HSBC Global Research

30 March 2022

Has the office return already peaked?

What the next phase of the pandemic means for cities

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Economics - Global

- As offices remain half full across the developed world…
- …there's growing evidence that occupancy may not rise…
- …as workers place a large value on flexibility

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With most pandemic-related restrictions removed in much of the developed world over the course of the past couple of months, it's a good opportunity to revisit how this is impacting economic activity, particularly around mobility, office attendance and how busy cities are.

A number of things stand out: notably, office attendance rates are struggling to get above 40-50% where we get data. Kastle Systems data for US offices suggest that across the country as of March, offices were less than 40% as full as pre-pandemic, but restaurants, cinemas and flights are seeing 80-90% of the volume of people.

This supports our hypothesis that remote working's entrenchment means these figures are unlikely to rise much further. There's an argument to be made that remote work could become even more commonplace – a recent global survey from the team at WFH Research found that workers across the world associate flexible working from home with a 5% pay rise and 15% of employees would quit (or look for a new jobs) if five days a week in the office was enforced.

The next stage of working trends will have a marked impact on the economy – both in terms of urban activity and broader economic performance. Given tight labour markets, businesses will need to compete in different ways to attract employees. Given the growing evidence of the preferences of workers, that suggests more remote (or hybrid) working and greater flexibility of working hours seem likely rather than the opposite, in our view.

There's also growing evidence it's the suburbs and rural areas that are driving rental and house price inflation, and not city centres. We use data from Zillow in the US to show the difference in rents and prices of homes – with a stark difference between the density of areas. This divergence could have a meaningful impact on policy decisions – if the demand for rural or suburban property stays high, both strands of the property market could remain robust for longer.

Therefore, with offices only half full in most of the developed world, many will be expecting office occupancy to continue to grind higher. However, it's worth keeping in mind the alternative: that occupancy could be already close to a peak. If it is, we could see further divergence in economic performance and property demand by region, with suburbs and lower-density areas continuing to outperform.

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Are offices as full as they will be?

- Urban mobility data look to have found a ceiling…
- …with remote work likely to get more entrenched…
- …which could continue to drive the difference in economic performance between regions

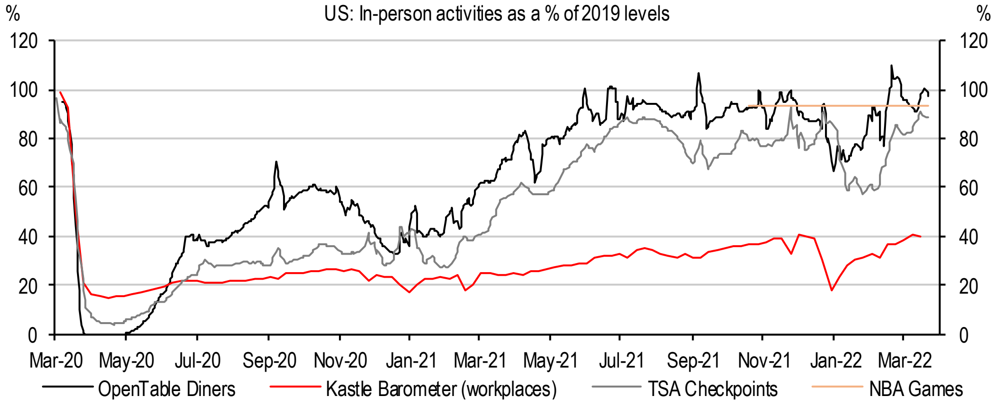
Cities already peaking?

After a bounce-back in urban mobility data in the second half of 2021 as the bulk of COVID-19 restrictions eased, we saw a pull-back at the end of 2021 and the start of 2022 due to the spike in Omicron cases in the US and Europe. Since then, data on the office return have bounced back to the prevailing levels seen in November, but haven't moved notably higher.

The best barometer of office attendance is the data from Kastle Systems for the US, as it is based on access pass scans for buildings. This data suggest that across the US, office attendance is only back at 40% of its pre-pandemic level and is struggling to go much higher. Even across the major metropolitan areas in the data, the highest rate is in Austin (~52-53%) and the lowest is in San Francisco (30-32%) – suggesting that whilst there is a geographic split, in all geographies office attendance is some way below pre-pandemic levels.

This is striking when put against the return to leisure activities – where we can see the number of diners, air travellers and even NBA game watchers back at around 90% of pre-pandemic levels.

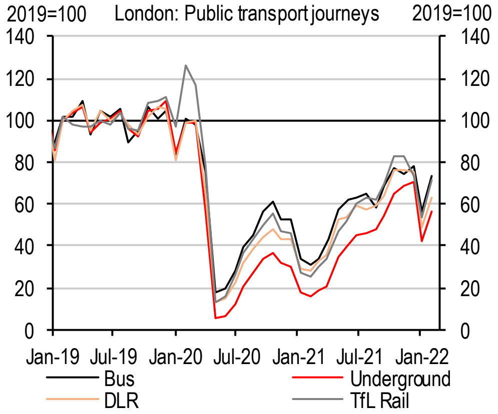
1. The return to offices appears to have paused already



Source: Kastle Systems, TSA, OpenTable, NBA. Note: NBA data is season average.

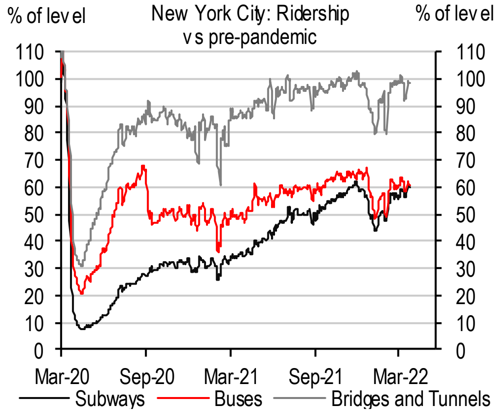
Public transit data back this up. In London, TfL data only run to February 2022 for now, but even at 70% of 2019's journey volumes per month, this roughly translates to only 60% of the number of weekday journeys compared to the same period (assuming 100% of pre-pandemic rates at weekends). In New York, numbers haven't risen back above pre-Omicron levels, even right up to the end of March – with subway and bus traffic at around 60% of pre-pandemic levels.

2. London's transport data suggest a new normal…



Source: Transport for London. Note: DLR is Docklands Light Railway

3. …that is backed up by data in New York



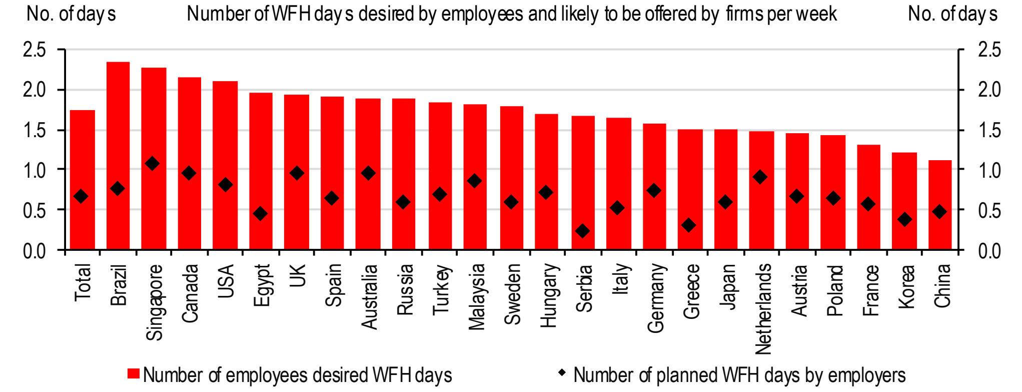
Source: Metropolitan Transportation Authority

Remote work: More to come?

As businesses across the world try to come to terms with the impact of new ways of working, a recent work from home attitudes survey from the team at WFH Research[1] – based on more than 32,000 respondents in 25 economies – shows the value that workers are attributing to remote work.

To start with, the survey shows a disconnect between the number of days that firms are expected to offer for remote work and the number of days that workers would prefer. That gap equates to more than a day per week in total, with the biggest shortfalls in Brazil, Egypt and Serbia, but the gap is also more than a day a week in many large economies.

4. Workers would like 1-2 days working remotely in most of the world

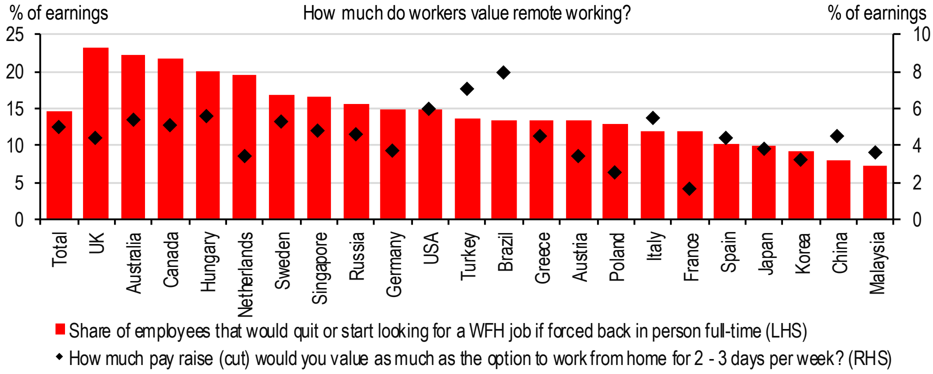


Source: Working From Home Around the World, by Cevat Giray Aksoy, Jose Maria Barrero, Nicholas Bloom, Steven J. Davis, Mathias Dolls, Pablo Zarate, March 2022. Question is: After COVID, in 2022 and later, how often would you like to work from home?

This is important, because workers value the ability to work remotely. The same survey finds that on average, workers value the ability to work remotely or hybrid as roughly equivalent to a 5% pay rise, whilst nearly 15% of workers would quit or look for an alternative job if permanent in-person office attendance was enforced. The figures are starkly higher in the UK, Australia and Canada, at more than 20%.

[1] Working From Home Around the World, by Cevat Giray Aksoy, Jose Maria Barrero, Nicholas Bloom, Steven J. Davis, Mathias Dolls, Pablo Zarate, March 2022

5. Workers place a huge value on working remotely



Source: Working From Home Around the World, by Cevat Giray Aksoy, Jose Maria Barrero, Nicholas Bloom, Steven J. Davis, Mathias Dolls, Pablo Zarate, March 2022

This matters for the future of remote work and cities. Given how tight labour markets are, it seems likely that more firms will have to keep offering remote working options – either full-time or part-time, both to attract and to retain workers. According to LinkedIn, "Job postings that offer 'flexibility' to potential candidates also garner an average of 35% more views[2]" and more and more jobs are offering remote only in an attempt to attract would-be employees in a competitive jobs market where workers are quitting at higher rates than ever before and more jobs are available, based on both US JOLTS data and survey data. Nearly 70% of UK employees say they feel confident about moving to a new job in the next couple of months and only 16% of workers describe themselves as worried about trying to get a new job[3].

Given this, and the disparity between workers and employers' wishes, it seems unlikely that many more workers will be in offices across the world, particularly in the developed world, any time soon.

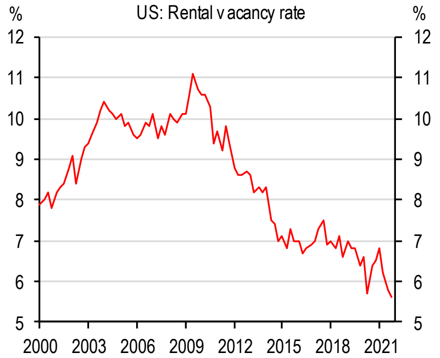
A big housing market impact?

Rising mortgage rates and the sharp increases in the cost of living squeezing household incomes have raised concerns over the continued resilience of house prices. But, it's important to consider the importance of geography when thinking about house prices.

In the US, for example, rental inflation looks set to play a key role in keeping core CPI inflation high through 2022, and the demand for property in suburbs and exurbs remains very strong, and if we see further flows to these areas, robust rental inflation could persist.

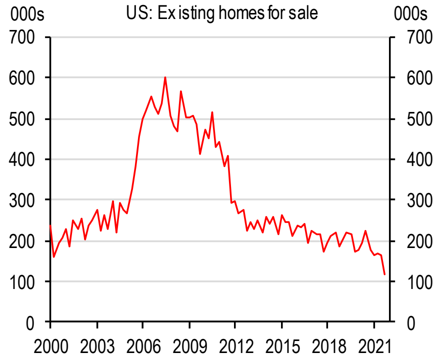
On the property price side, it's a similar story with the price of exurb and suburb property rising to more than 30% higher than pre-pandemic levels while in higher density areas the increase is "just" 6-12%. Importantly, we see these flows to suburbs and exurbs as likely to continue, which may keep demand for property high, amid a shortage of supply (chart 7).

6. US rental units are in high demand…



Source: Refinitiv Datastream

7. …and people aren't selling their homes



Source: Refinitiv Datastream

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[2] People quitting jobs in favour of flexibility: Linkedin, Trade Arabia, 11 March 2022
[3] The great resignation: 69% of UK workers ready to move job, Ranstad, 5 November 2021

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