A new **frontier** of work awaits...

EMEA Research report

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JLL

Contents

Perspectives for Enterprises 2022 outlook

As we look to the year ahead, there is a slight sense of déjà vu: The economic situation remains tied to the evolution of the pandemic; Covid remains rampant; and many of us face the renewed uncertainty of the re-imposition or tightening of restrictions. Yet the situation is also markedly different from a year ago. The successful rollout of mass vaccination programmes has severely weakened the link between Covid cases and serious illness and death. Furthermore, the link between confidence in the coronavirus situation and economic confidence more broadly has been severed. Consumer and business sentiment have rebounded and stayed high as waves of outbreak have come and gone.

We are not out of the woods yet, as the two headwinds currently buffeting the economy attest. First is the rapid spread of the Omicron variant of Covid-19. High-contact sectors and those reliant on newly-restricted international travel have been hit hard once again. Looking ahead, we have reasons to be optimistic that the cycle of outbreak and lockdown can be broken. Evidence is now emerging that this variant is more contagious but less virulent than its predecessors, likely meaning fewer restrictions will be imposed, with a quicker reopening, and a smaller public health cost.

The second headwind is the acceleration in inflation. The global recovery in demand was surprising in its acceleration, outpacing the recovery in supply, driving higher the prices of energy and commodities, deepening shortages and exacerbating supply chain bottlenecks.

Omicron-related restrictions have further added to the pressure on supply in the short term, pushing inflation rates to multi-year, if not multi-decade, highs across much of the Americas, Europe and developing economies. However, as we cover in the economic predictions, this spike in inflation is unlikely to last beyond this year.

Headwinds aside, 2022 is likely to be a prosperous year, with GDP growth positive and relatively high for many economies. Extensive fiscal and monetary stimulus remains in place (for now), and most countries if not already back to their pre-pandemic levels of activity will achieve it this year.

Economic themes and predictions

In 2022 we expect to see the economic recovery from the crisis continue. Many countries in Europe have already achieved their pre-pandemic GDP level, and most of the remainder are likely to do so this year. Some are on course to re-establish their pre-crisis growth trend, which would mean no permanent loss to their economies from the crisis. But for all, the economy coming out of the crisis is different from the one going in.

The shape of European economies has changed in several ways. First is debt. This is now higher and the burden of servicing it will grow as interest rates rise. Governments in particular and corporates, especially smaller and medium sized ones, will face a growing burden from debt repayment which will weigh on other spending and investment.

Second is prices. Rising energy, commodity and certain goods prices has significantly shifted relative prices for consumers and businesses. These will eat in to business margins unless higher prices can be passed on down the chain. Doing so will push inflation higher for longer. In the short term, price pressures are being compounded by supply-chain bottlenecks and lengthening supplier delivery times.

Third is wealth: Those with assets and savings are significantly better off than before the crisis. Equity indices across Europe were up by at least 15% during 2021 (with very few exceptions), house prices have risen rapidly across many countries, and household savings remain elevated, up €146bn across the EU27 on their pre-crisis level. There are signs that these savings are being spent but the net result remains that savings and asset rich households are wealthier than pre-pandemic. Asset and cash poor households appear worse off due to higher debt and a still precarious outlook for income.

Fourth, and finally, is the labour market. At the macro level, economic scarring from the pandemic has been avoided or largely unwound in the recovery: Unemployment rates are little changed from before the crisis, and the numbers employed has been stable or risen. But skills and staff shortages abound: wage growth has picked up as job competition has tightened, and the number of job vacancies have rocketed, with several of the main European markets reporting the highest vacancy-to-job ratio on record.

As we look to the year ahead, there are two further themes that will influence the outlook. According to a new index from the New York Federal Reserve, global supply chain pressure is higher now than at any point in 2020 and is likely to persist. Bottlenecks and shortages will continue to negatively affect production and risk delaying the peak of inflationary pressure. Second, the unwinding of policy support from the elevated levels of 2020-21 will quicken, leaving economies reliant on a normalisation of private sector activity to drive growth.

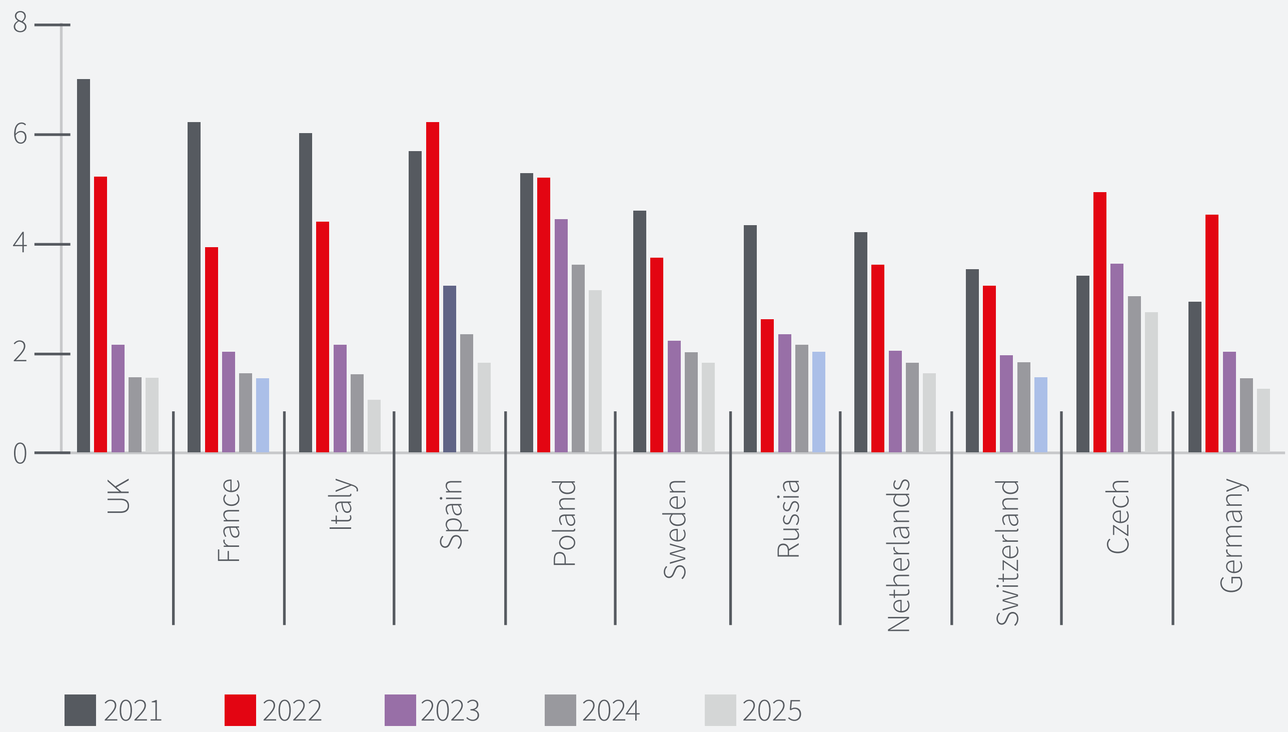

WELCOME
WE ARE
OPEN
PLEASE COME IN

These themes give rise to four interrelated predictions:

Slowing growth

GDP growth will slow in 2022 and we can expect growth to slow sharply in 2023. This is to be welcomed not feared. As economies recover their pre-crisis GDP level or growth trend, the opportunity for rapid catch-up growth expires. Further, the extraordinary stimulus (fiscal, monetary and regulatory) that supported the recovery and is currently driving above-trend growth will be unwound at a faster rate (assuming we don't see the re-introduction of tight restrictions). High rates of recovery growth are exacerbating the imbalance between demand and supply, stimulating inflation, and causing labour market tightness.

GDP forecasts (% YoY)



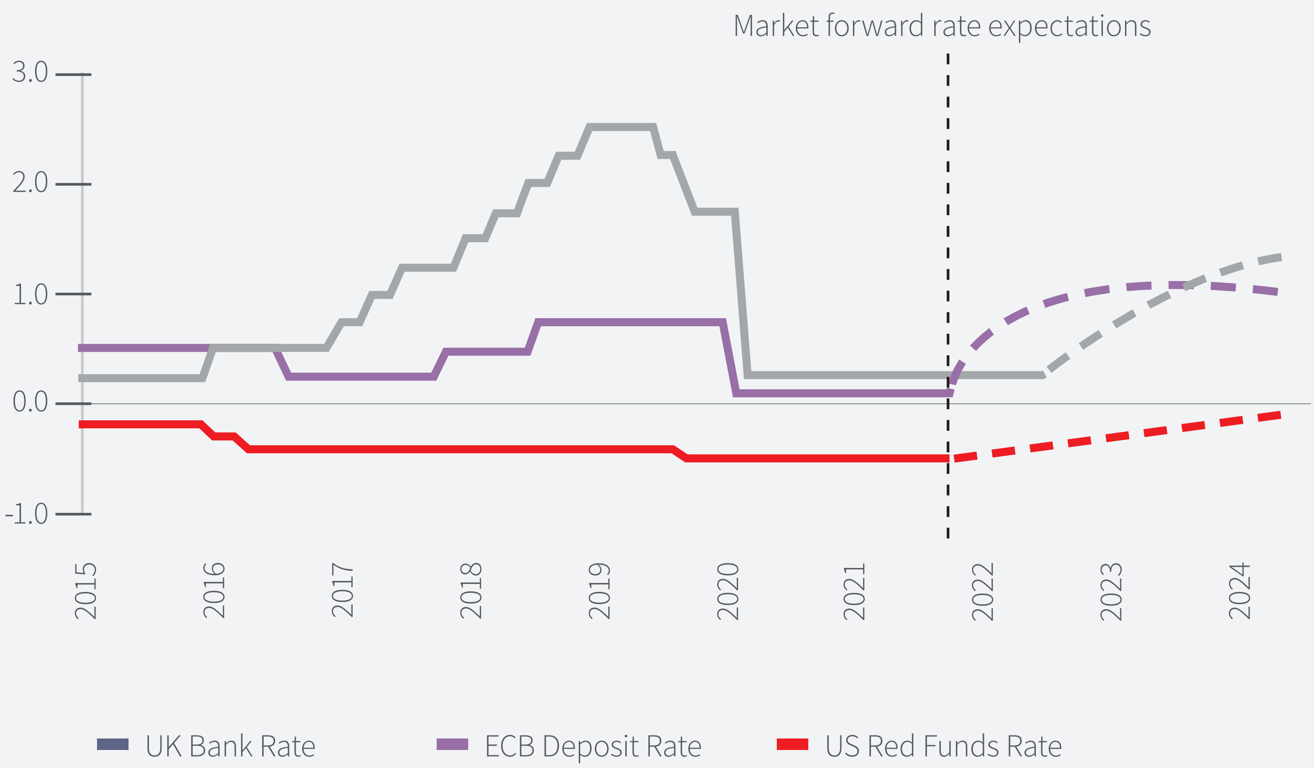
Source: Consensus Forecasts.

Interest rates on the rise

Central bank policy interest rates will move upward in 2022 – but they will rise relatively slowly and peak at a lower level than in the past. The US Federal Reserve and Bank of England are currently expected to raise rates three times each in 2022. The ECB is expected to cut back the pace of its asset purchases further.

Rates are likely to be increased relatively slowly and not revisit the heights they saw prior to the global financial crisis for two reasons. First, after over a decade of rock-bottom interest rates, economic actors have become more interest sensitive. Second, the crisis caused a large jump in indebtedness, especially among governments and small- to medium-sized businesses, and this will amplify the effects of even a small rate increase. As a result, the "neutral rate" of monetary policy – the rate at which it is neither stimulating nor supressing economic activity – has fallen compared to before the Global Financial Crisis and so rates will not rise as high.

Market forward expectations of central bank policy rates (%)

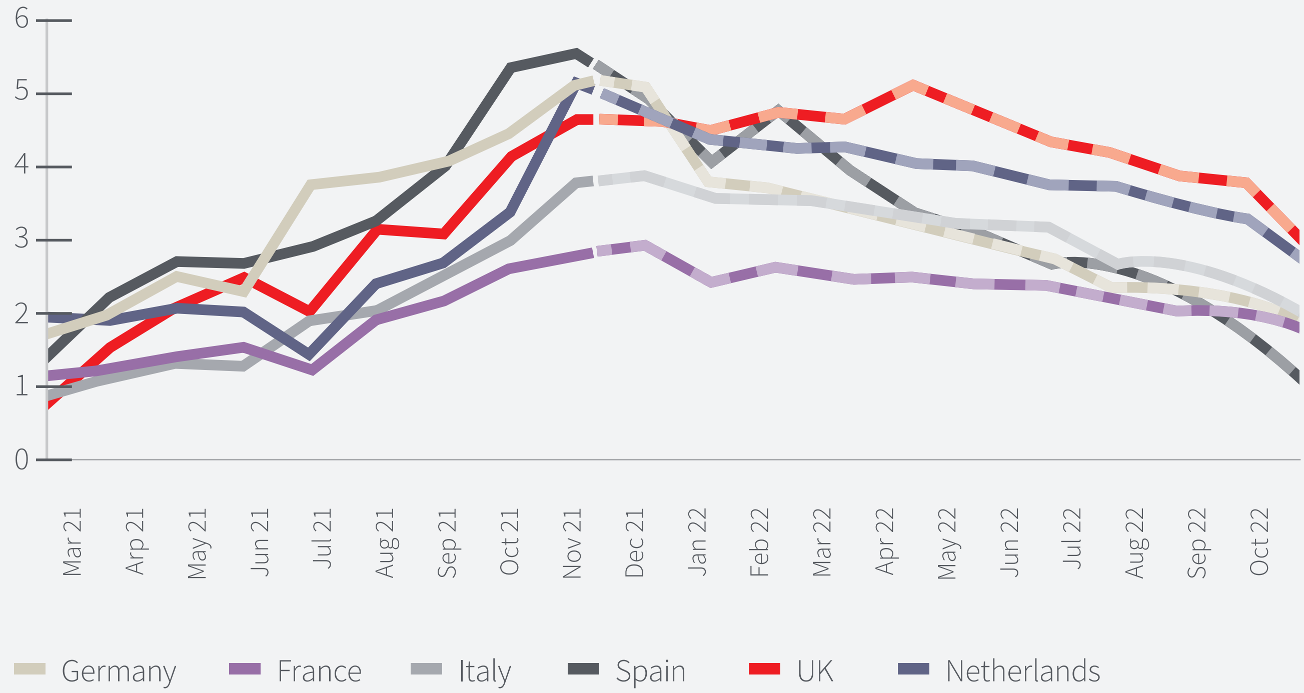


Source: Bank of England Monetary Policy Report, November 2021.

Inflation: this too shall pass

The post-lockdown rapid recovery in demand has created a large supply and demand imbalance that has caused inflation to spike, augmented by temporary, one-off influences and base effects. We are likely to see an unwinding of this imbalance in 2022. Commodity prices will, at the very least, not keep rising and are likely to fall back. Production shortages will ease as output rises and pandemic-related disruption fades, and, eventually, higher prices will bring new supply on-line. Only if demand growth remains in excess of supply growth can inflation remain elevated in the medium term. And demand growth is expected to slow as catch-up growth runs out, fiscal policy support is unwound at a faster rate, and interest rates tick up. Higher debt levels will be an additional headwind to demand.

Inflation (% YoY)



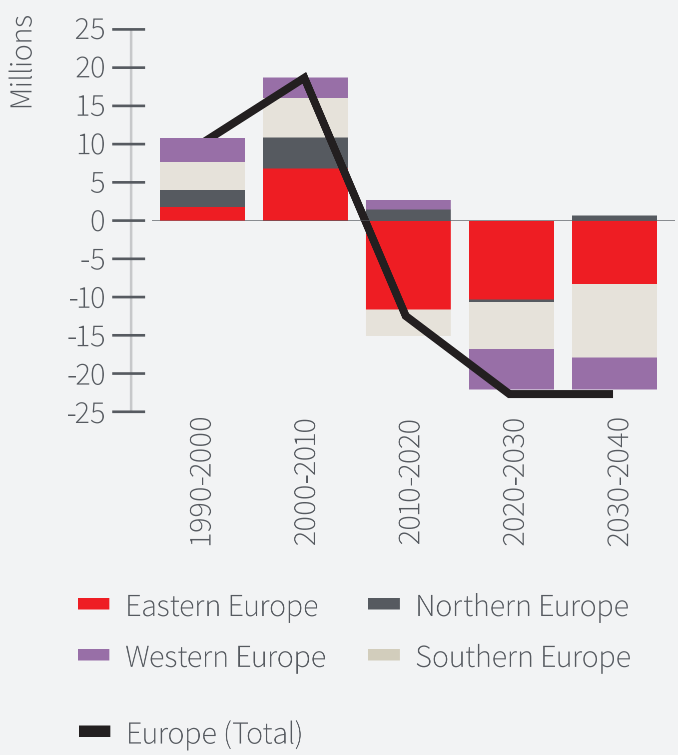
Source: Consensus Forecasts.

Labour – trouble ahead?

For Europe as a whole, this decade will see the largest change in the working age population since the 1980s, and in the opposite direction: it will decline by over 20 million people. Across Europe labour will become scarcer. As people retire from the workforce, it will become harder to fill jobs as new entrants to the labour market will be insufficient to make up for lost numbers.

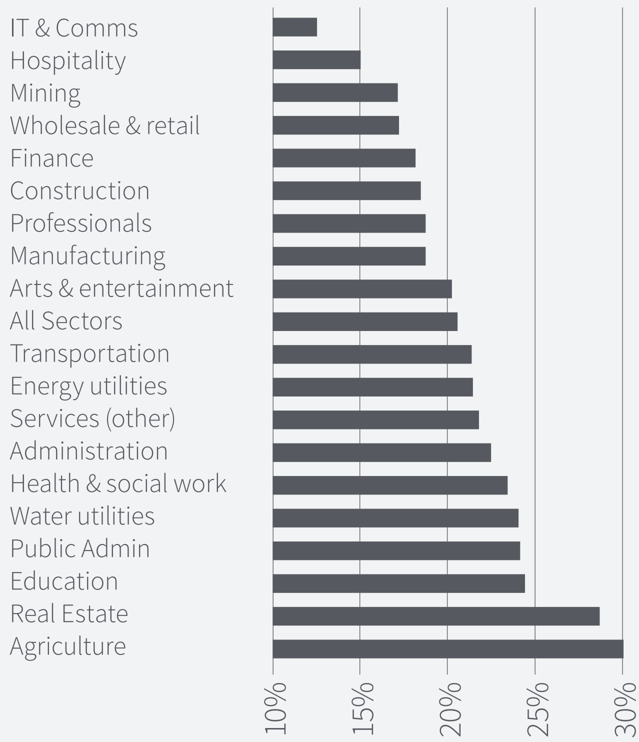
There are several consequences. First, if labour becomes more scarce, it will become more valuable. Relative returns to labour (compared to capital) have declined for decades and will go it to reverse. Second, there will be an increased incentive to substitute away from labour, prompting more investment in labour-saving technology, which will further boost the relative returns to labour. Some sectors will be at the sharp end of this change: Agriculture is the worst affected industry in the Euro Area, with fully 30% of the workforce already aged 55 or over and at a rising probability of retiring within this decade.

Change in European population each decade



Source: United Nations.

Share of workforce due to retire within 10 years



Source: Eurostat.

Hybrid working isn't the future, it's the present. The office will remain central but will become part of a wider ecosystem.

Shifting priorities and enabling the future of work

To navigate the future of work, organisations will need to be agile adapting to changing conditions both in the near term and beyond. Work and lifestyle trends were accelerated during the pandemic and organisations have now begun to understand that their transformation to hybrid will be a longer-term journey in the continued evolution of the future of work

There is no one-size-fits-all answer to what the future of work will look like, but we do believe there are four foundational truths:

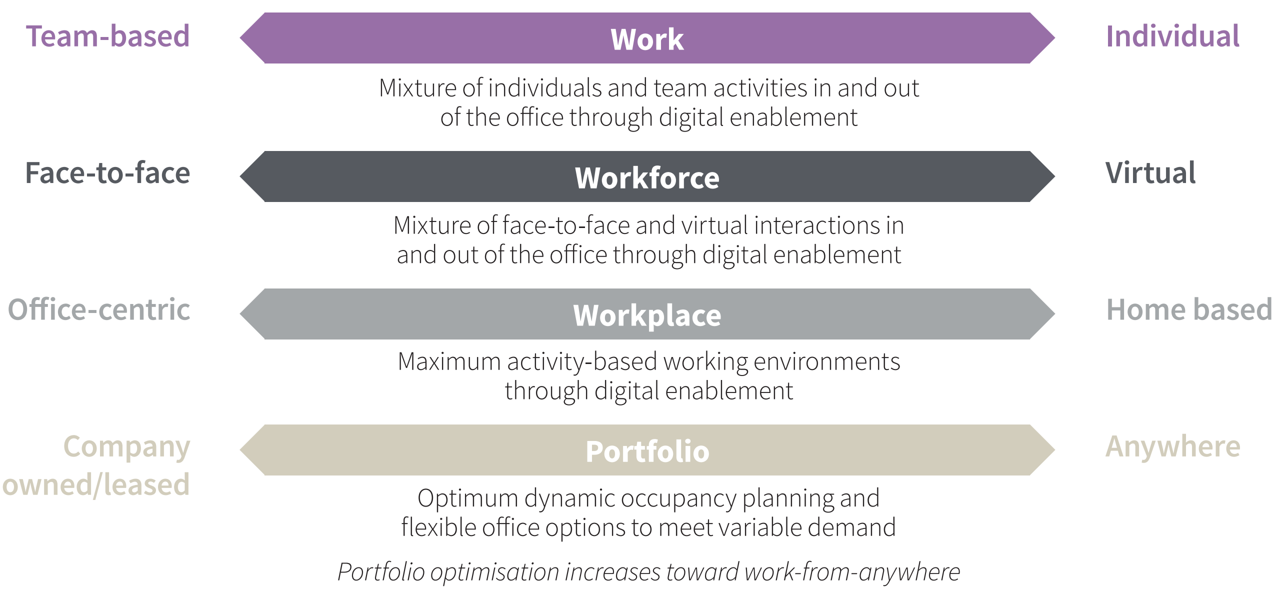
- The office will remain the center of the workplace ecosystem.
- Hybrid work has a durable presence.
- Health, wellness and safety are – and will continue to be – of high importance to employees.
- The net impact on space usage and footprints will be relatively minor.

Whether you call it hybrid, work-from-anywhere or work-from-everywhere, it is clear that many employees now expect greater flexibility. In what will be a long period of sustained change, introducing flexibility into the way your organisation works will be vitally important to ensuring the resilience of an always-on transformation and adaptation.

The office will remain central but will become part of a wider ecosystem. The workplace of the future will allocate less space for individual workstations and more space for innovation, collaboration, learning, socialisation and employee experience. Employers will need to build a worker-centric workplace to better address the rising expectations of the workforce.

Organisations will need to be flexible, agile and, above all, adaptable to shifting demands to facilitate their ongoing transformation and continuously optimise their portfolios to enable work from everywhere. Achieving full flexibility will be no mean feat and organisations must consider how a hybrid environment will enable their future of work strategy.

JLL Future of Work Continuum



Source: JLL Shaping the future of work: Three stages of transformation, 2021

Making **hybrid** work

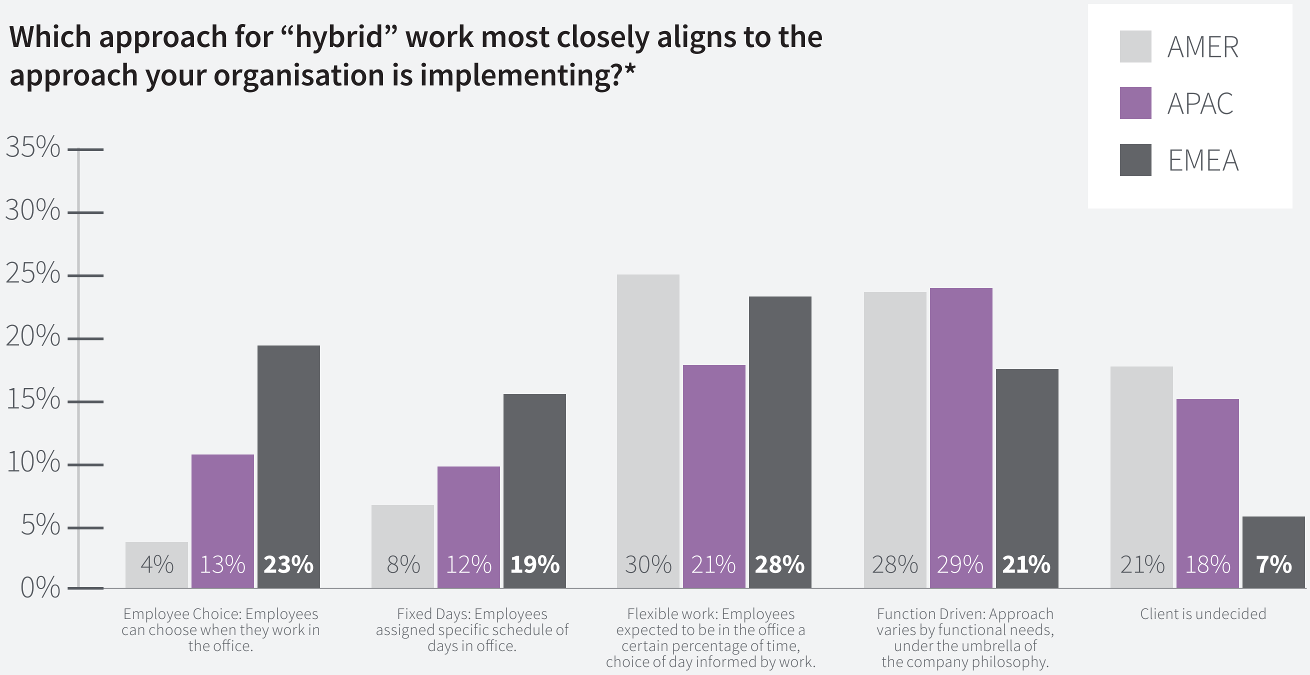
Intensive experimentation and piloting to occur to achieve hybrid working models that work for all

The pandemic has created opportunities to question what work gets done, by whom and where. Hybrid working models can help create desirable and "magnetic" flexible workplaces, that can help attract talent, critical for business performance and long-term financial success. Hybrid working will compel corporates to drive the value proposition for employees in a number of ways, and a high-quality work environment is key to that.

We expect significant variation in the practises of hybrid work between individual companies, as well as across industries and geographies. Experimentation and piloting are essential to work out the best, individual approach on a spectrum of flexible working styles to achieve hybrid working models that work for all.

Knowing that the shift to hybrid may be more challenging for some employees and leaders, organisations will need to be mindful and consider all perspectives. Respondents to the recent JLL Work Dynamics Survey expect that a significant share of the workforce will be hybrid, yet 48% of organisations across EMEA still have not developed a 'future of work' program. Pilots are an essential tool to address this gap, learn, discover and progress along the right path in the journey.

Which approach for "hybrid" work most closely aligns to the approach your organisation is implementing?*



*Respondents who answered "Other" or "N/A (client doesn't anticipate having any 'hybrid' employees)" are not shown

Source: JLL Work Dynamics Pulse Survey, October 2021 (253 responses)

War for **Talent** 2.0

The skills shortage will drive companies to improve the quality of their real estate and workplace.

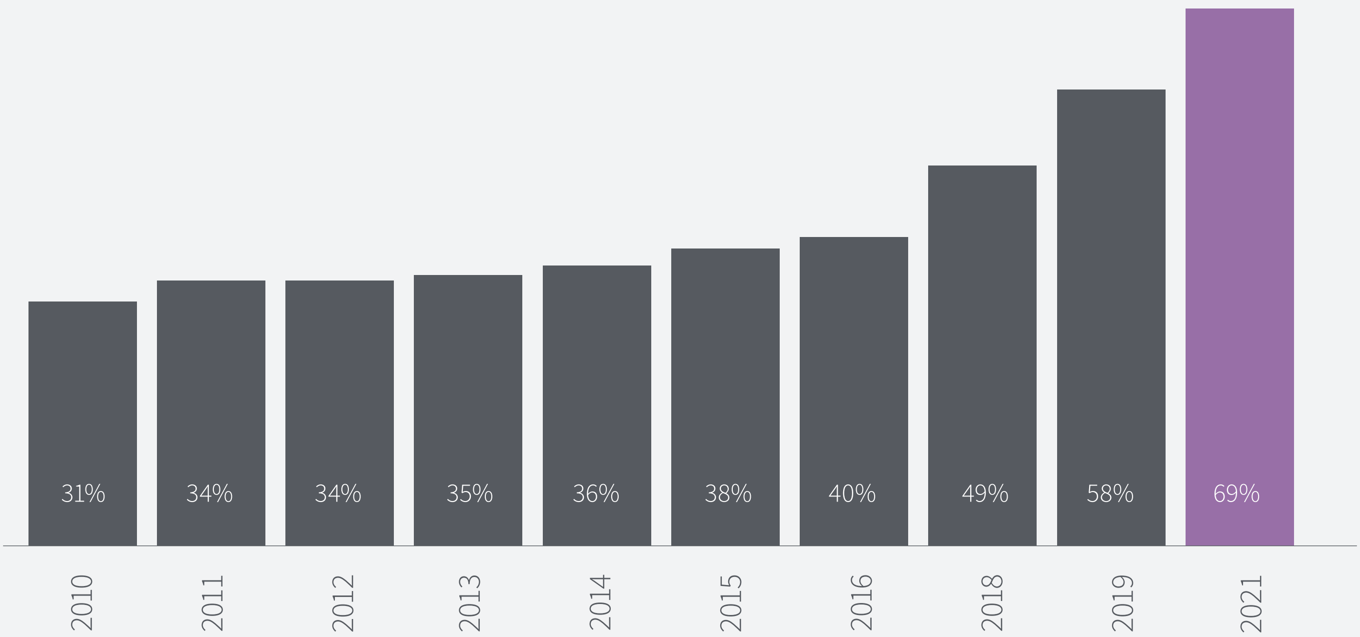
The global talent shortage shows no sign of slowing. In Q4 2021, 69% of employers reported difficulty filling roles – a 15-year high for the second consecutive quarter, according to a recent employment outlook survey by ManpowerGroup. Facing a shortage of skilled workers, enterprises will have to offer employees more incentives and improve the quality of their workplaces to attract and retain the talent they need.

Results from the JLL Worker Preferences Barometer tell us 88% of the workforce want to be able to choose their working hours in the future and 59% cite work-life balance as the number one workforce priority, ahead of salary (55%).

Top incentives to become a unique employer include health and wellbeing programs, an outstanding work experience, a sustainable workplace and learning and development programs.

Flexible and agile workforce structures that empower remote, hybrid, and cross-border teams will help ensure companies compete and retain talent in today's tight labour market.

Employers reporting hiring difficulties



Source: ManpowerGroup, Employment Outlook Survey, Q4 2021


27 May, 2021
Thursday
82%
18°
Temperature

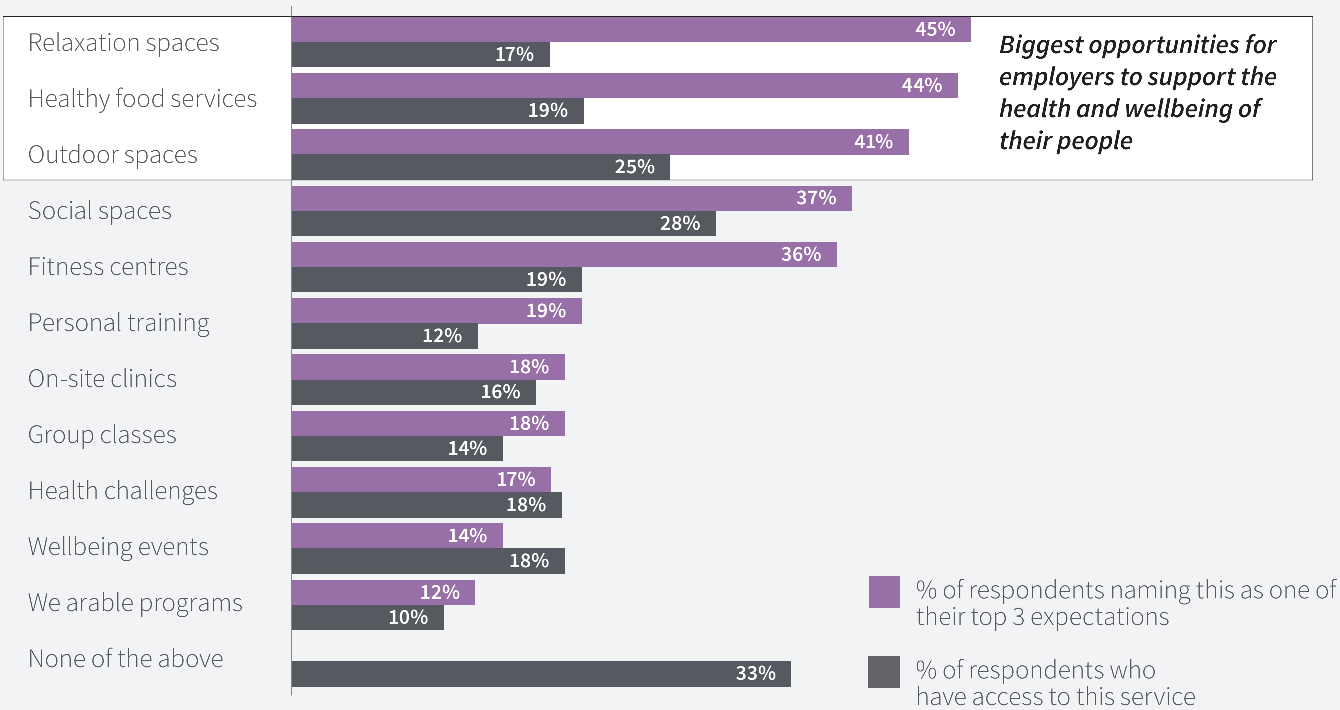
Regenerative workplace

Employee wellbeing will be at the forefront of the future workplace

As the months of the pandemic have rolled by, employees have found the ability to integrate wellbeing into their daily routines. Today, as more employees return to the office, they want to migrate this experience to the workplace and aspire to work in a more supportive environment. According to JLL's survey one-third of the workforce do not have access to any health and wellbeing amenities today. In instances where health and wellbeing amenities are offered, the uptake is very high. Among those who have access to these services, 60% to 70% use them on a weekly basis. Relaxation spaces, healthy food spaces and outdoor spaces present the biggest opportunities for employers to support the health and wellbeing of their people

Leaders and managers will have a major role to play in supporting employee wellbeing in the months ahead. Employers who will make their people feel safe, energized and motivated will have an edge. Organisations that create a truly Regenerative Workplace will fuel organisational resilience - the ability to anticipate, prepare for, respond and adapt to change and sudden disruptions in order to survive and prosper.

Employee expectations vs. access to service and amenities



Q: Which are the top 3 amenities and services that you think could improve your overall wellbeing the most while at work?

Source: JLL, Regenerative Workplace, 2021

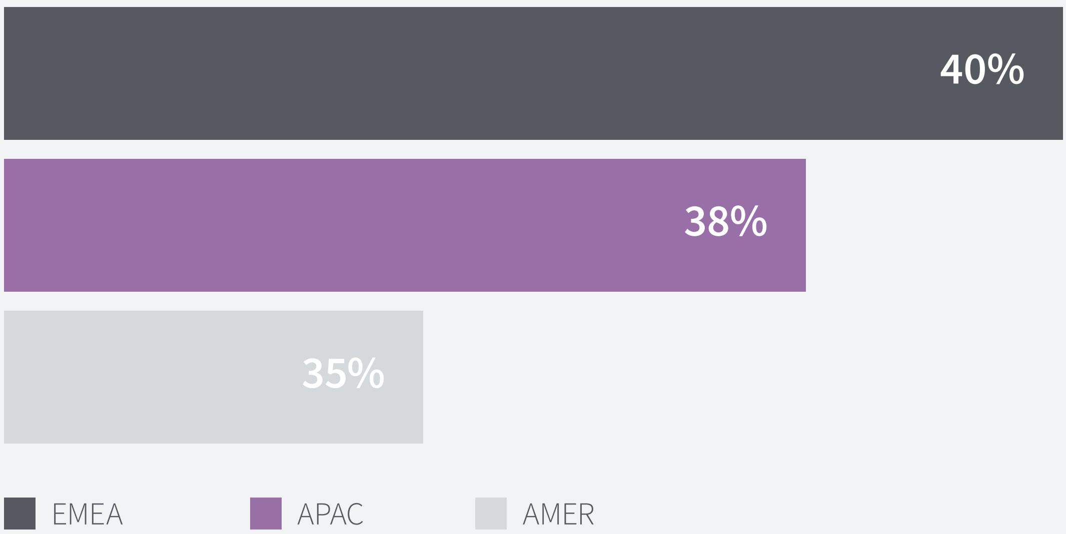
A flexible future

Flexibility will be important to support hybrid workforce and increase agility

As we transition to more hybrid and remote working styles, organisations will require the right 'future of work' model with built-in flexibility to help gain competitive advantage and allow for change in the future. Future of work models will be enabled by both suitable technology and dynamic occupancy management.

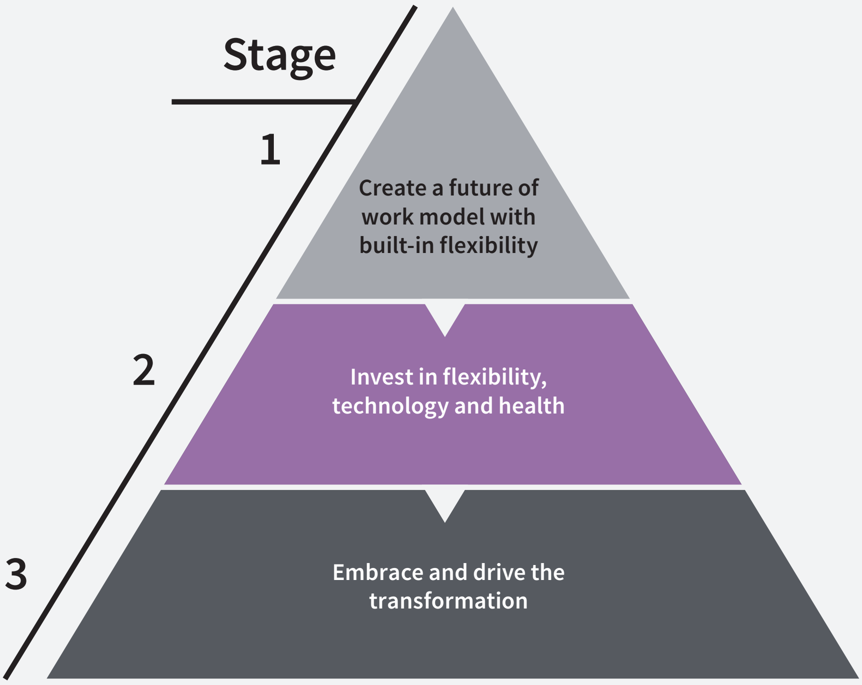
Pandemic-related uncertainty, changes in employee preferences and occupiers' increased need for agility are driving a surge in interest for flexible space options. JLL's research shows that 37% of organisations globally are looking to increase their use of coworking/flex space post-Covid-19. Organisations who plan to adopt a hybrid working model may seek to leverage flex solutions to better manage their liquid workforce and optimize their real estate portfolios, allowing them to 'buy time' as they launch new initiatives and develop longer-term space strategies.

% of organisations looking to increase their use of coworking/flex space post- Covid-19

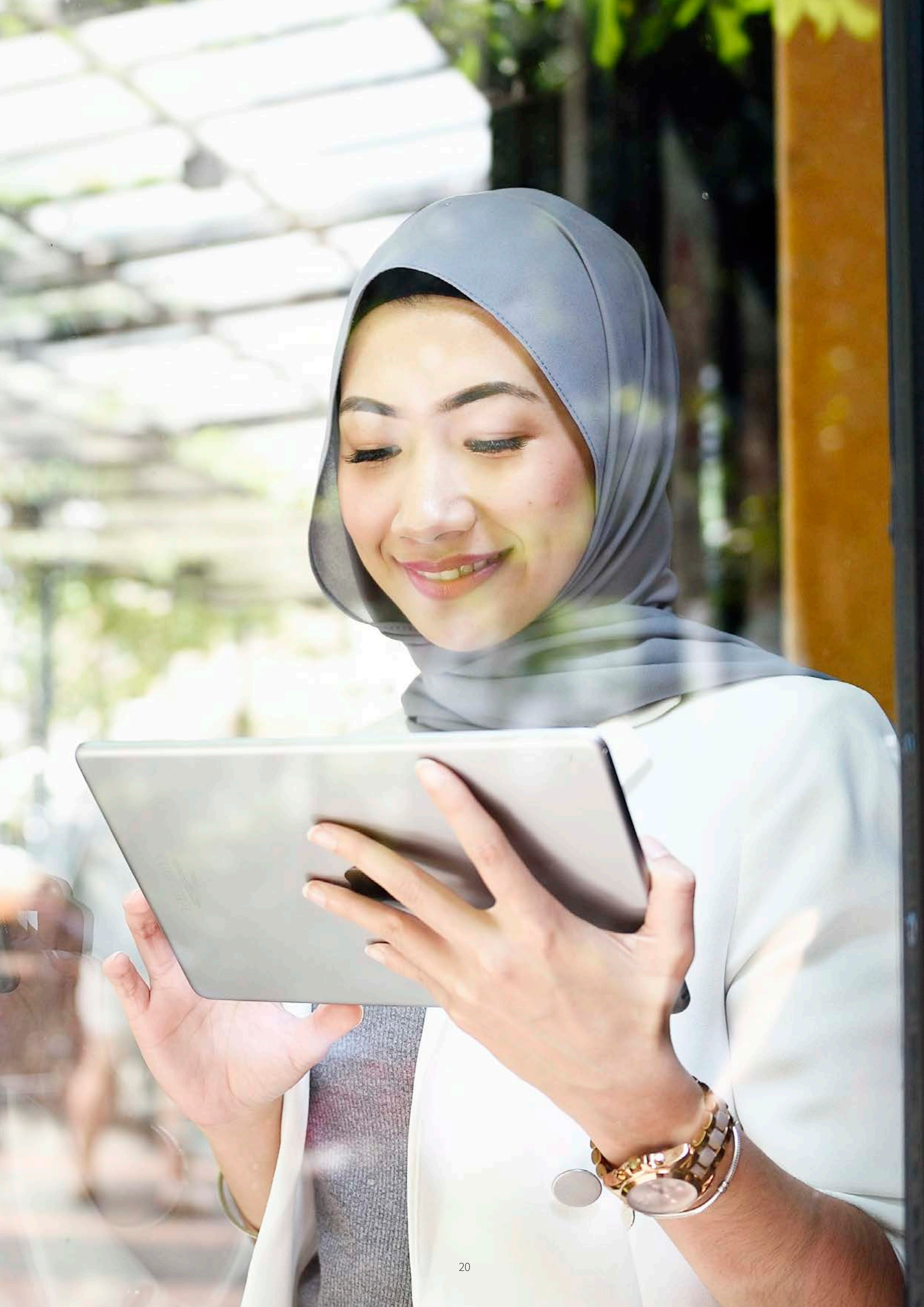


Source: JLL Work Dynamics Pulse Survey, October 2021

Shaping the future of work: Three stages of transformation



Source: JLL, Shaping the Future of Work: Three stages of transformation, 2021



Responsible real estate

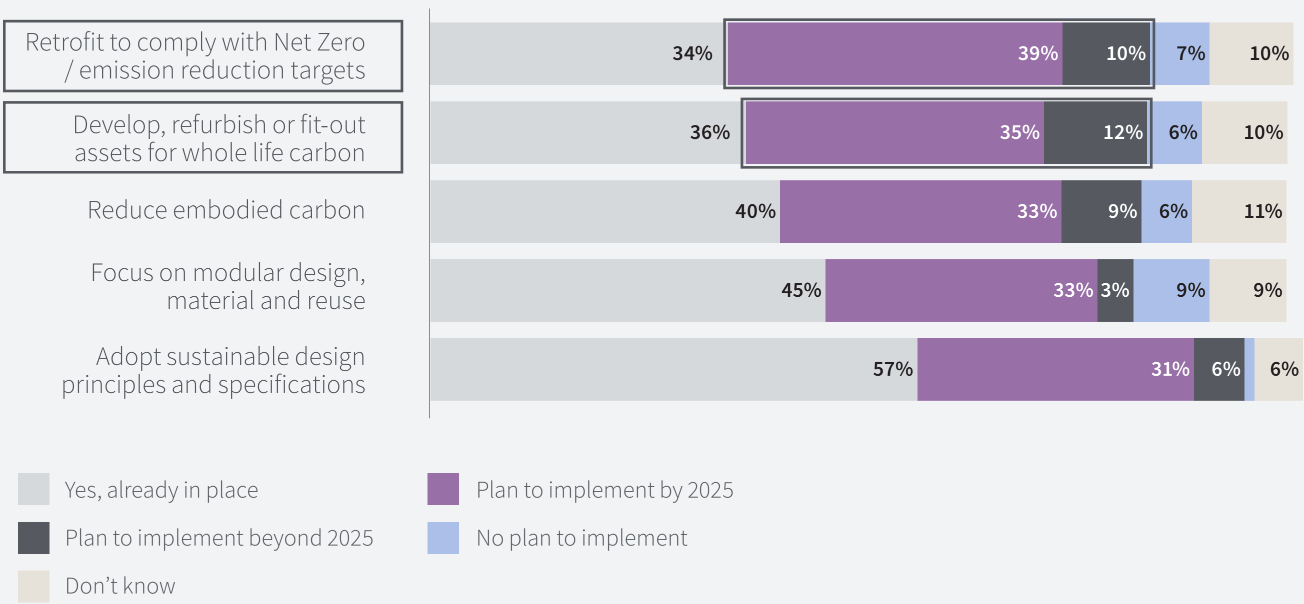
From strategy to action. Translating sustainability targets into credible action plans will drive real impact from real estate in 2022.

Occupiers see the value in acting responsibly to drive down carbon emissions and accelerate the race to net zero; however, their action plans are still in nascency with 43% reporting they are in early stages of defining their action plans. Another 9% are not sure where to start. Carbon reduction initiatives can enhance value and drive real environmental impact.

Translating good intentions into achievable targets will require partnership and transformative thinking. Occupiers must design a strategy to translate their environmental and social goals into deliverable actions and deliver value.

57% of CRE respondents have already adopted sustainability design principles, are focusing on modular design, material and reuse (45%) and reduced embodied carbon (40%). However, the CRE focus between now and 2025 will be retrofitting, developing, refurbishing and fitting-out assets to comply with Net Zero / emission reduction targets.

CRE respondents report retrofit and refurbishment of assets will be key focus area to reach Net Zero targets



Source: JLL, Decarbonizing the Built Environment, 2021

The way forward

The world around us is changing at a fast pace. The opportunity for organisations to shape their future of work strategy has never been stronger and there is only upside and value for those who commit to their transformation.

A win for the organisation through enhanced human performance and greater productivity. A win for the employee through a better, healthier, more fulfilling working life. And a win for the environment, society and community through the associated benefits that a responsible transformation can help bring.

The coming years are likely to see significant evolution within the built environment, not only as a consequence of the pandemic but also due to changing workforce and consumer preferences, intensifying sustainability pressures and the transformation of real estate by technology.

At JLL, we anticipate a period of accelerated change with implications at city, asset and user levels as the urban ecosystem evolves and assets are repositioned to respond to the drivers of transformation. The post-pandemic environment will provide a once-in-a lifetime opportunity for real estate to regenerate the built environment in a sustainable and responsible manner. Regeneration will require taking inspiration from fresh thinking and developing innovative plans that have a positive impact – adding sustainable value for cities, businesses and wider community stakeholders.

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