percent of small-company respondents are achieving this goal vs. 6% of those in large companies. Tech respondents reported the lowest office attendance and financial/professional services respondents higher, but still below the survey average.

94% of large companies
65% of small companies

Percentage reporting
low office utilization rates
(i.e., less than 60%)

Figure 3: Average Weekly Office Utilization Rate (headcount/desk count)



	0-25%	26-60%	61-100%
By Size of Company			
<5,000 Employees	23%	42%	35%
>5,000 Employees	20%	74%	6%
By Industry			
Finance/Professional Services	14%	66%	20%
Technology	41%	55%	4%
Overall	**22%**	**54%**	**24%**

Source: CBRE Research, April 2023.

Number in table equates to percent of respondents that report each utilization level.

Office attendance expected to increase for companies with lowest utilization

Nearly 40% of respondents still expect office utilization to increase, while most expect to achieve steady state by year-end. The lower a company's current office utilization rate, the higher the expectation for an increase in utilization. Nearly a quarter of respondents are unsure when office utilization patterns will reach acceptable levels, pointing to continued uncertainty among many companies.

Sixty percent report that their office utilization has settled at a steady state, meaning that many companies have accepted less-than-full utilization as the new normal. This is up from only 43% that reported reaching a steady state in 2022. The smallest companies are ahead of the curve: 71% of those with under 100 employees said they have reached a steady state vs. only 55% of the largest companies with 10,000+ employees.

Figure 4: Expectations About Office Utilization Patterns

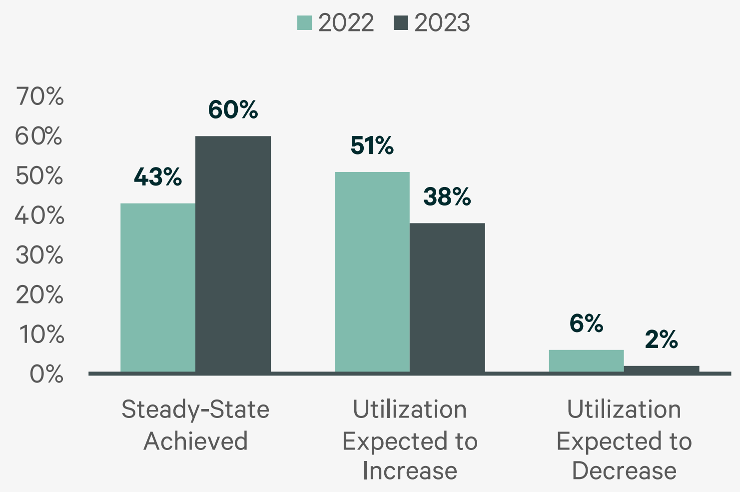


Figure 6: Steady State Expectations by Current Office Utilization

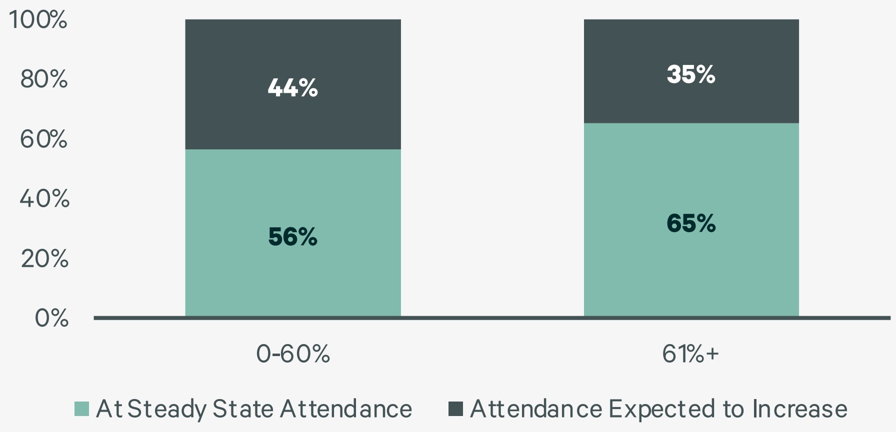
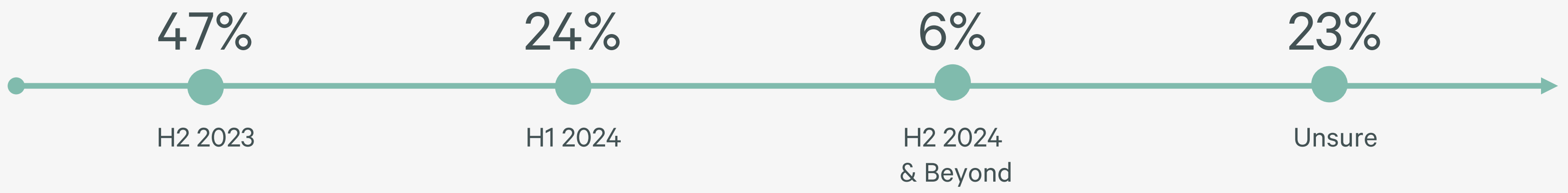


Figure 5: Expected Timeline for Companies to Reach Steady State



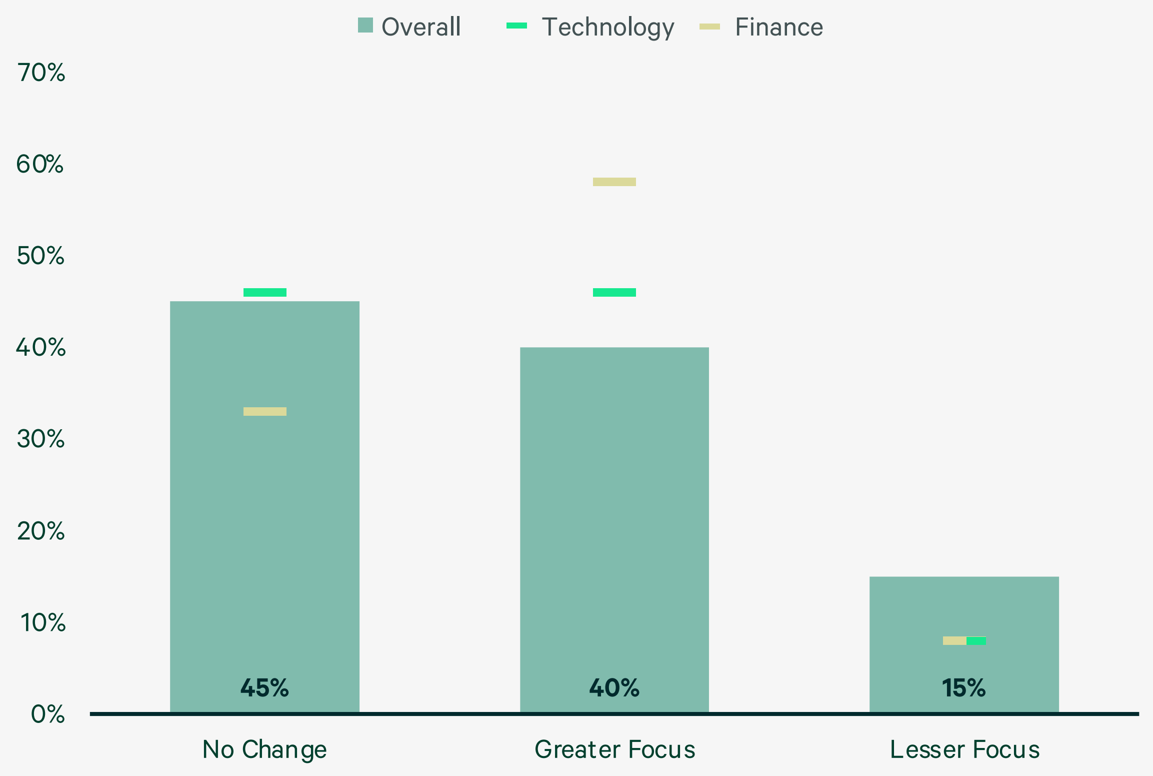
Source: CBRE Research, April 2023.

Executives are split over how economic uncertainty impacts return-to-office policies

There has been much speculation about the impact of a recession on getting employees back to the office more regularly. The survey indicates that executives are split over how economic uncertainty impacts return-to-office policies. Forty-five percent of respondents reported no impact from the weakening economy, while 40% reported an increased urgency of C-suite executives to get employees back to the office. Financial services occupiers appeared much more likely (58%) to double down on return-to-office efforts due to the economy than the overall average.

More than 70% of U.S. respondents to CBRE's Global Live-Work-Shop Survey who identify as hybrid workers claim that trust in their employer is stronger than it was pre-pandemic. This is much higher than fully remote or fully in-office worker sentiment. Trust is a foundational factor in employee engagement and managing that trust is a long-term imperative. Taking a careful and measured approach to return-to-office messaging, especially during uncertain economic times, is prudent.

Figure 7: Focus of C-Suite on Office Attendance Amid Economic Uncertainty



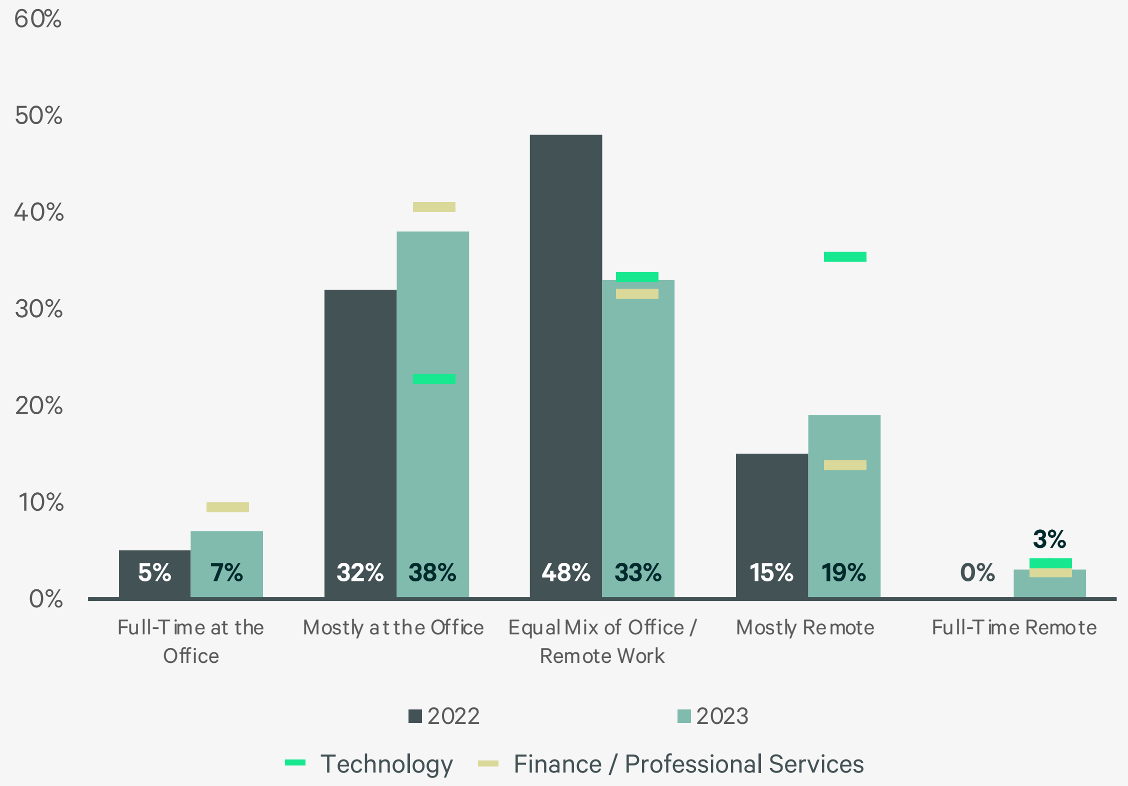
Source: CBRE Research, April 2023.

Position toward a mostly office or remote culture is growing

Trying to balance an equal mix of office and remote work seems to be a strategy that is losing favor based on this year's survey results. The difficulty in space planning and creating critical mass in the office under a balanced hybrid strategy is likely behind this shift. Only 33% of respondents reported a goal of having employees work an equal mix of time between the office and remotely (vs. 48% last year). This shift in sentiment has resulted in 45% of surveyed companies supporting a mostly or fully office culture (vs. 37% in 2022) and 22% supporting a mostly or fully remote culture (vs. 15% in 2022). Companies seem to be balancing predictability with flexibility more so than previous years. Technology respondents were more likely to aspire to mostly or fully remote work (42%) vs. financial/ professional services respondents who were more likely to aspire to mostly or fully office work (50%).

Sixty-three percent of U.S. respondents to CBRE's Global Live-Work-Shop Survey want to work in the office at least three days a week. Less than 7% want to be full-time remote workers. Employee preferences are important for companies to understand before they shift to a strategy that could impact employee productivity and wellness.

Figure 8: Company Goals for Steady-State Office Utilization



Source: CBRE Research, April 2023.

Policies are in place but messaging varies

With more companies intent on either maintaining or boosting office attendance this year, clear communications to clarify and gain greater acceptance of office-attendance policies are critical. Seventy-six percent of respondents report having a policy or at least guidance in place to help drive intended office utilization patterns. While most of these policies state the number of days per week employees are expected to be in the office, few specify which days of the week. Forty-one percent indicate it varies by team and 41% indicate there are no expectations. Of those that do specify actual days, most are in mid-week.

Figure 9: Return to Office Policy

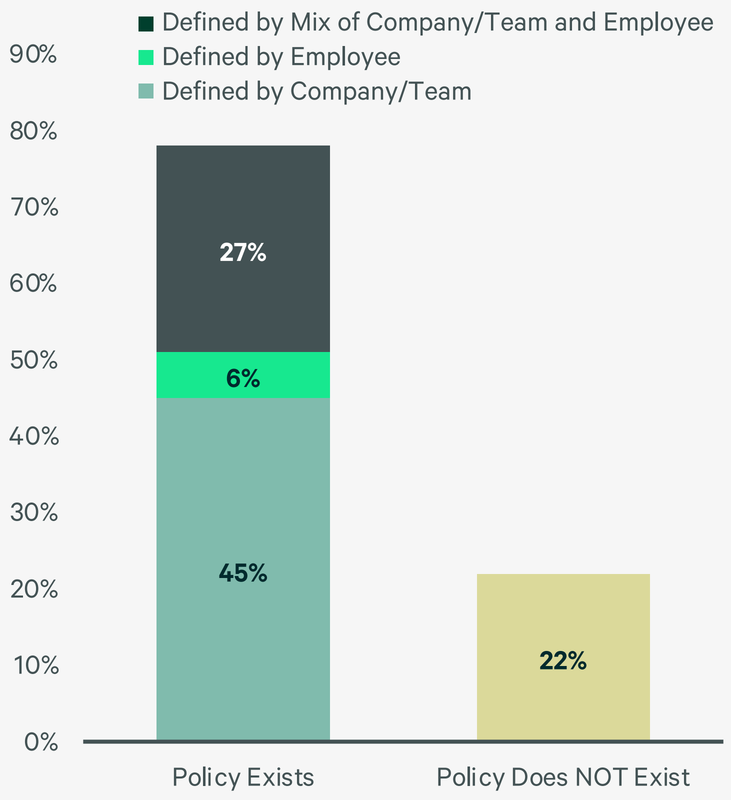
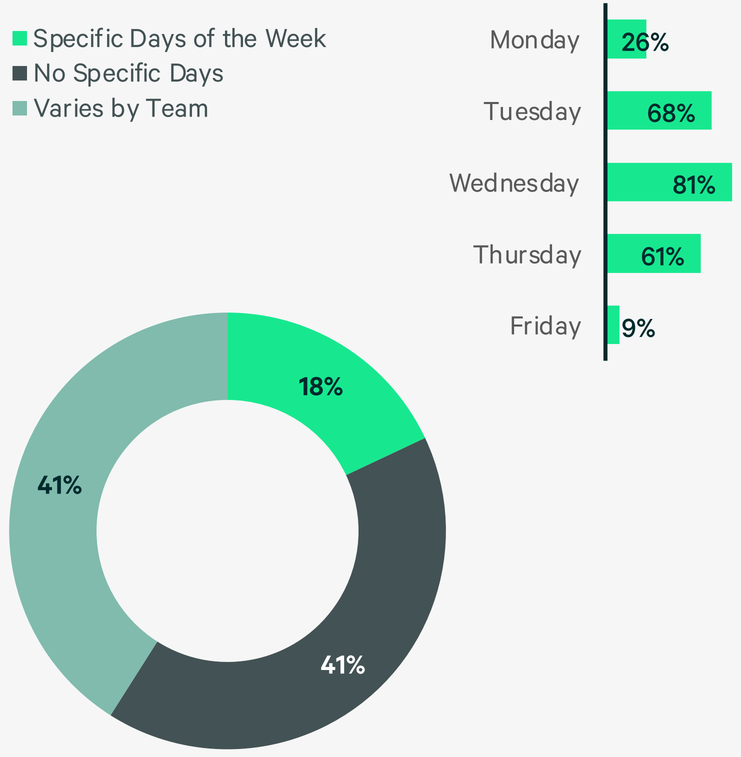


Figure 10: Office Attendance Requirements



Source: CBRE Research, April 2023.

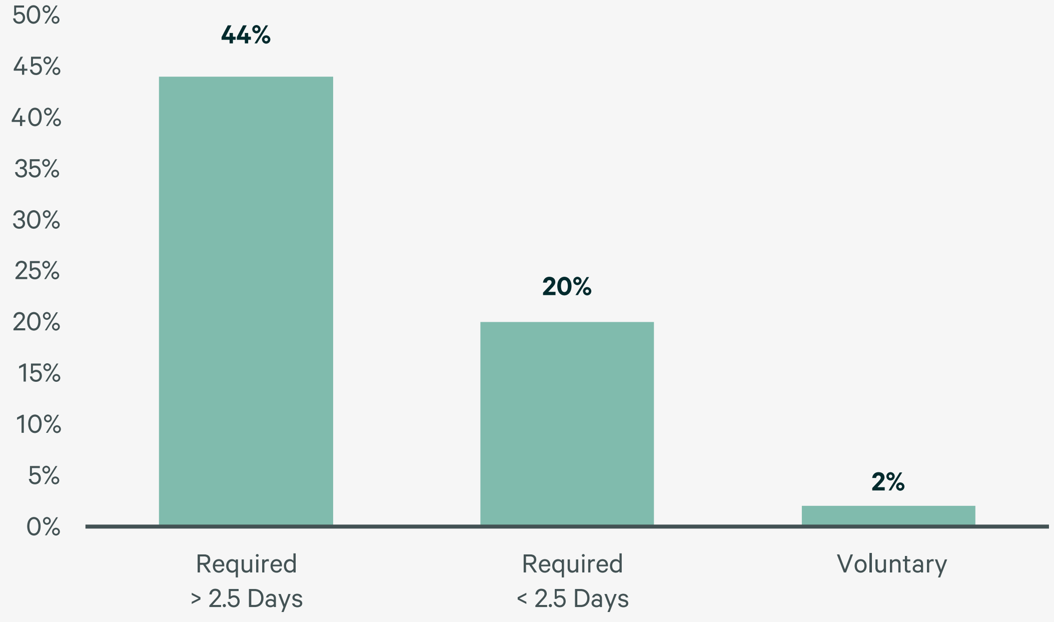
Clear communication leads to increased attendance

A clear and logical pattern forms when analyzing office utilization based on company policy. Forty-four percent of surveyed companies that require a return of 2.5 days or more have office utilization rates above 60%. Only 2% of those with a voluntary policy are achieving the same. It is clear that setting expectations helps companies achieve higher office attendance.

44%

of surveyed companies that require a return of 2.5 days or more have **office utilization rates above 60%**

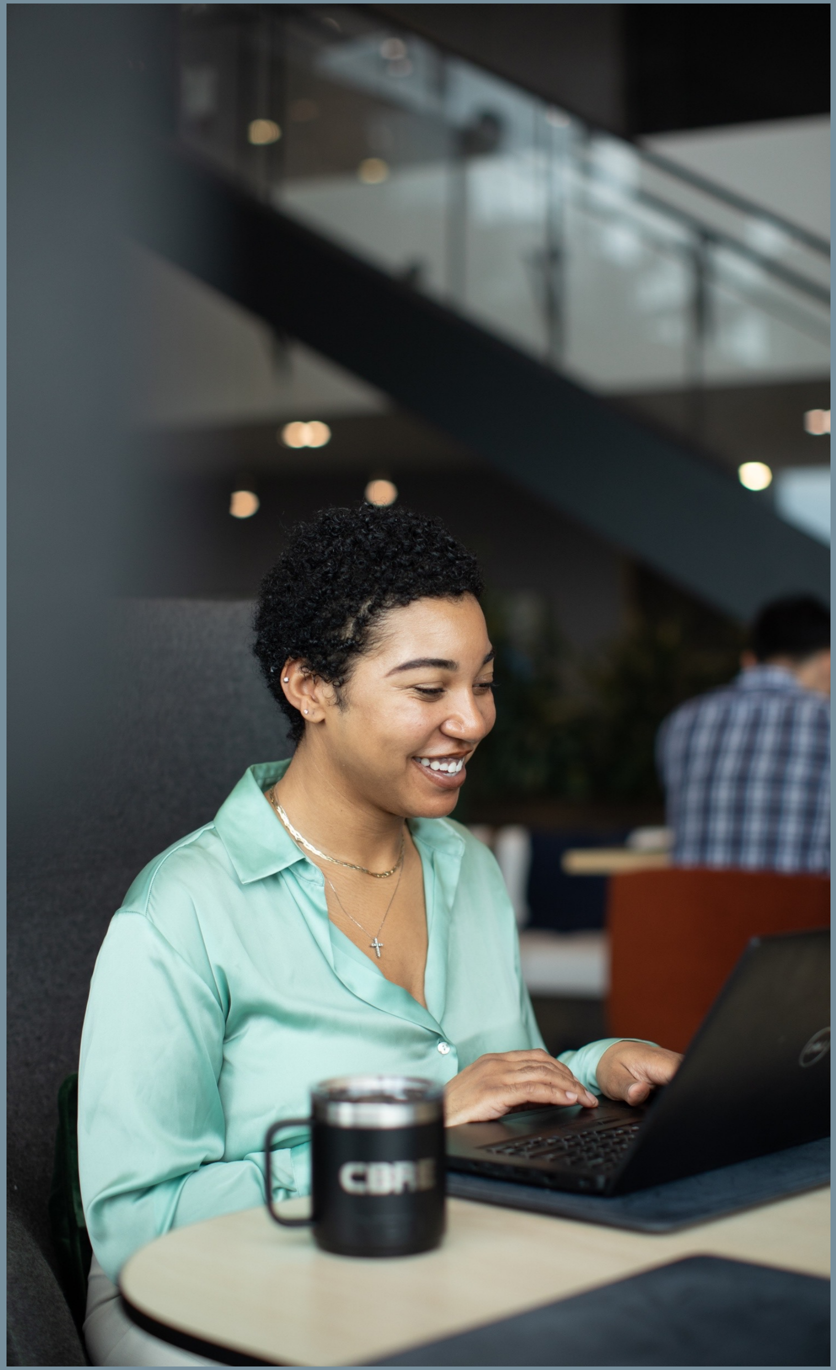
Figure 11: Respondents With 60%+ Utilization Based on Return-to-Office Policy



Source: CBRE Research, April 2023.

02

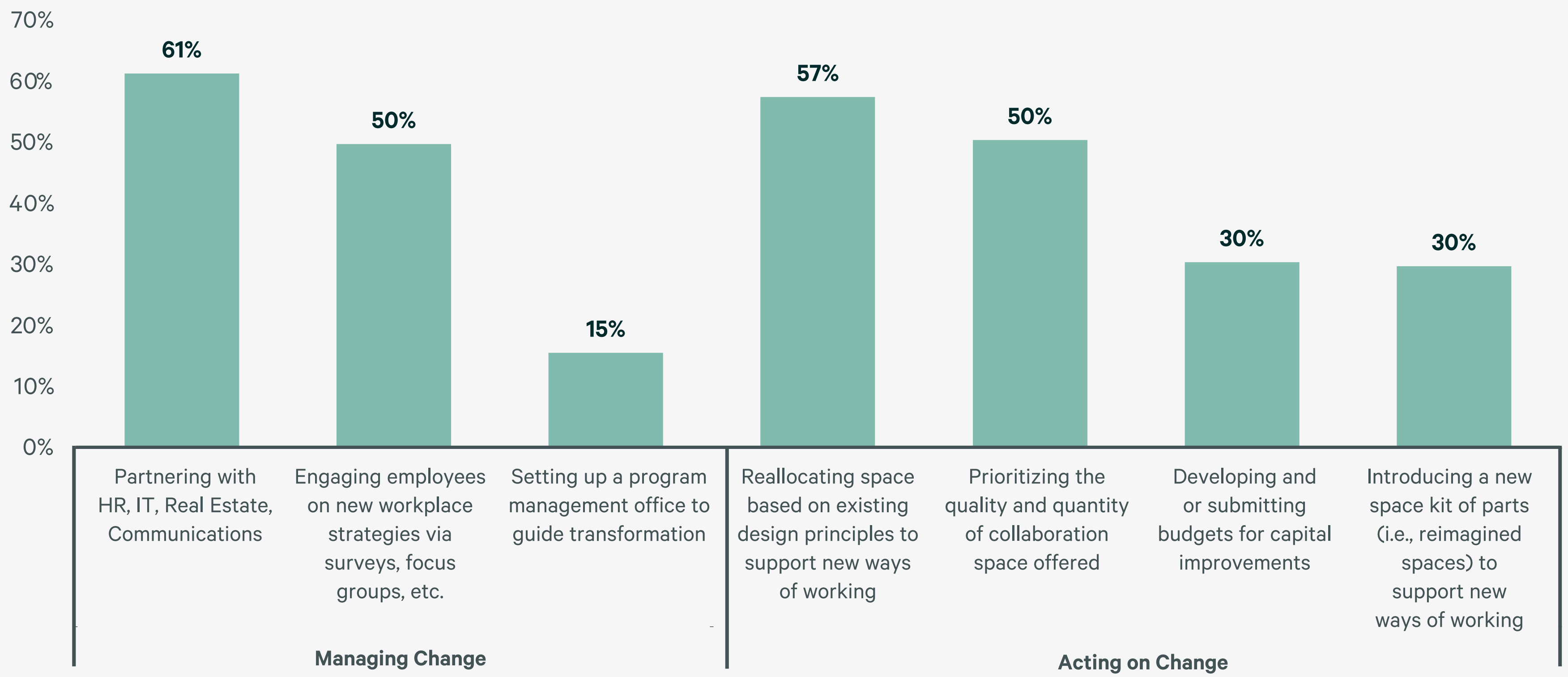
Enabling New Work Styles



Efforts underway to support workplace change

Most companies have implemented workplace strategies to better support the paradigm shift in how people work. Those managing workplace change are listening, learning and organizing in order to act effectively on ideas that will support a future state. Most companies managing change report partnerships between their human resources, information technology, corporate real estate and communications departments, as well as engaging employees themselves in the process. Those acting on workplace change most commonly report reconfiguring space with a priority on facilitating employee collaboration. Few surveyed companies reported a focus on transformational change, such as setting up a program management office to guide long-term change and reimagine space design.

Figure 12: Workplace Change Strategies



Source: CBRE Research, April 2023.

Figure 13: How Companies Engage With Employees

Source: CBRE Research, April 2023.

Making space efficient and effective

The most common actions to reallocate space in support of new work patterns focus on making space more efficient for the company and more effective for employees. Sixty-six percent of respondents indicated they were moving away from individual seat assignments toward a greater ratio of seat sharing. Fifty-two percent are planning up to a 2-to-1 employee/ seat ratio, while 15% are planning up to a 3-to-1 ratio. Only one-quarter of respondents plan to keep a 1-to-1 ratio or less.

Seat sharing and employees collaborating between the virtual and physical worlds on a regular basis have made both video-conferencing technology and space booking technology more of a priority. The right technology and space to support that technology can help companies and teams transition effectively to hybrid work. Surveyed companies are most focused on investing in video conferencing technology, which includes the platform, microphones, speakers, cameras, high-definition displays and room set-up.

Figure 14: Employee-to-Desk Ratio

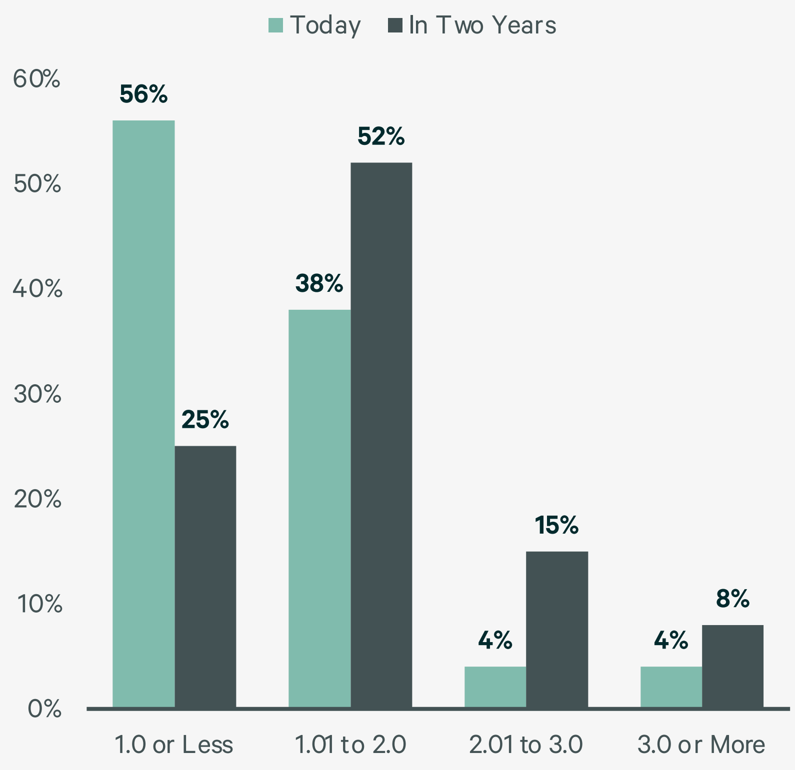
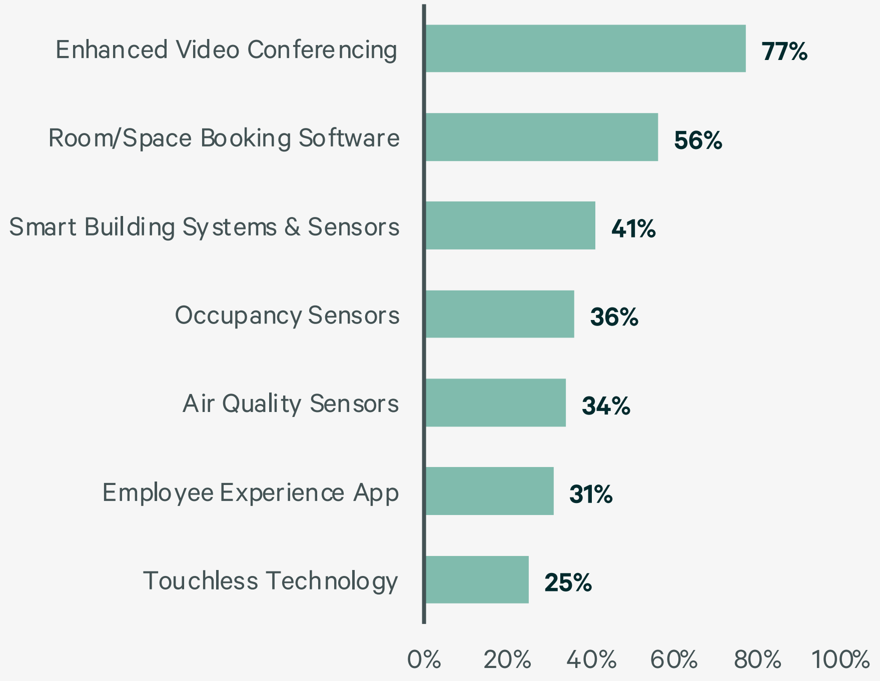


Figure 15: Corporate Real Estate Technology Implementation



Source: CBRE Research, April 2023.

Hybrid working continues to evolve

Employers getting creative beyond hybrid work

While the concept of hybrid working—split between the office, home and other places—is now well established, clearer expectations are emerging. In short, the scope of hybrid working continues to evolve in the following ways:

When you work

Allowing employees to set their own hours on office days:

- Most implemented alternative strategy (27%).
- Allows teams to set core office hours to better predict in-person engagement.
- Allows employees to maintain some level of autonomy on a daily basis.

Implementing a four-day work week:

- A few (3%) companies report exploring this option.
- Results from a six-month U.K. trial involving dozens of companies suggest that productivity, morale and team culture improve and individuals reap benefits for their health, finances and relationships.

Where you work

Having employees in the office on a rotating schedule:

- Most explored alternative strategy (31%).
- Allows employers to plan for efficient use of real estate and ensure appropriate teams come in together.
- Allows employees to maintain some level of autonomy on a scheduled basis.

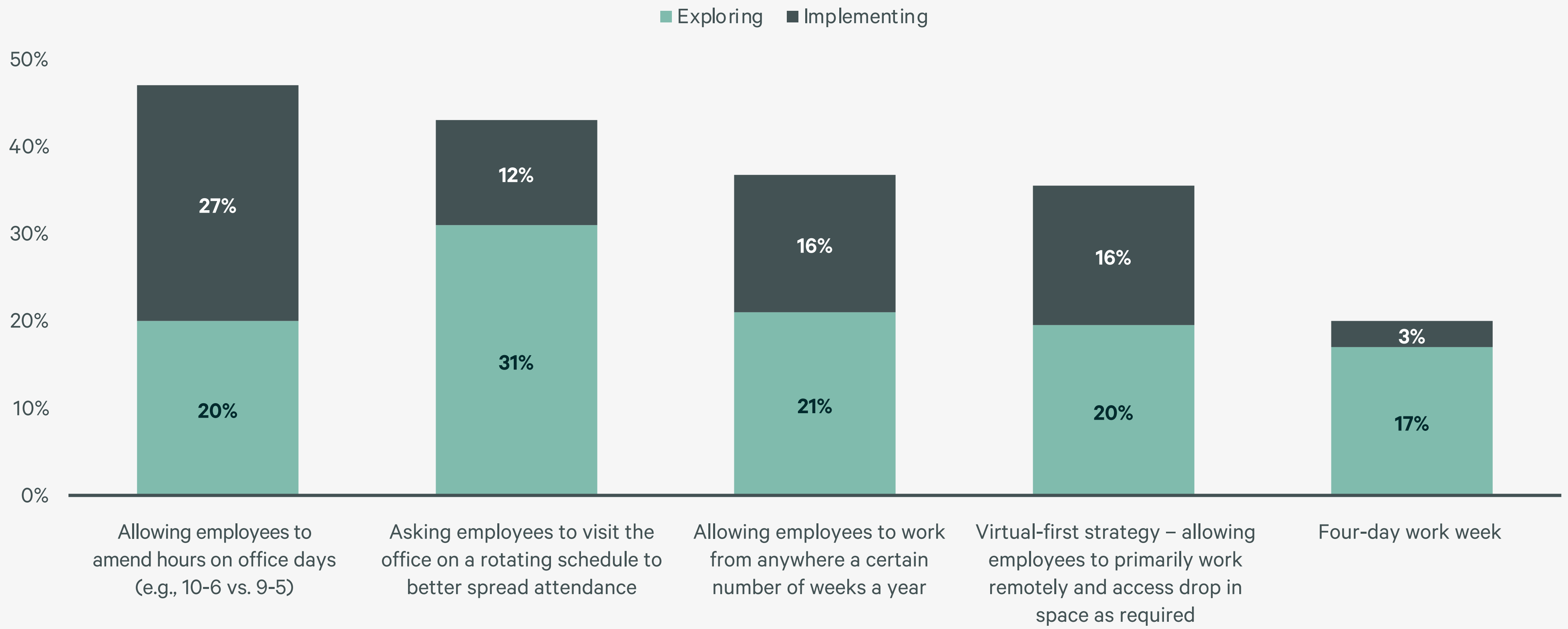
Working from anywhere a certain number of weeks per year:

- Second most explored alternative strategy (21%).
- Viewed as a complement to hybrid work policies that allows employees complete autonomy for a certain number of weeks per year.

Implementing a virtual-first strategy:

- Allows employees to work remotely and access drop-in space as required.
- Allows employers to drastically reduce their real estate portfolio.
- Gives employees a high level of autonomy.

Figure 16: Emerging Workplace Policies



Source: CBRE Research, April 2023.

03

Efficient Portfolio Planning

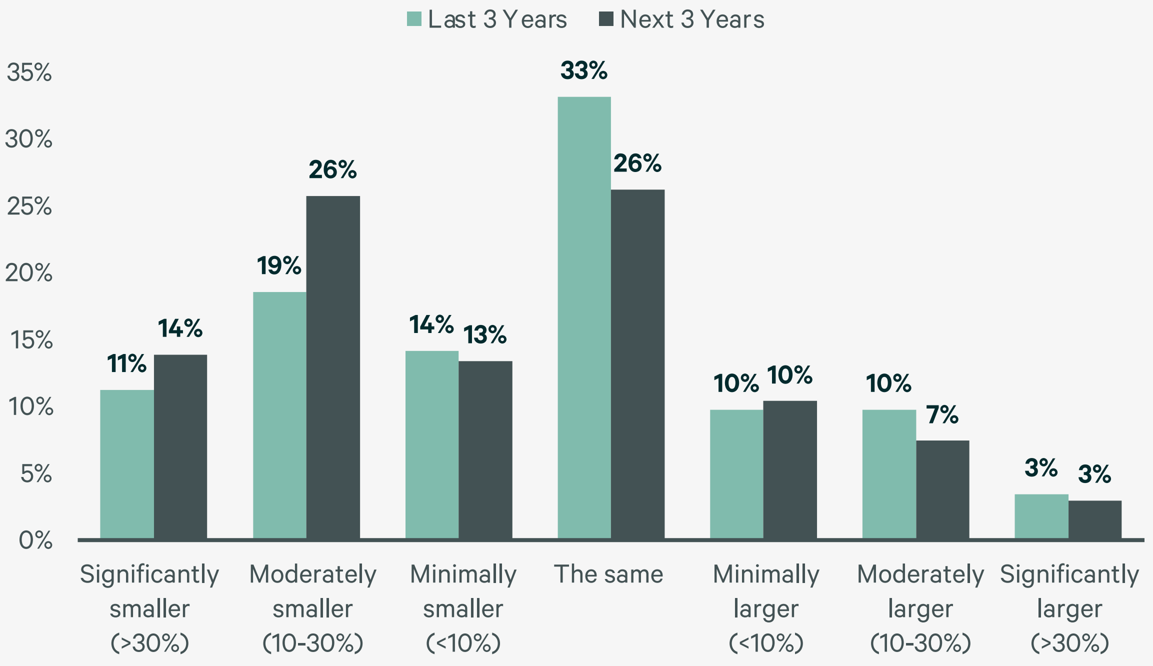
Larger portfolios to drive more rightsizing

Uncertainty surrounding the long-term impact of hybrid work has translated into varying approaches to space planning over the past three years, with nearly 23% of respondents reporting portfolio growth and 44% portfolio contraction since the start of the pandemic. Downsizing was more prominent among technology and financial services firms, with 64% reporting reducing their portfolio size over the past three years.

More than half of respondents anticipate further rightsizing of their portfolio in the next three years. Most of this sentiment is for portfolios becoming up to 30% smaller. Larger companies will drive this portfolio downsizing: 68% of the largest companies in the survey (>10,000 employees) plan downsizings compared with 46% of all other respondents. For all surveyed companies planning to downsize their real estate portfolio, 87% say they require less space due to the increase in hybrid work. However, 31% say they plan to downsize because of inefficiencies in their portfolio that predated the pandemic, while another 27% are doing so to reduce costs.

Only 36% of the smallest companies surveyed—those with less than 1,000 employees—plan to reduce their office space. Eighty-eight percent of office-using businesses in the U.S. have less than 1,000 employees. Therefore, smaller requirements should remain the norm for future office leasing activity.

Figure 17: Real Estate Portfolio Status



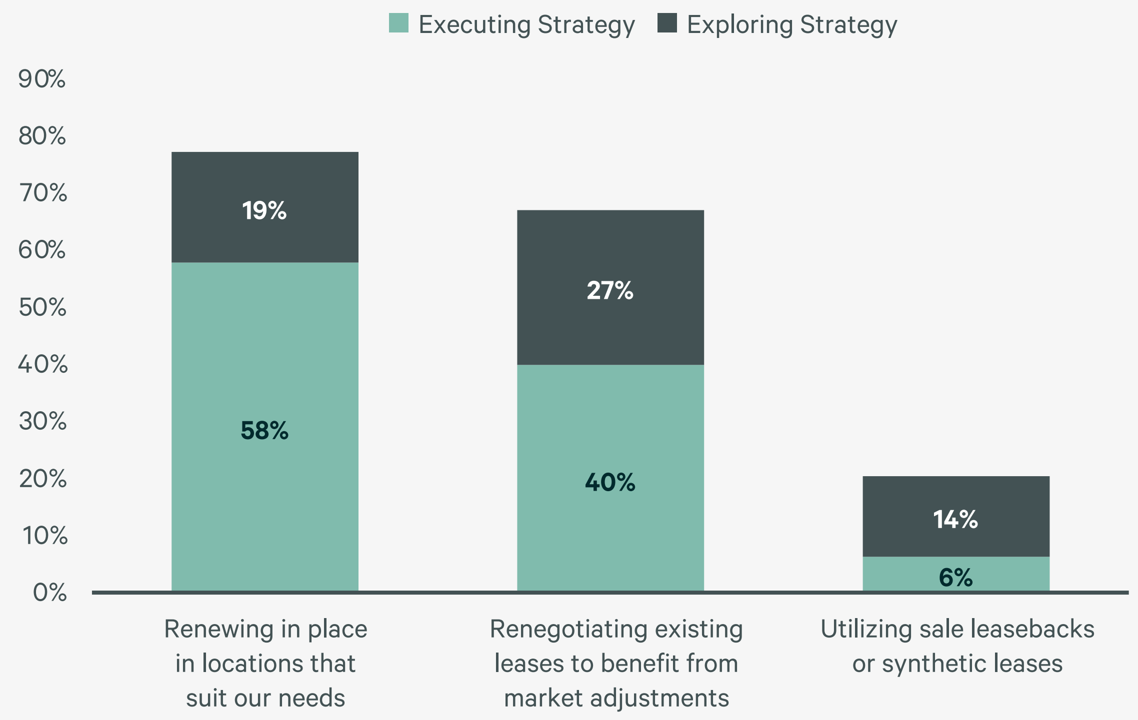
Source: CBRE Research, April 2023.

Optimizing current portfolios

Most companies are focused on renewing their existing office leases to prevent operational disruptions, negotiate better lease terms or perhaps avoid costly build-outs. This is particularly true for large tenants perhaps due to the negotiating power their size and credit may hold with some landlords. Given the current capital markets environment, tenants should conduct due diligence on their current landlord and fully understand the capital stack of the building, the debt coming due and other lease expirations or vacancies in the building. This will help the tenant to fully understand its leverage and ensure the correct safeguards are negotiated into the transaction.

Tenants should conduct due diligence on their current landlord

Figure 18: Occupier Strategies for Portfolio Optimization



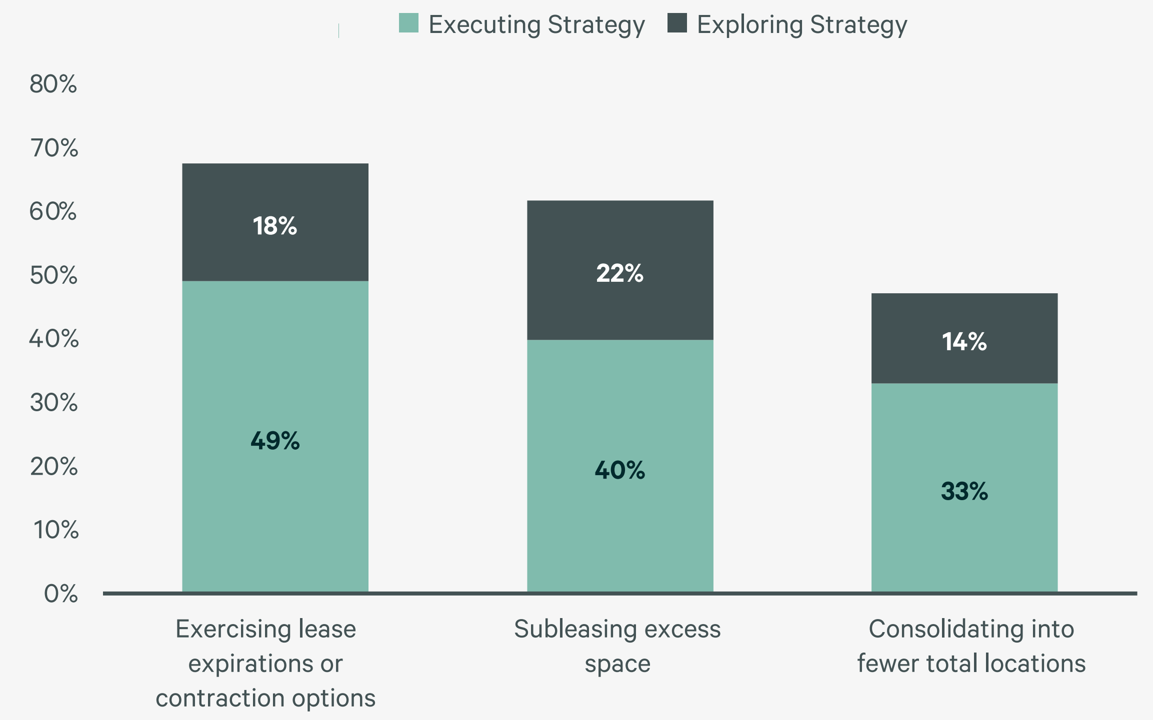
Source: CBRE Research, April 2023.

Downsizing strategies for portfolio optimization

As evidenced by increases in the office vacancy rate and the amount of sublease space since the start of the pandemic, tenants are rightsizing their office portfolios by consolidating into their preferred locations and either subleasing any excess space or eliminating it upon lease expiration. The sublease market is currently saturated, making this option less viable depending on size, locations and remaining lease term. Although nearly half of respondents indicated they are executing space optimization upon lease expirations, fewer say they are exploring it as an option, which may signal that space returned to the market is about to slow.

> Tenants are rightsizing their office portfolios by consolidating into their preferred locations

Figure 19: Downsizing Strategies for Portfolio Optimization



Source: CBRE Research, April 2023.

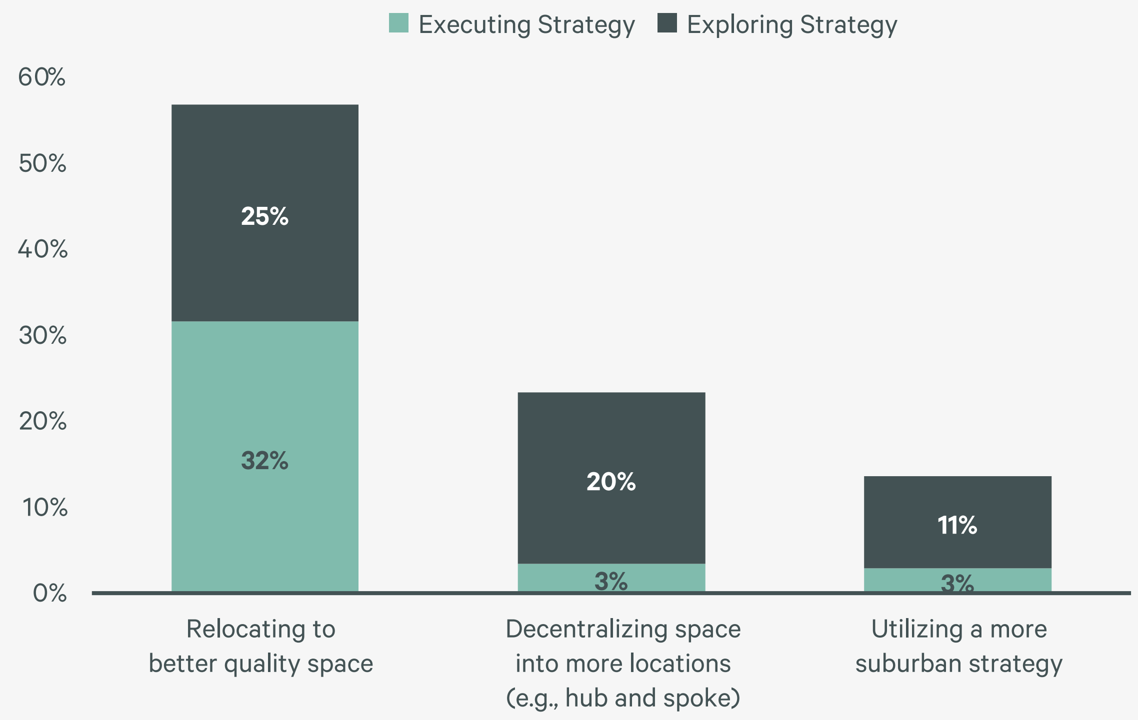
Upgrading future portfolios

Survey results clearly indicate a flight to quality, with 32% of respondents relocating to better-quality space and 25% exploring the option. This flight-to-quality trend is not just focused on the building but also the neighborhood in which it is located. Mixed-use districts anchored by trophy office buildings are among the most appealing locations.

A recent brief by CBRE Econometric Advisors highlights that "live-work-shop" districts—dense, walkable areas that combine modern office space, housing and high-end experiential retail—are outperforming the broader market in which they reside.

"Live-work-shop" districts are outperforming the broader market in which they reside

Figure 20: Strategies for Upgrading Office Portfolios



Source: CBRE Research, April 2023.

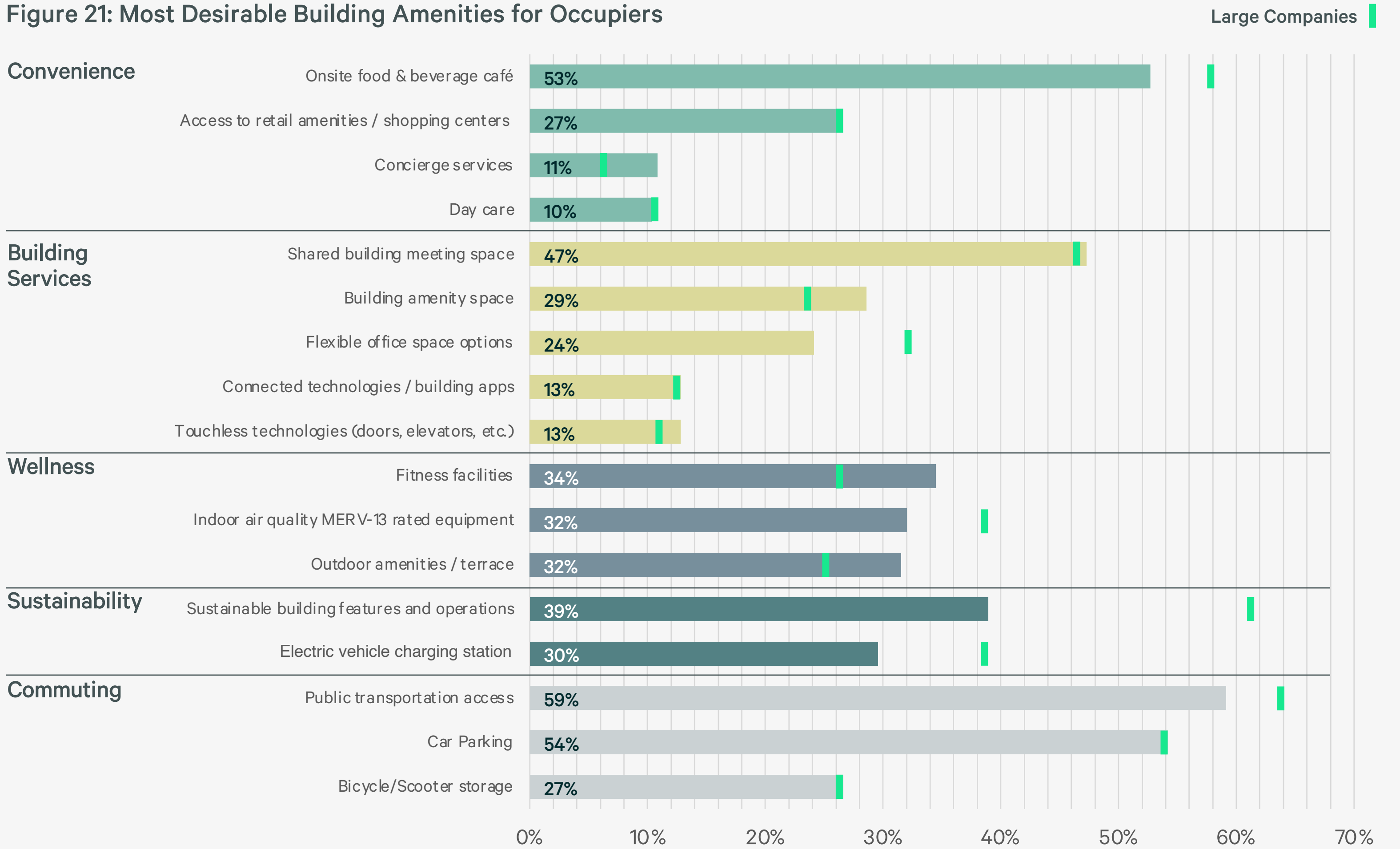
Building amenities that matter

Sixty-seven percent of U.S. respondents to CBRE's Global Live-Work-Shop Survey said that they place more importance on the quality of their working environment than they did pre-pandemic, likely because they have more choices today. Building amenities have an impact on decision-makers who are trying to balance employee experience, health & wellness, sustainability and efficiency.

Buildings that provide easy commutes and other conveniences are highly desirable. Fifty-nine percent of survey respondents favor buildings near public transit and 53% favor buildings with onsite food & beverage options. CBRE's Global Live-Work-Shop Survey found that second to salary, workers considered commute time a top factor when considering future job opportunities.

Sustainability and efficiency also rank highly on occupiers' agendas when choosing buildings. Thirty-nine percent of survey respondents rank sustainable building features as highly desirable and this jumps to 61% of the largest companies surveyed, many of which have publicly stated sustainability goals. Forty-seven percent of all respondents also rank shared meeting space as important, likely because occupiers are looking for ways to minimize their leased space as much as possible.

Figure 21: Most Desirable Building Amenities for Occupiers



Infusing agility

Whether optimizing or upgrading, it is clear that tenants, especially large ones, are seeking more flexibility through shorter lease terms and more expansion and contraction rights. More than 33% of survey respondents favor creative structures that support agility. These include bundling shared building services and amenities into the lease agreement, structuring leases to manage costs based on the utilization of space and leasing fully built-out spec suites. While these are not trends readily apparent in most landlord/tenant relationships, they give a glimpse into how new landlord strategies can help make buildings more marketable to future tenants.

Figure 22: Occupiers Seek Flexible Lease Terms

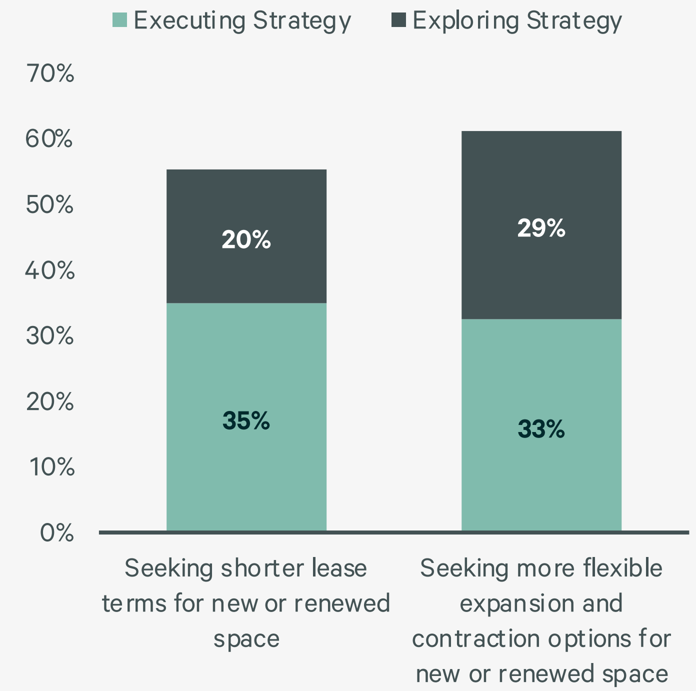
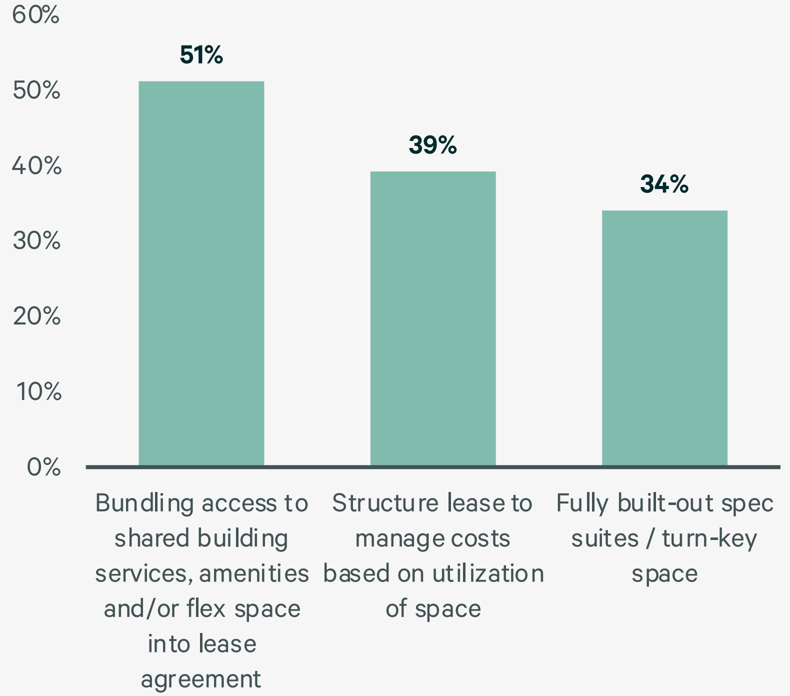


Figure 23: Occupiers Want Agile Leases & Amenities



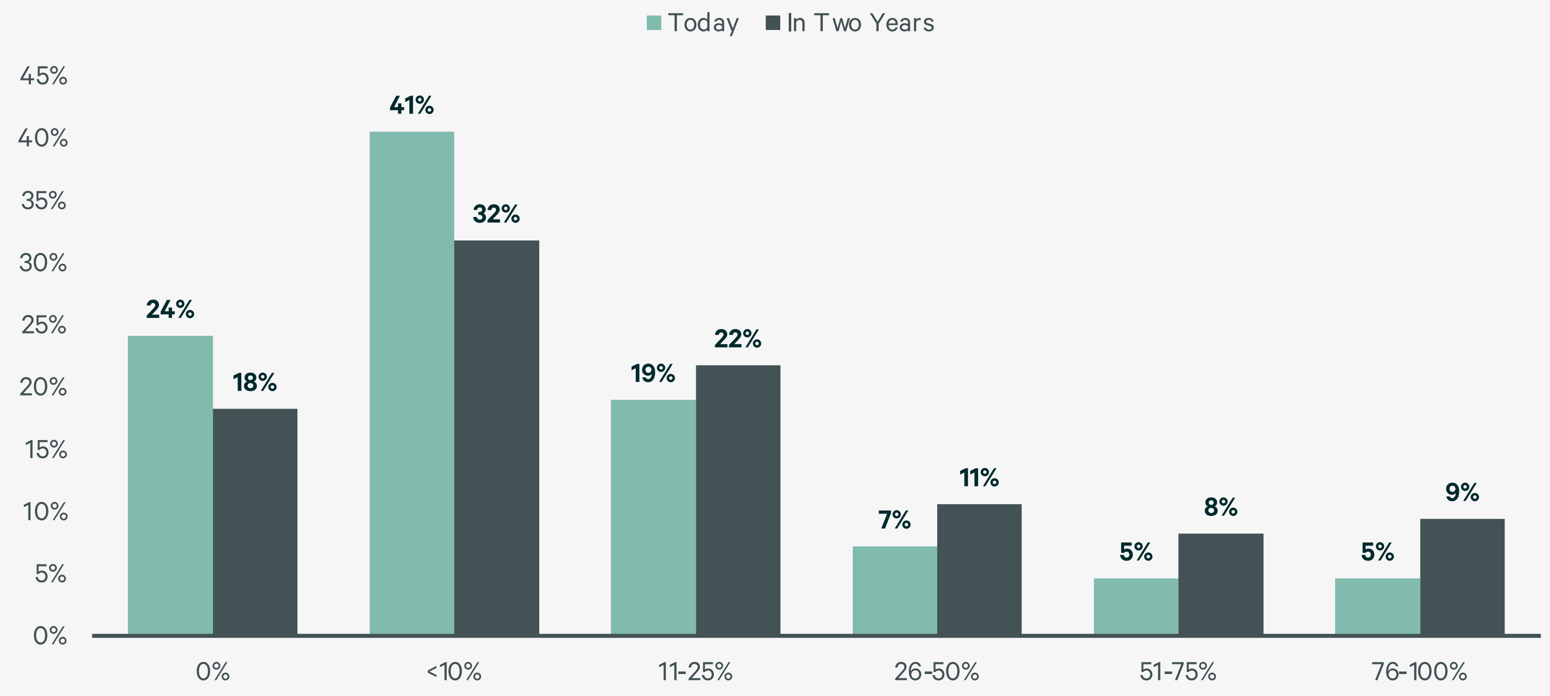
Source: CBRE Research, April 2023.

Flexible office space has grown in popularity since 2010 when new operators brought renewed appeal to the industry. Although flex space likely will not make up the majority of occupier portfolios, it is an option that occupiers are considering to achieve more agility in their portfolio.

Thirty-six percent of companies surveyed report that more than 10% of their portfolio is comprised of flex space, while 50% of those surveyed said they anticipate such an allocation over the next two years. While tech firms and smaller companies lead this sentiment, some of the largest companies also have a growing interest in flex options.

Flex can be used for many different scenarios, making it a useful tool for many companies. Some of the most frequent reasons for using flex include reducing capital expenditure, offering employees meeting space on demand, solving for uncertain demand, entering new markets and offering employees more choice of where to work. Occupiers increasingly expect their landlord to provide these solutions, with 47% of survey respondents identifying shared meeting space and 24% identifying flex space as an integral building amenity. Additionally, over half would engage with a landlord who is open to bundling shared building space and flex space into the lease agreement.

Figure 24: Allocation of Flexible Office Space in Portfolio



Source: CBRE Research, April 2023.

Considerations For Occupiers

1

Clearly state intentions for office attendance and create messaging and policies that support them. Those setting and communicating clear expectations are achieving higher office attendance.

2

Include employees in the planning process so their needs and preferences are heard and balanced with company goals. Instill the value of the office in messaging to employees to gain buy-in and drive intended behavior.

3

Support your managers, especially where team-level agreements are favored, to help them establish new norms, behaviors and most importantly to lead by example. Simple best practices around coordinating in-office presence can sometimes be most powerful in boosting overall office attendance and culture.

4

Track office utilization to plan for future space allocation but be mindful of how that data may be used to track employees. Trust is at the foundation of an impactful relationship between employer and employee.

5

Complement near-term initiatives. such as increasing shared space, with longer-term transformational initiatives. Finding ways to help guide a long-term vision will create a better chance for success.

6

Be creative in defining what hybrid work means for your company. Align employee preferences with company goals where possible, refine policies accordingly and create transparent messaging around specific hybrid strategies.

7

Optimize your portfolio by balancing organizational efficiencies with employee preferences. Take into account employee commutes, quality of surrounding neighborhood, the debt profile on the building and the landlord profile when making portfolio decisions.

8

Use negotiating leverage to achieve more favorable lease terms but also focus on creative flexible structures to achieve your goals of creating a more agile portfolio.

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