



Working from home *Works*

Future Covid-19 implications for the Dutch office market

Working from home works...or what's the **hidden catch?**

With the vaccination programme well on its way in the Netherlands, it seems we finally manage to handle the Covid-19 peak. As we all go away on our well-deserved holidays, the summer of 2021 is the perfect time to reflect on how Covid-19 has changed the way we work. Most noticeably, government decisions related to Covid-19 helped to strengthen and speed up trends concerning how and where we work, with 18 months working with Covid-19 restrictions made us aware that productivity does not necessarily slow down when change is fully embraced. However a certain amount of work from home fatigue starts to be noticeable as 37% of respondents now (March 2021) say they work from home more productive as opposed to 48% in April 2020.

As the work floor starts to open up, the following fundamental questions need to be addressed with regard to the Dutch office market:

How much and how lasting will the impact of Covid-19 be on the way we work and where we work? And what will be the consequences on demand, vacancy levels and rents, as well as on choices in terms of location, building, portfolio and workplace design in the Netherlands?

The aforementioned questions raise a series of red flags for every aspect of the office market, from operational to strategic levels. In a series of articles, JLL will address these questions by - monitoring four global trends and projecting the impact to the Dutch office market:

1. employment growth,
2. de-densification,
3. working from home and
4. managing peak occupancy.

These four trends are derived from a JLL global survey which shows that no less than 60% of companies have plans to reduce office capacity. Assuming this is also to be the case for companies in the Netherlands, would dramatically impact office market fundamentals. To find prove of this, JLL conducted a survey and asked both Dutch office occupiers and its own employees questions related to these trends and to the evolving nature of work.



Monitoring impact on future office demand - Dutch office occupier market H1 2021

By the summer of 2021, the Dutch office occupier market showed continued subdued demand for office space and slightly increasing vacancy. Looking closer at the data uncovers some interesting signals that should be further explored.

From 2011 to 2020, an average of 1.2 million square metres of office space per year has been taken up in the Netherlands. Even before Covid-19, the Dutch office market had witnessed decreasing take-up numbers (after peaking in 2017) because of the absence of high-quality supply at the most sought-after locations. Since the beginning of the Covid-19 pandemic, the trend of lower quarterly take-up numbers continued. This was because moving decisions were postponed as a result of uncertainties caused by the pandemic. During all of 2020, the take-up volume equalled 1 million square metres. However, rental contract obligations mitigate changes in demand from the effect of sudden decision-making related to the Covid-19 pandemic.

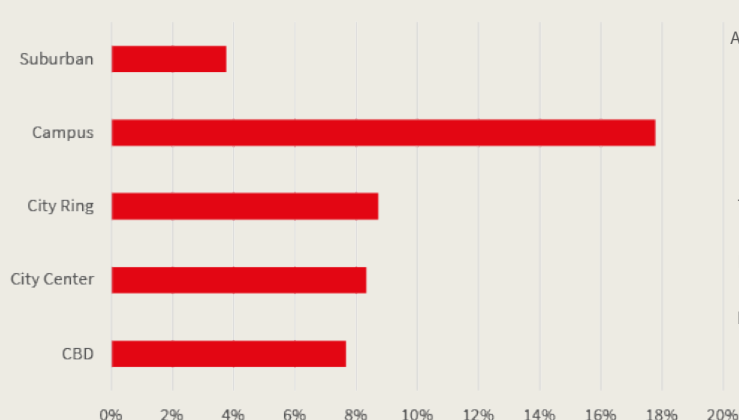
Breaking down the national figure by location type (CBD versus non-CBD) and city (among the five largest cities of Amsterdam, Rotterdam, The Hague, Utrecht and Eindhoven – referred to collectively as the ‘G5’), interesting differences can be seen. For example, absolute take-up numbers in CBDs dropped by

60% in 2020 compared to 2019. Absolute take-up numbers in suburban locations has been higher than take-up numbers in the other location types over the past 3 years as the office stock in suburban locations accounts for the lion’s share of Dutch office stock. In relative terms, as share of the total office stock per location, take-up was highest in city centres and campus locations over the last .

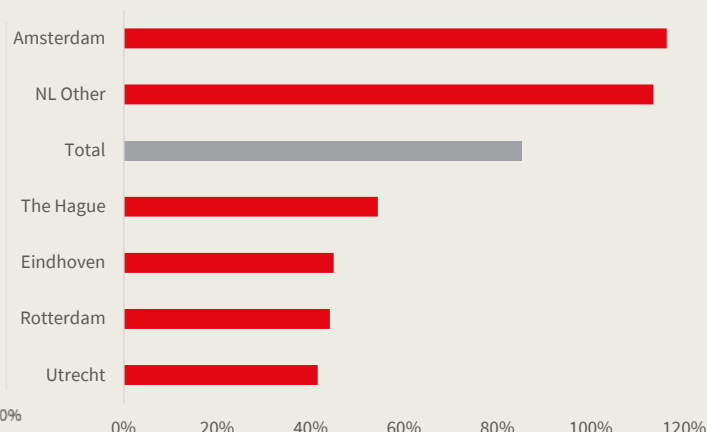
While take-up volumes in the Netherlands decreased in 2020, regional nuances can be seen. In Amsterdam, for example, take-up volumes increased in 2020 compared to 2019. Several large deals, mainly driven by tech companies, fuelled (20% of total take-up) the office demand within Amsterdam in 2020. For example, Uber leased 30,000 square metres of office space in the yet-to-be-delivered Tripolis complex in Amsterdam South and Adyen leased 16,000 square metres of office space in the city centre of Amsterdam. Other G5 cities saw take-up volumes drop sharply in 2020 compared to 2019, with the absolute take-up volume within the G5 decreasing by 34% during this period.

If this decelerating take-up trend continues in the post-Covid-19 era, which conclusions can be drawn regarding future demand for office space in general and for different types of office space and locations in particular?

Take-up as a share of total stock and by location, 2019–H1 2021



Take-up in the G5 cities versus the rest of the Netherlands (2020 versus 2019)



Source: JLL Research 2021

Understanding drivers of change:

4 global office trends

To help understand and answer these important business questions, JLL has identified four trends which influence future office use and might affect future office demand: **employment growth, de-densification, working from home and managing the peak**. We will now explore each of these impact areas and apply them to the Dutch market.

1. Employment growth

The economic effects of Covid-19 halted economic and employment growth immediately in the Netherlands. After a strong economic climate in 2018–2019, the first lockdown caused a short hiccup to economic growth. However, when the country went into a second lockdown after the summer of 2020, the economy came to a standstill.

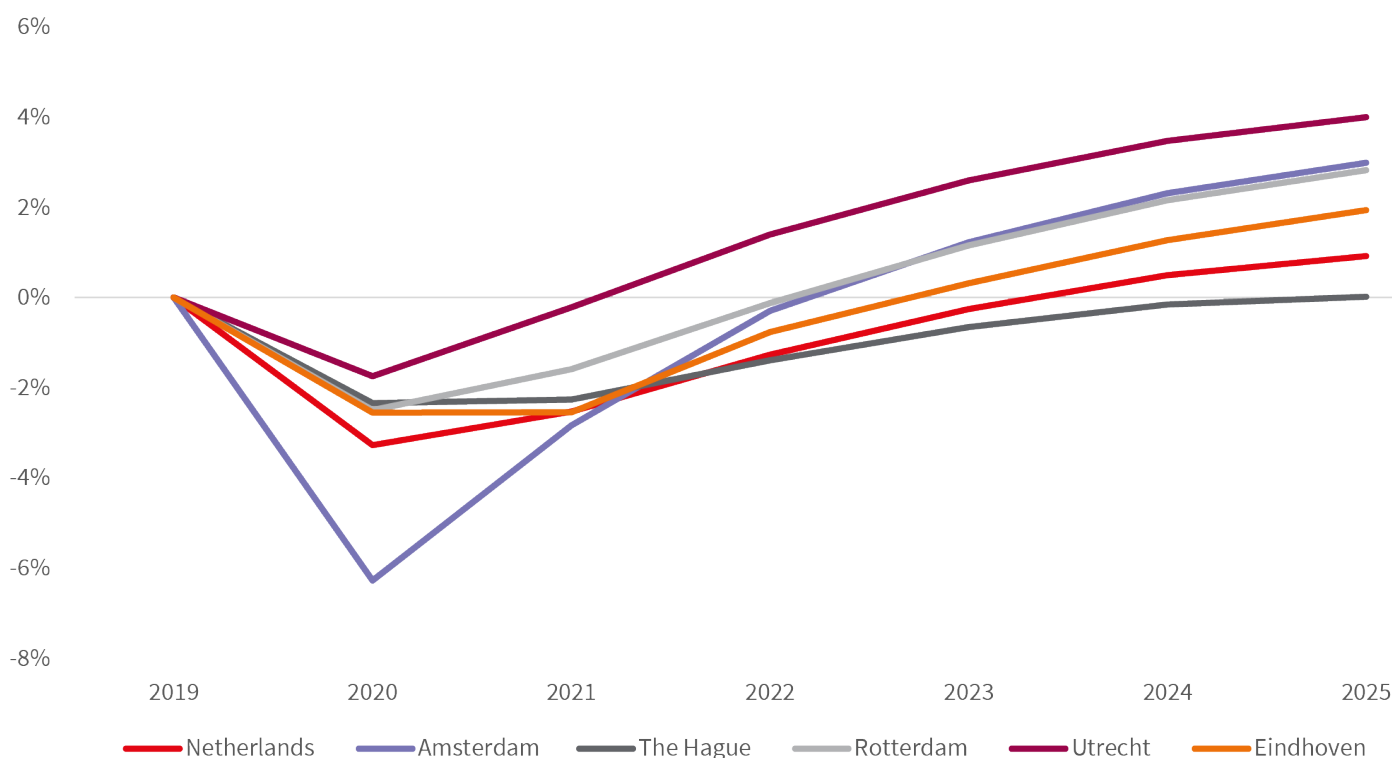
We can now state that Dutch government economic aid packages proved to be sufficient in the short term. In general, the impact of Covid-19 on the Dutch economy was moderate compared to European levels. On average, employment levels across the Netherlands contracted by just 0.7% since the outbreak of the pandemic. Statistics Netherlands also concluded that employment levels as of June 2021 were almost back at pre-pandemic levels. However, the resilience of the national economy is not the only important variable.

The economic composition of cities also matters greatly with regard to the impact of Covid-19, as was seen in 2020. Amsterdam, for example, normally known as the front runner of the country, took the largest hit because of its economic composition, which is skewed towards tourist and expat exposure. Based on Oxford Economics office employment forecast, the Amsterdam office market will bounce back strongly and quickly because of its size, versatility and tech-based occupiers character.

Office employment

In the Netherlands, it will take until 2024 to get office employment levels back above pre-pandemic levels, and this varies significantly across regions. Utrecht has the best outlook, with employment levels there expected to return to normal by 2022 and a growth outlook of 4% cumulative to 2025. In The Hague, on the other hand, office employment will only return to pre-pandemic levels in 2025. This could be explained by the fact that the public administration sector in The Hague accounts for a much larger share of all the office-using sectors than in the Netherlands as a whole; the public administration sector, which is known for its stability during crisis periods, does not necessarily profit during periods of prosperity).

Office employment outlook 2019=100

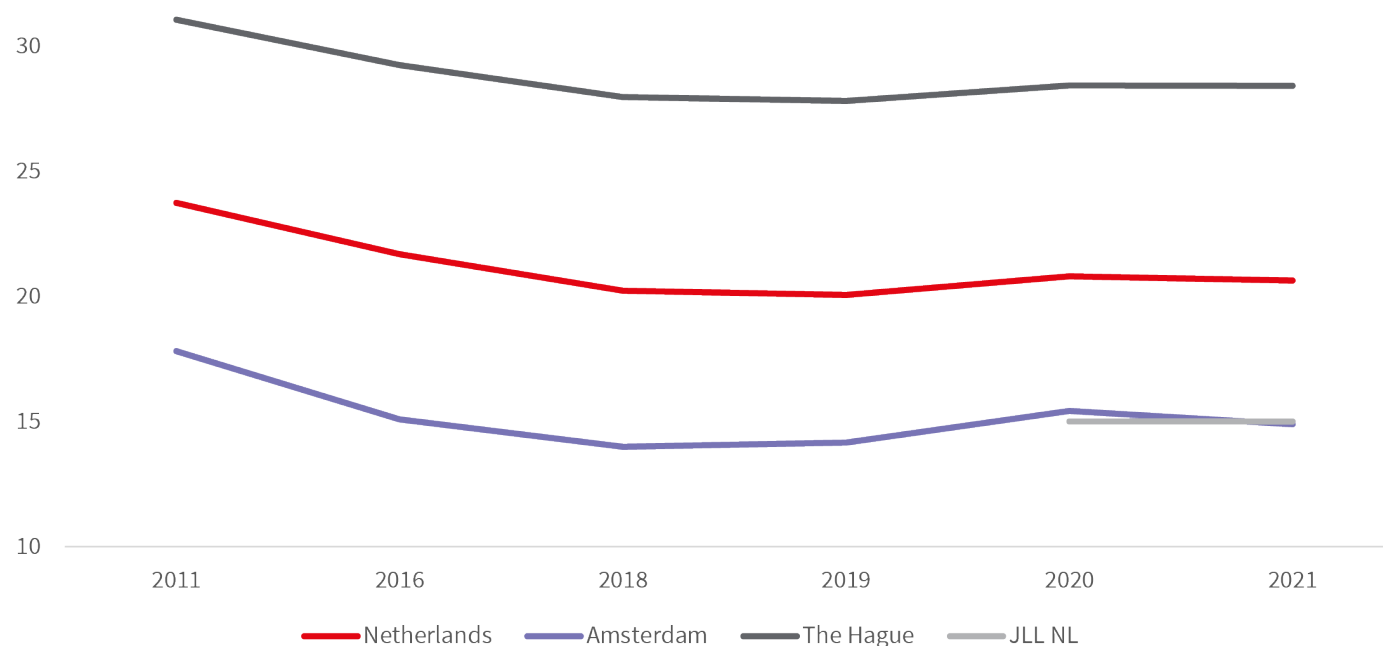


Source: Oxford Economics (2021)

2. De-densification

Prior to the pandemic, European office markets witnessed a long-term trend of increasing densification. Part of the new way of working was 'flexible working', which comes down to working without your own fixed workplace. This led to a higher occupancy rate, resulting in a lower office quotient. However, changes caused by Covid-19, including the availability of more private working spaces, private collaboration spaces and private meeting rooms, are likely to reverse this trend.

Office space per employee (in square metres)



Source: Oxford Economics & JLL Research (2021)

In the Netherlands, density (office floor space per employee) increased from 24 square metres per employee to 20 square metres per employee during 2011–2019 (Oxford Economics & JLL NL). However, according to the office space designers at JLL/Tétris, the figure is lower, at approximately 15 square metres per employee. In 2019 the densification of office space in the Netherlands seemed to have come to a halt now. These unoccupied square metres will add to unconventional spaces such as collaboration spaces or focus rooms. Compared to other European countries, the Netherlands has low office space density. This is also possible since rents are significantly lower in the Dutch cities compared to cities like London or Paris. Moreover, according to Oxford Economics, within the Netherlands, there are regional differences and differences by company sector.

With physical and mental health and well-being at the centre of modern office design ideas, it is expected that density levels will not return completely to pre-pandemic levels. However, it is yet unclear how many square metres of office space per head will be calculated in the future. The JLL survey, associated with this study, results even show that companies are not considering significantly increasing office space per employee. Future articles as part of this series will elaborate further on these outcomes.

However, new office design options are being considered to increase employee experience and performance – think along the lines of more collaboration rooms, individual focus rooms and meeting rooms. The global JLL survey of December 2020 indicated that 50% of all tenants are actively redesigning their office space, with 42% indicating they will relax seating density. However, many companies remain undecided about the future; they will avoid significant capital expenditure in the short term and apply a wait-and-see approach. **Results for the Netherlands will be elaborated on in the next article of this series.**

3. Working from home

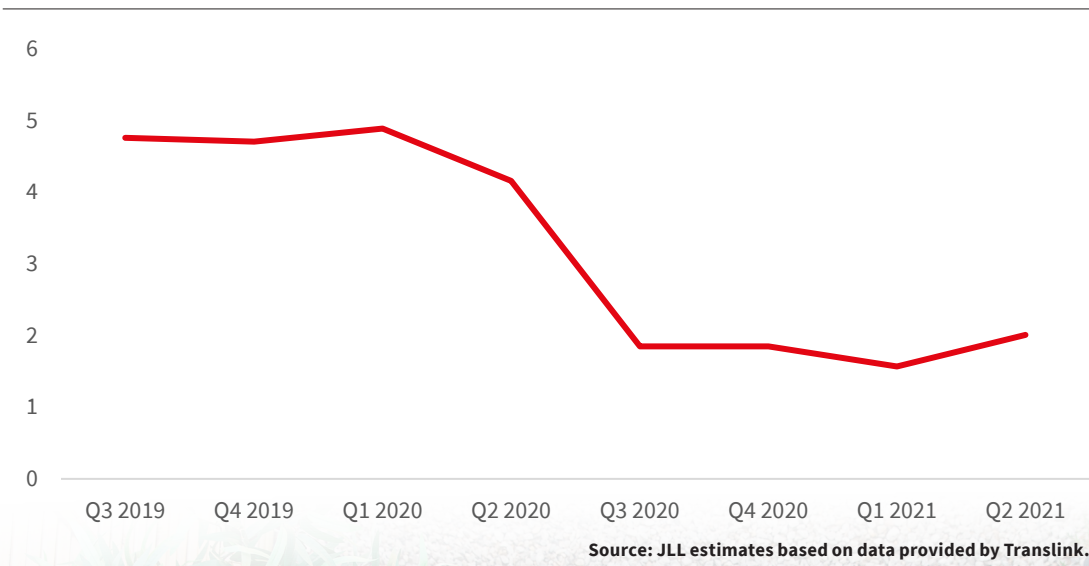
Working from home (or a third space (location other than home or office)) is expected to stay in some form and will be a larger part of most people’s working lives. Working from home will be fully integrated in the hybrid work environment. In addition, third spaces will become more important, which will boost office space demand. Flex locations will be an important element in fulfilling this need, which will create opportunities for the right type of building in the right location in every sub-market. The JLL NL survey questions that support this article show that for the majority of the companies surveyed in May and June, fewer than 60% of their employees were back in the office.

Public transport ridership data show (by number of public transport check-ins per day) we are still way down from the previous peak, which was reached in Q1 2020; by late June 2021, ridership had reached only 40% of the previous peak.

“JLL fully embraces the hybrid work environment which enables working from anywhere.”

Hennieke Meesters
Head of HR the Netherlands

Public transport nr of check ins per day



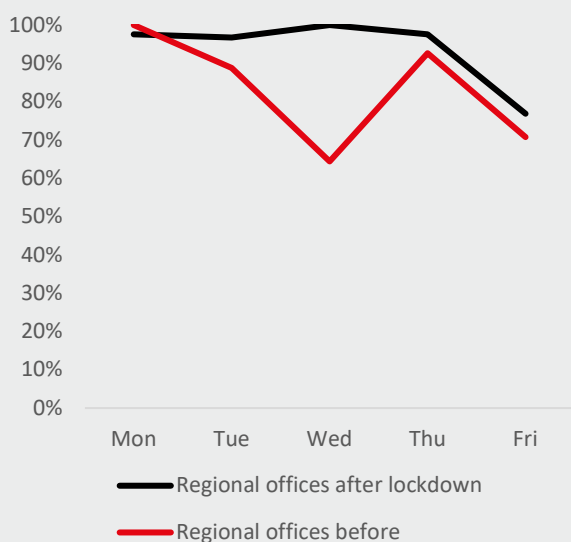
4. Managing the peak is an important factor to determine the impact of hybrid working

While the impact of fewer working days in the office does not directly result in a commensurate reduction in office demand, office occupancy management is an important factor to determine the impact of the new way of working. Survey results suggest that Tuesday, Wednesday and Thursday are the most popular days to work in the office, while on Monday and Friday the office will be less occupied. Looking at the survey, associated with this study, the behaviour of the regional offices, the offices located in Rotterdam and Eindhoven, after the second lockdown was more aligned with the behaviour of the head office in Amsterdam than before the lockdowns. This probably had to do with the restrictions issued by head office management regarding office re-entry after the lockdown, while office occupancy was more unregulated prior to the lockdown.

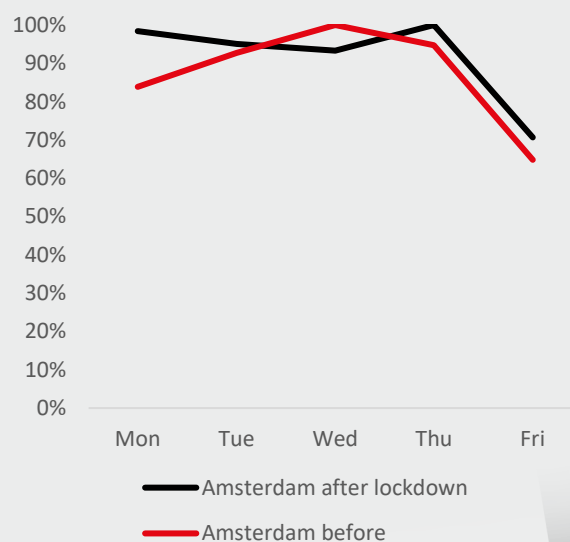
JLL NL regional offices occupancy rate compared to JLL NL head office occupancy rate; Wednesday in the office rather than Wednesday out of the office versus Peak work day
Head office moves from Wednesday to Thursday.

In addition to making adaptations to respond to the changing role of the office and allow for more collaboration, meetings and social interaction, companies might consider reducing the amount of office workspace in the future to enable more collaboration (e.g. grow the number of meeting spaces); this is elaborated on in the earlier section on de-densification. Offices will need to accommodate peak usage, which can be done through creating spare capacity or using flex office space and meeting facilities.

JLL Regional Office occupancy peak



JLL Headoffice occupancy peak



Source: JLL Research (2021)

Friday remains
most quiet

Concluding

Since this is the first article in a series in which JLL will test the impact and importance of the following four trends on the Dutch market: **employment growth, de-densification, working from home and managing the peak**. To do so, we conducted a survey and asked our Dutch clients questions related to these trends and to witness the effect of the evolving nature of office space related work. The purpose of the survey was not only to test the current impact on the market, but also to monitor how these trends could evolve in the near future. This will help us ascertain if these trends and related workplace changes will persist into the future or if business will resume to normal (soon). On a global scale, it is expected that future office demand will be about 5% to 15% lower on a structural level due to Covid-19. For the Netherlands, a decrease in demand is also expected. The results of the survey will help us determine the extent of this decrease.

Articles 2 and 3 will focus on how these trends will impact business choices regarding location, assets, workplaces and property portfolios.

Article 4 will bring the impact of each of the trends together to formulate a coherent prediction on the impact on office space by means of bringing current office supply and future office demand together and see what are the strengths versus weaknesses and the opportunities versus the threats. Since it seems like early days to find hard data to the theory, actual business cases presented by JLL NL clients will help support research findings.

Questions

The COVID-19 pandemic, the resulting lockdowns and the dramatic changes to working life o...

- ✓ 1 What are your key drivers for portfolio decision making? Pick the three most important.
- ✓ 2 In the next 3-5 years (medium term), how do you expect the size of your organization's real e...
- ✓ 3 Due to the COVID-19 crisis, how will you transform your portfolio in the medium to long term?
- ✓ 4 Due to the COVID-19 crisis, the importance of technical facilities (IT, smart solutions such as b...
- ✓ 5 Due to the COVID-19 crisis, the importance of facilities (lunch, cleaning, security)?
- ✓ 6 Due to the COVID-19 crisis, the importance of amenities (post office, gym, restaurants)?
- ✓ 7 Due to the COVID-19 crisis, the importance of health & wellbeing (ventilation/windows, lighti...
- ✓ 8 Due to the COVID-19 crisis, the importance of building quality?
- ✓ 9 Due to the COVID-19 crisis, the importance of sustainability?
- ✓ 10 Due to the COVID-19 crisis, the importance of flexibility (in the amount of leased space)?
- ✓ 11 Where should the building ideally be located?
- ✓ 12 What percentage of your workforce is currently back in the office?
- ✓ 13 Post COVID-19, how many days per week do you expect your organization's employees will w...
- ✓ 14 Choose your employees two most favorite days to work at the office.
- ✓ 15 Post COVID-19, ...

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