

# The Weekly Take

SEASON 3 EP17

## Best of Both Worlds: The Future of Office Is Hybrid Work

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### **Spencer Levy**

I'm Spencer Levy, and this is The Weekly Take. As the recovery continues, but the COVID pandemic has forced us to ask questions about the state of work and what the future holds, we welcome two top thinkers to help us put the new normal into perspective. On this episode, we explore the business world's ongoing and evolving relationship with hybrid work.

### **Julie Whelan**

We knew that a shift was underway around what we would call work from anywhere, and that shift only accelerated throughout the pandemic. And primarily, we have been really interested in understanding what that shift means for the future of real estate.

### **Spencer Levy**

That's Julie Whelan, CBRE's global head of Occupier Thought Leadership, who keeps her finger on the pulse of workplace trends and perspectives around the industry. Julie is a familiar voice on our show, and she returns to bring us the latest news and numbers based on CBRE's latest office occupier sentiment survey hot off the presses this week.

### **Steven Davis**

What's happened is that many workers now, maybe even most, now have an option of a working style, working arrangements, that for most people are simply not on the table beforehand.

### **Spencer Levy**

And that's Steven Davis, the William H. Abbot Distinguished Service Professor of International Business at the University of Chicago. An economist who studies labor and macro issues, Professor Davis has spent the past couple of years looking at ways organizations are handling new work arrangements. We'll start our conversation with the labor and management side of the hybrid work equation, and then we'll dig into nitty gritty real estate issues and decision making about space and location and trends we're seeing across the industry. For perspective on work from anywhere, this is the place to be. Coming up, hybrid work. That's right now on The Weekly Take.

### **Spencer Levy**

Welcome to The Weekly Take. So, the topic of the day, work from home, we've talked about it a lot, but it continues to evolve. There continues to be new data about this topic. And Professor Davis, tell us some of the latest on work from home.

### **Steven Davis**

I study labor market issues, macro issues, occasionally dabble in finance and so on. The last couple of years, I've been spending a lot of time focused on what I now call the big shift to working from home. And that's part of a larger shift in kind of working arrangements. Studying what businesses are doing, what workers want to do, what they get to do, attitudes around working from home, organizational challenges around working from home. And of course, there are obviously implications for real estate, urban centers and so on. It's a big huge historic shift and lots of really interesting intellectual issues, but also day to day lifestyle policy issues as well.

### **Spencer Levy**

Julie, same question to you. Just tell us some of the latest on this important topic.

### **Julie Whelan**

Absolutely, Spencer. So we have been studying this topic for a number of years now, since the pandemic started, really before the pandemic, because we knew that a shift was underway around what we would call work from anywhere. That shift only accelerated throughout the pandemic. And primarily we have been really interested in understanding what that shift means for the future of real estate. And what we're seeing is that hybrid work, which means sometimes you might work in the office, sometimes you might work from home, sometimes you might work in a third place of your choice, has really picked up in terms of sentiment over the last couple of years. However, what we've also seen pick up in sentiment is the desire to actually have people together in the office. So I think that a lot of listeners sometimes want to have it be an either or discussion; either you're going to be working from home or you're going to be working from the office, and one or the other is going to suffer as a result. But actually, we are more so studying how the two will work together in the future, because that's where the magic of satisfying employee desires, along with employer needs for the correct type of culture, is really going to be a win-win situation.

### **Spencer Levy**

Well, Professor Davis, since the beginning of this crisis, I didn't see it as a real estate issue, I saw it as a labor issue. It changes over time, where labor has more power, or management has more power. Do you agree that that's how we should be looking at the work from home issue?

### **Steven Davis**

Yeah, I agree. It's very much a labor issue. That's not the only part of it, but it's very much a labor issue. In terms more specifically, worker manager power relationships, there's really two big things that have happened in that respect. The first is this is a super tight labor market, okay? And that tends to shift the balance of power to workers, regardless of whether we're in the middle of a big shift to working from home and, as Julie says, work from anywhere. But more specifically, what's happened is that many workers now, maybe even most, now have an option of a working style, working arrangements, that for most people were simply not on the table beforehand. And that's the option to work from home part of the week. And so you see workers are saying to their employer, "Look, I've shown in the last two years that I can do my job remotely. Why can't I work from home two days a week indefinitely?" And because many other firms are doing that, they now have the capacity to say, look, if I don't get that from my employer, I'm going to look around and go find someone who is providing that. I think that's one of the reasons you've seen a lot of quits and turnover in the labor market in the last couple of years, especially the last year or so. So that's another aspect of the change in the power dynamic that you described, that's unusual to the current circumstances.

**Spencer Levy**

So the imbalance is due to just not enough workers. And the ability, the tech, that now says, "Hey, we're on a Zoom call right now, so you can do it." Those are probably the two major factors.

**Steven Davis**

We've demonstrated – many people have demonstrated to their boss, look I did it the last two years. Don't tell me it doesn't work.

**Julie Whelan**

Yeah, so we have surveyed, numerous times over the last two years, our client base and what the numbers have told us is that without a doubt, hybrid work is still the future of what work patterns will transform into. The question is, what is hybrid work mean? And I think from the perspective that we're seeing is that most organizations are looking to place hybrid work out there, that has a set of guidelines associated with it. And the reason for those guidelines are a couple of things. Number one, organizations want to be able to have predictability about when their employees are going to come into the office in order to better plan for what their space needs may need to be. And also to better plan for things like team meetings and events and things like that. On the other hand, there needs to be a certain level of autonomy and freedom that employees still have going forward. And because even if organizations allow flexibility, meaning that you don't have to come in five days a week, but are too stringent on the guidance that they're giving to employees. That need for autonomy is still not met within the employee because you may tell them they have to come in on Wednesday, but Wednesday may be the day that they want to be at home to get their children off the bus because there's an event that they want to go to after school. And so really trying to figure out what the future of hybrid means within this predictability desire for organizations, but autonomy desire for employees, is really the name of the game going forward. Now, ultimately, which I know we'll talk about a little bit later, the whole question is how does that translate into space demand? And we have done a lot of studies on that and have a lot of perspective as to what we think that means, but I'll save that for a later question.

**Steven Davis**

Yeah, Julie's quite right. This is the big managerial challenge, and it's why it's going to take some time to work things out. One aspect of the challenge, and what makes it difficult is in the past, managers didn't really have to think about this. If everyone was going to be in the office five days a week, then if we're going to have a meeting, if we want to call a meeting on short notice on Tuesday or Friday, that's fine. Everybody's still there. If people are going to be only in the office three days a week, then all of the activities that require predictability, group meetings, certain forms of structure; those have to be coordinated. And that coordination challenge becomes much more difficult, if you give employees the autonomy that Julie was talking about. And I agree that is a big deal. I tend to think of it in terms of flexibility. Employees want the autonomy to be flexible in designing their own work schedule. But that's in tension with the employer's desire for predictability, and to bring everybody together at the same time in the same place. So that is the big, big challenge. I don't think there's a single solution. Different organizations will choose different approaches. We tend to see, in our data, bigger organizations taking more structured approaches to this questions. Where the decisions about the stringency of the guidelines, to use Julie's language, tend to be greater in larger organizations, where either the organization or the team or the manager is making more of these decisions. Whereas in smaller organizations, there's maybe more of a laissez-faire approach.

**Julie Whelan**

It's interesting, Professor Davis, that you say that because one of the new questions that we asked, this last survey that we distributed just this spring, was around, how are you delivering hybrid work to your employees? Is it going to be guided by the organization? Is it going to be guided by the employee, or is it going to be a combination?" And what we found is that about a third say absolutely, the organization is going to dictate the days that the employees are expected to come in and the frequency they're expected to come in. Only about 13 percent said the employee. But interestingly, a quarter of them said a combination of both. So I really foresee that perhaps that's going to be the sweet spot, where there's a few anchor days in the office that teams are expected to come in together to allow for that predictability. But then there is an element of flexibility over other days that employees can decide themselves.

**Spencer Levy**

Well, Julie, I think this comes right back to where I began with Professor Davis, which is, this is a labor issue. What we're saying today is that because of the workplace shortage, because of technological capability, the "how", which used to be almost 100 percent in the employer's hands, is now partially in the employee's hands. Would you agree with that, Professor Davis?

**Steven Davis**

Yeah, I would. But I would also point out that it's not just a shift from the employer to the worker. This is a valuable benefit. Many people see it that way, many workers, not everybody. Some people want to be in the office five days a week. But I'd say the majority of people place some considerable value on this kind of personal autonomy that Julie was talking about. Or even when there's limited autonomy, just avoiding the grind of a commute. So if the employer is offering something of value to the employee, well, there's surplus there. The employer is going to get some of that, too. And it may take the form of, over time, a smaller raise than somebody might have had otherwise. So one way for employers to deal with a tight labor market when it's hard to retain talent or recruit talent is to offer them working arrangements that they really like. The person really likes, and that might mean a slightly smaller compensation package in other respects. So I do think it's important, just from a labor economics perspective, what happens in market equilibrium is ultimately any benefits that are thrown up by the shift to working from home, part of those benefits are going to go to employers, part are going to go to workers.

**Spencer Levy**

Well, it's interesting. We learned back in the 80's that money is not the primary motivator for most, not all, but for most employees time to determine your own schedule, fringe benefits, whether it's healthcare or otherwise, all these things go into the mix. But now I think that once people got a taste of flexibility, the value of flexibility is actually increased. Do you agree with that, Julie?

**Julie Whelan**

Yeah, absolutely. And you know, I'm not a labor relations expert, nor am I an economist. But I do understand general laws of supply and demand. And it's certain that we are in a tight labor market, which is of course, giving employees a little bit more leverage. And is of course, going to help sustain this hybrid work pattern that is emerging right now. But I don't like to look at it, necessarily in terms of a power struggle between employees and employers. I think that what has happened is that the voice of the employee has been amplified, which is a positive thing. And I think employers have an opportunity right now to

stand up and listen to their employees. And what that will do is it will help build trust. Now, the power struggle that we talked about earlier is something that breaks down trust, right. When either side looks at the situation as a power struggle. However, by both parties really understanding where the other one is coming from, then that trust gets built up. And so what we're talking a lot about is if employers have a desire for a certain predictability and have a desire for their employees to be in the office. Very simply communicating out, and building a narrative around that "why is the office so important to us" and "why is it important for you to be together" is a really important piece of building trust. And then employees having an opportunity to voice their opinion through surveys and focus forums throughout not only the pandemic, but even the next couple of years, as this is all working its way out. Is another platform where the two parties can build trust together and learn from each other, and set this new way forward.

### **Steven Davis**

So I agree with what Julie said, but I wanted to kind of add. You know, part of this is just a recognition that in many jobs, certain tasks can be done as well, maybe even better, in the quiet of your own home, okay. So part of this discussion could be, we recognize that some of the activities, you know, some of the great things you do for us, you could just do in your office at home. So we need to figure out a way for you to be able to do those things at home. Get the benefit of the autonomy saving on the commute time that you want, but also make sure that the other things that don't work quite as well when we're not all in the same place, that we do those together. And maybe, you know, when we're in the office together. So there is really scope here for characterizing things as a win-win opportunity rather than as a power struggle and, you know, kind of a pie of fixed size. And the challenge again for the managers is to make it into a win-win type perspective and then figure out all the details of actually how you execute on that win-win. In economist language, there's a lot of surplus thrown up by this. How do you figure out how to get that surplus and split it between the two parties?

### **Spencer Levy**

I'm with you, because I know that trust is the key component of any successful organization over the long term because it is the key bedrock of culture. The culture that you want for a successful organization, and to Professor Davis' point, there is no fixed pie in a successful organization. The pie gets larger. That's what productivity is. Productivity is making the pie larger by having the most well-run organization. But at the same time, I'm looking at one of my many screens in my office, CNBC, the number one article is about how people are now bringing unions back into the workplace because they see the power struggle. So I am not, though I'd like to say it's all about trust and employer employees, I think we may have gone too far here. I think that we have to look at the fundamentals of how labor economics has gone for the last hundred years. You disagree with that, Professor Davis?

### **Steven Davis**

No, some high level, no, I don't disagree, but a couple of things. Unions aren't only about power struggle between managers and workers. That often gets the most attention, kind of comes to the fore in collective bargaining negotiations. But for a long time, the proponents of unions say one of the reasons unions are good is because they give a voice to workers. And they allow the workers to be happier, which may make them more productive, and the organization to work better. That's back to Julie's point about trying to shift things away from this power struggle dynamic and towards how can we make things work better? I fully recognize unions often don't deliver on, say, the voice, the improving the organization part

as much as they should. But unions can play that role, and they should be encouraged to do so, I think, around working arrangements.

### **Julie Whelan**

One of the things that I have heard clients talk about, that have both office-using employees and also employees that may be in different settings or in a field where work from home is not an option. Is the inequities that their employee base feels, given that one side of the population is allowed this flexibility, and the other side simply cannot be allowed it because of the nature of their job. And that is a very real thing that is absolutely going to come to light. And that is already starting to come to light. And one of the things that we've been talking about is perhaps, as you said, Professor Davis, you find other ways to give benefits to that employee population that is not able to work from home. And one of the areas that we were talking about is even in clinical settings of health care, where employee experience has not always been something. It's been about patient experience, and maybe working things in around the employee experience in clinical settings, for those employees that cannot work from home a lot, is really going to be the future. So it's very interesting to look at that dynamic between office-using employees and those that aren't.

### **Steven Davis**

I think Julie's right. It is an excellent point. You know, we talk a lot about working from home in general and what the benefits and cost will be. But our data show very clearly what Julie just said. I think there are benefits for many categories of workers. But they are definitely greater for the professional class, for the more highly paid employees, because they tend to be in the jobs that lend themselves to some scope for working from home. They already tend to have more autonomy in their jobs, and partly because they're evaluated based on performance rather than punching a clock. They, at least traditionally, there's an opportunity to move to these as long as you get the job done, you get compensated. That is a really big issue, that the benefits are flowing to those who already are doing pretty well in the labor market.

### **Spencer Levy**

Well, let me bring up a word that Julie just brought up a moment ago in the middle of her answer, which is inequity. What I'm concerned, and I raise this on that show and I'm raising it on this one. Which is – I'm concerned that flexibility is a great benefit, but I'm concerned that people that are in the office are going to be treated better over the long term than people that are not in the office. And there's a term called presenteeism, and this has been in studies. Professor Davis, you've read them, just like I have. The Stanford study from 2015 talked about this, about people being in the office getting more promotions, getting better networking, getting better communication. But I think we're thinking short term, but we're hurting, long term, the career paths of many of these employees. What do you think, Professor Davis?

### **Steven Davis**

I see the concerns you're talking about, but I have a somewhat contrary view on this. So first, a couple of facts that come out of our survey evidence. When you ask workers, men and women, how much their employers plan for them to work from home after the pandemic's over, or to work remotely. It's pretty similar for men and women, okay so it doesn't look like, based on our evidence, that big differences between men and women are going to emerge. But then when you ask people how much they would like to work from home, women would like to work from home more than men. And it's because they value this kind of flexibility that we associate with remote work more than men do. I think that's a fact. I don't think you have to search too hard for the reasons for that. We may or

may not like it. But the fact is, women do a larger share of child rearing and caregiving activities than men, and I'm generalizing here. But I think this is a correct statement for society as a whole. And those kind of caregiving activities often benefit from having someone in close proximity, at least part of the week. So we want to recognize the preferences people have given their lifestyle situations. Given how they've decided with their partner to divide up responsibilities in the household. Now, having said that, employers need to recognize this in their organizations to guard against what you call, you know, the presenteeism, and its drawbacks that you recognized. And that may involve everything from ensuring that there is a roughly equal division between time spent in the office and time spent working remotely, say, for men and women or other groups of people. It may also mean ensuring that we evaluate people in a fair and accurate way based on what they do when they're in the office and what they do when they're not there. So all of that, again, presents challenges for management. But the first step to dealing with those challenges is to recognize them and to try to take steps to make sure that nobody is unduly disadvantaged by the working arrangements they've chosen, provided they're providing value to the organization.

### **Julie Whelan**

So, I would also like to comment on the last range of discussion, which was, is there more equity to those that are in the office, and more opportunity to those that are in the office versus those that are not in the office? And I think that the basis of that question assumes that you are more productive when you're in the office and you're going to get more visibility and therefore more opportunity as a result of being in the office. And I think what we're missing here is that this is just going to become a way of life going forward. Where regardless of if you are deemed a hybrid worker or an in-office worker or remote worker, you're going to be fluid in how you attack your day, your week, your month, your quarter, your year. And when you're present in the office versus when you're present other places. And I think that if we can shift to that mindset of understanding that there's a new pattern of work emerging that doesn't necessarily have to be segregated into these buckets. Then you will naturally see more equity between those that are in the office versus not. Because it's going to be a more normal, normalized event. It's going to be a more normalized thing. And I would also say to Professor Davis's point that this is very much manager driven. We have to have the right, best practices and training in place for our managers to be able to lead by goal setting. To be able to lead by constant communication and feedback. And to be able to be, to have performance judged themselves based on the metrics of how their team is operating, how engaged they are and the opportunities that both their staff that's in the office and their staff that's out of the office are getting. So I think that there is quite a journey that we have to go on between where we are today and where we are going and where the ultimate end state is. However, I do think that we're on a path towards greater normalization of this, where we're not segregated into buckets that we might have been before the pandemic.

### **Spencer Levy**

For more on that journey toward a new normal, whatever it may be, we'll continue this conversation next week. We'll move beyond labor issues to focus on what the big shift means for core real estate. We're talking space demands, property types, markets, the full range of office related matters that are on the industry's mind at this time. CBRE's Julie Whelan and University of Chicago Professor Steven Davis return with a lot more insights into what occupiers are saying about the future of office. As always, you can find more details about this topic, and our show, including links to the occupier surveys that we've been discussing by visiting our website. That's [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). You can also

share the program you just listen to, as well as subscribe rate and review us, wherever you listen. Thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.