Research &
Forecast Report

EMEA | OFFICE
Q2 2016

Is Flexibility The Future?
Long-term, European Office Market Trends

What's Next for European Office Markets?

Introduction

Commentary on the impact of 'disruptive forces' appears across many market headlines at present. Yet if we look back over the last thirty years, disruptive forces are nothing new – they have already had a significant impact on global office markets driven by the evolution of technology, a series of market events and the response of policy makers. The last 10 years has seen these forces culminate, ever-driven by the rapid advancement of technology and its increasing omnipresence, fundamentally changing the European office market. The combination of these factors will continue to influence operational footprints and office markets across Europe, and globally, in the years ahead.

This summary note looks at the key trends emerging from this change.

Offshoring/Outsourcing

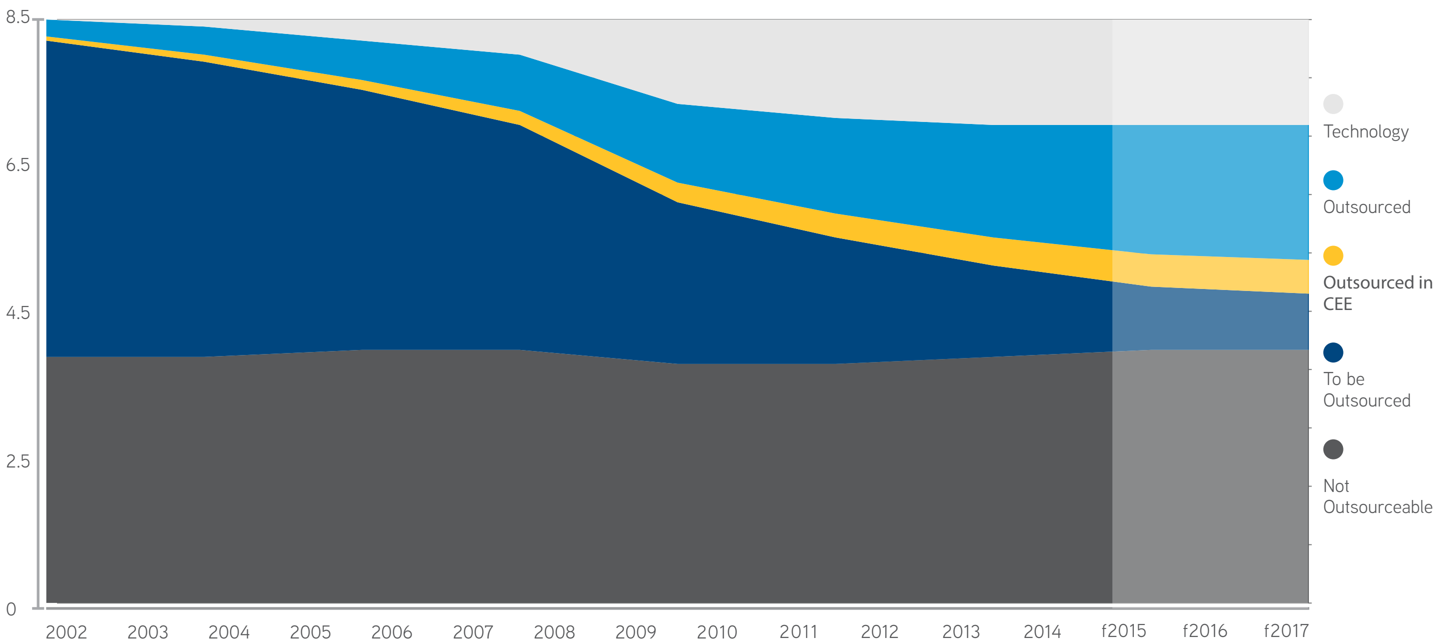
The emergence of the Internet, and the expansion of multi-national corporations into global emerging markets generated a rapid expansion of global offshoring and outsourcing since the 1980s. The impact has been huge on a global scale and particularly rapid since 2000, with an estimated 4-5 million people working full-time in offshored/ outsourced business services, up from 1 million at the turn of the century.

This expansion accelerated in Central and Eastern Europe over the last 10 years. The ability of outsourced businesses to perform and absorb higher value-added tasks, utilising a high quality workforce with strong language and technical skills - yet operating on a relatively low-cost base - has driven this growth. As of 2015, an estimated 400,000 jobs had been created across Central and Eastern Europe, with more set to come.

Research by Hackett Group estimates that around 2 million jobs have been outsourced from western European and US headquartered operations since 2000. A further 1.5 million jobs have been made obsolete by new technology which has reduced the need for process-driven, clerical labour. As technology is increasingly adopted by both tied and footloose business operations, and as companies continue to outsource and offshore business operations, a further 1.4 million HQ jobs are set to be re-distributed or re-defined over Europe in the next 5-10 years. This figure could be higher still, if technology advances as rapidly as it has done.

So what does this mean for European office-based jobs looking forward, as this change over the past ten years represents a significant change in both the distribution and function of office-based jobs across Europe?

Fig. 1: Outsourcing & Offshoring Job Growth



Source: Hackett Group/ Colliers International

Re-distribution & Re-invention: European Office Employment

Well the good news is that, overall, office employment in the EU area has actually grown by around 5 million - 4.3% - over the last 10 years. This may seem low, but take into account the significant impacts of outsourcing and offshoring, the Global Financial Crisis (GFC) from 2008 – 2012 and the impact of austerity on both the public and private sector and this is a positive growth story. If economic growth remains on course relative to current forecasts, 2016 will represent the first year that European office employment surpasses the previous peak of 2008.

Within Europe, however, the distribution of employment has changed markedly. Figure 2 shows the extent to which outsourcing has had a very positive impact on South-Eastern Europe, Central and Eastern Europe (the Visegrad 4) and the Baltics, albeit off a low base.

Figure 2 also shows that the UK & Ireland have seen significant growth in office-based employment in the last 10 years. This has been driven by the ability of these liberal economies to react to change, re-balance and attract private sector investment and growth. It also reflects their more flexible approach to employment, with both contractual and self-employment increasing post GFC in order to help spark an increase in employment. There has also been positive growth in the Nordics for similar reasons, with the tech sector playing a major part in the transformation of these markets.

Flexibility Required

In Western Europe, growth has been far more muted. Germany has recovered but has been held back by a lack of capacity in the labour force. France is in a similar, muted growth position, but growth has been held back further by an inability to increase flexibility into employment. Despite protestations by the incumbent government to fix the jobs problem, no reform appears imminent.

In Southern Europe, jobs growth has been more problematic. In fact, Southern Europe has registered negative office-based jobs growth since 2005. Spain and Italy have been hamstrung by restrictive and inflexible labour laws and both of these major economies, alongside the smaller economies of Portugal and Greece, have unwanted youth unemployment rates above 40%. This has led to Southern European economies featuring the highest total unemployment rates across Europe, with unemployment in Spain and Greece above 20%. The impact has been a clear drag on their respective economies, but the good news is that a turnaround is in the making.

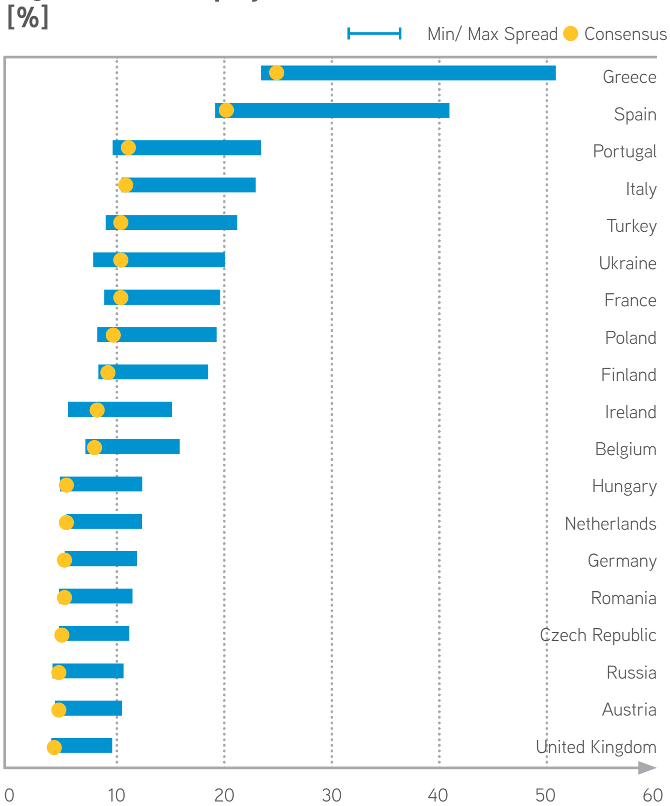
Spain has succesfully pushed through regulatory reforms making it easier for firms to operate more flexibly and help drive the economy – a reported 500,000 new private sector jobs were created in Spain in 2015, and this change is reflected in Spain's GDP forecast for 2016 – one of the highest forecast growth rates for Europe.

Fig. 2: EU Office-Based Employment Growth Map 2005 - 2015

-5% to 0% | 1 % to 5% | 6% to 10% | 11% to 15%

Source: IMF/ Eurostat/ Colliers International

Fig. 3: EU Unemployment Rate: 2016 Forecast [%]



Source: Focus Economics/ Colliers International

Italy is currently working through a number of reforms to increase much-needed flexibility within its own workforce and drive GDP above the paltry 1% forecast, one of the weakest in Europe.

The concern, it seems, is an erosion of the quality of traditional employment. Between 2009 and 2014 across the EU, full-time jobs have fallen by just under 4 million. The 'slack' has been taken up by part-time jobs which have increased 3.5 million, and temporary contracts which are up by 520,000. This implies a serious erosion of employment quality and sustainability, with peripheral consequences for pension provisioning and medium to long-term disposable income levels which might have retail implications.

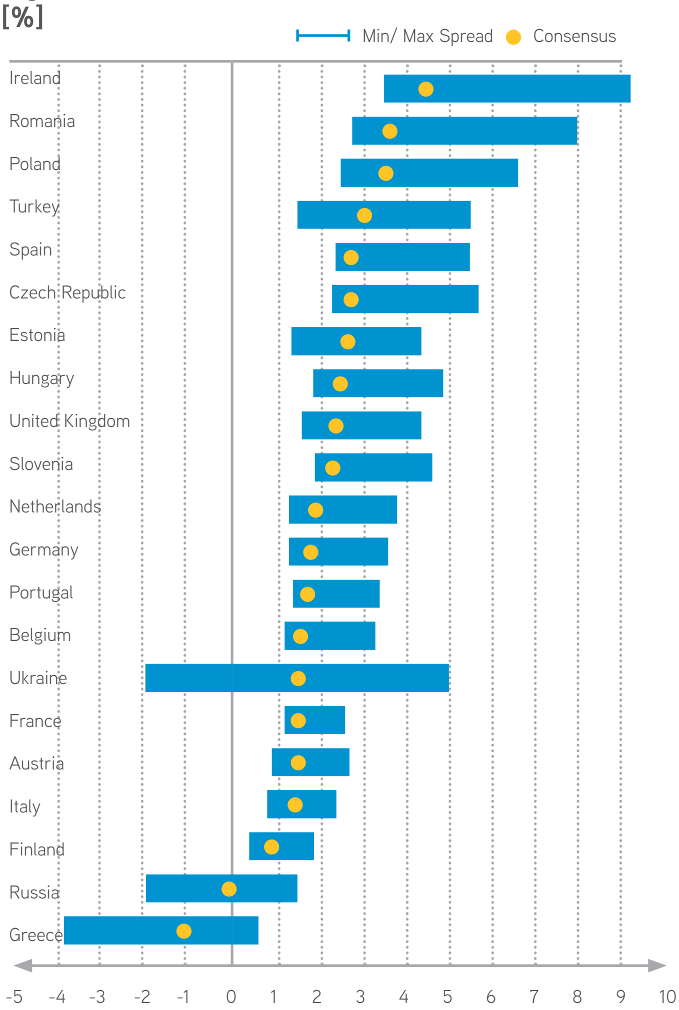
Drivers of Flexible Labour

It is however, simply part and parcel of the age we live in. As Europe continues its recovery it is anticipated that both full-time and contractual/part-time employment will grow. Although it would not surprise us to see 'non full-time' employment overtake contractual full-time employment for the following reasons:

- Companies seek to maintain flexibility to be able to respond to change.
- Europe's working population continues to age, and self-employment is an increasing trend amongst those aged over 45.
- The evolving Millennial workforce likes change, and many expect to move jobs within a 2-3 year time-frame, or have more than one job in an increasingly collaborative world.

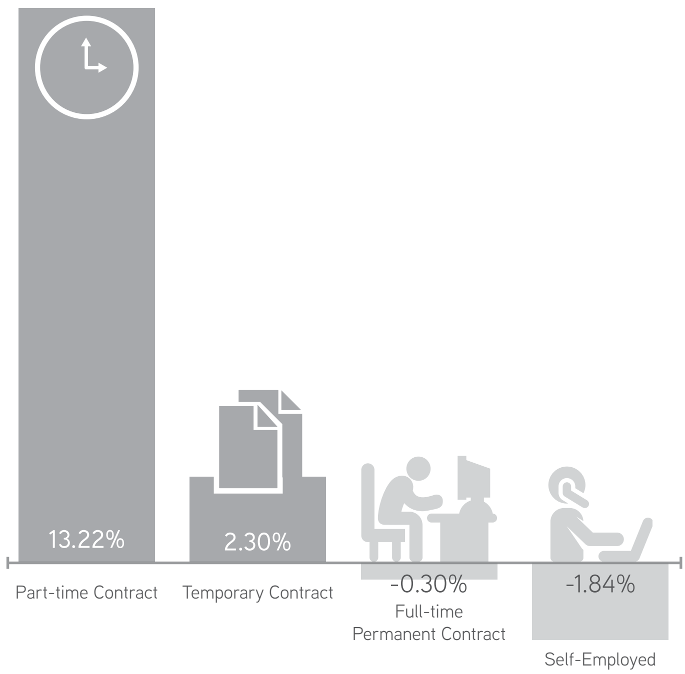
Put all this together, combined with the need of national economies to stimulate growth via flexibility and innovation, and we have an increasingly flexible workforce for the foreseeable future.

Fig. 4: Real GDP Variation - 2016 Forecast [%]



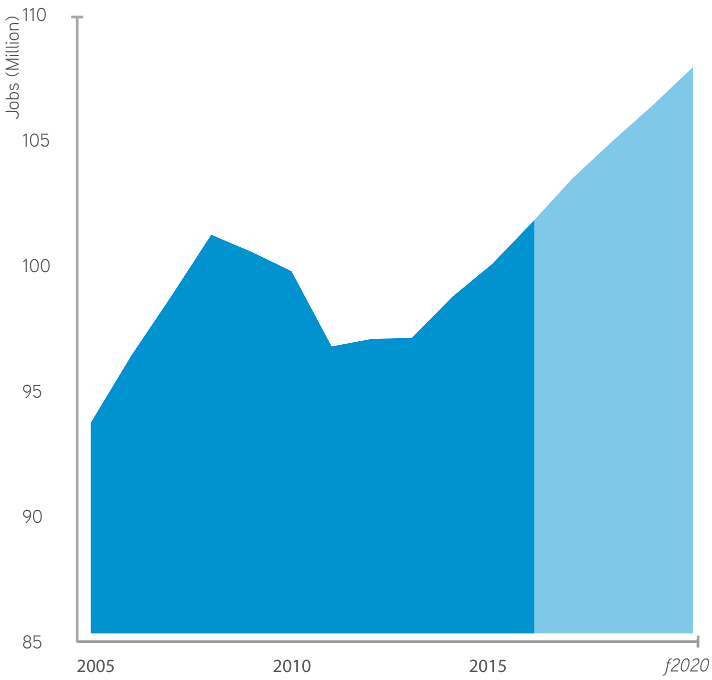
Source: Focus Economics/ Colliers International

Fig. 5: EU Structural Employment Changes [2005 vs. 2015]



Source: IMF/ Eurostat/ Colliers International

Fig. 6: EU Office-based Employment [2005 - f2020]



Source: IMF/ Eurostat/ Colliers International

Job Flexibility = Office Space Flexibility

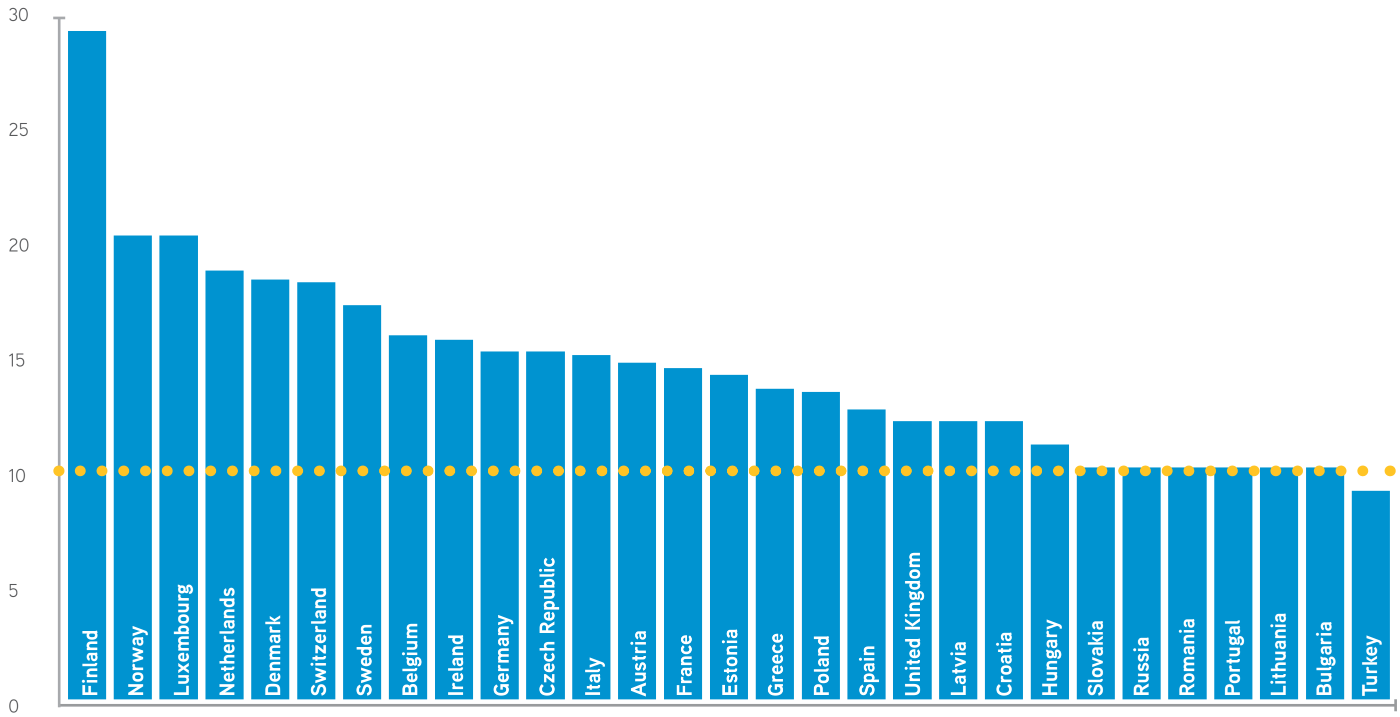
When it comes to the office market, while private-sector, office based jobs growth will drive a continual need for dedicated office space, the nature of many office-based jobs points to an increasingly flexible use of space. A trend on the rise in the majority of markets across Europe, including Colliers own network.

Add outsourcing and offshoring to the mix, and this exacerbates the need for managing the adoption of 'New Ways of Working' (NWOW) across markets. Colliers experience shows that the ability to adopt working practices differs markedly by country and corporate culture. But the fundamental forces driving it will continue to impact all locations, shaping the use and forms of office space which emerge as a result.

As we look at office space per wokspace across Europe, and the cost of this space (as reported in our recent OCI survey), a large number of markets look set for some major space-saving in the foreseeable future. As market fundamentals, and a shift towards shared-desking drive lower space requirements of say 10 sqm per workspace, this could see modern office space vacancy/availability rising across a number of markets, without the need for any new supply.

If 10 sqm per workspace does become the norm, it is clear from Figure 7, that almost all markets will be impacted, with the major impacts occurring in the Nordic and Western European markets. Varying legal /cultural requirements over the amount of square metres (or feet) required by workspace, will of course vary the impact by market.

Fig. 7: GLA per Workspace [sq m]



Source: IMF/ Eurostat/ Colliers International

Equally, large chunks of self-generated availability will simply comprise hidden vacancy in a number of buildings, and markets - a factor which is already in place today in markets such as Amsterdam. So while increased flexibility can create a solution, it can also generate challenges in terms of still paying for space you don't need, or can't immediately sub-let/dispose of, which needs to be gradually managed out over the duration of a lease.

Adopting New Ways of Working

Adopting new ways of working is not a simple process. It requires strong change management incorporating an appreciation of the myriad of inputs required for a successful transition towards a more flexible, efficient and productive workplace environment.

These inputs comprise a range of cultural, technological and practical inputs and nuances. For example, at the cultural level, extensive research by Professor Geert Hofstede, Gert Jan Hofstede, Michael Minkov and their research teams has examined what they term 'the six dimensions of national culture' which significantly influence values in the workplace.

Without going into details (but it is worth a read: http://geerthofstede.com/national-culture.html), each European country functions to a different set of national values when it comes to how countries typically function in the workplace.

The combination of cultural factors such as 'Power Distance', 'Individualism', 'Masculinity' and 'Uncertainty Avoidance' combine to create a cultural basis which can has a positive or negative impact on the ability of an organisation to implement a NWOW strategy. Fig. 8 (overleaf) provides a graphic summary of these cultural values, whereby those marked blue have a positive influence; yellow is neutral, and red is a negative influence.

Looking Forward

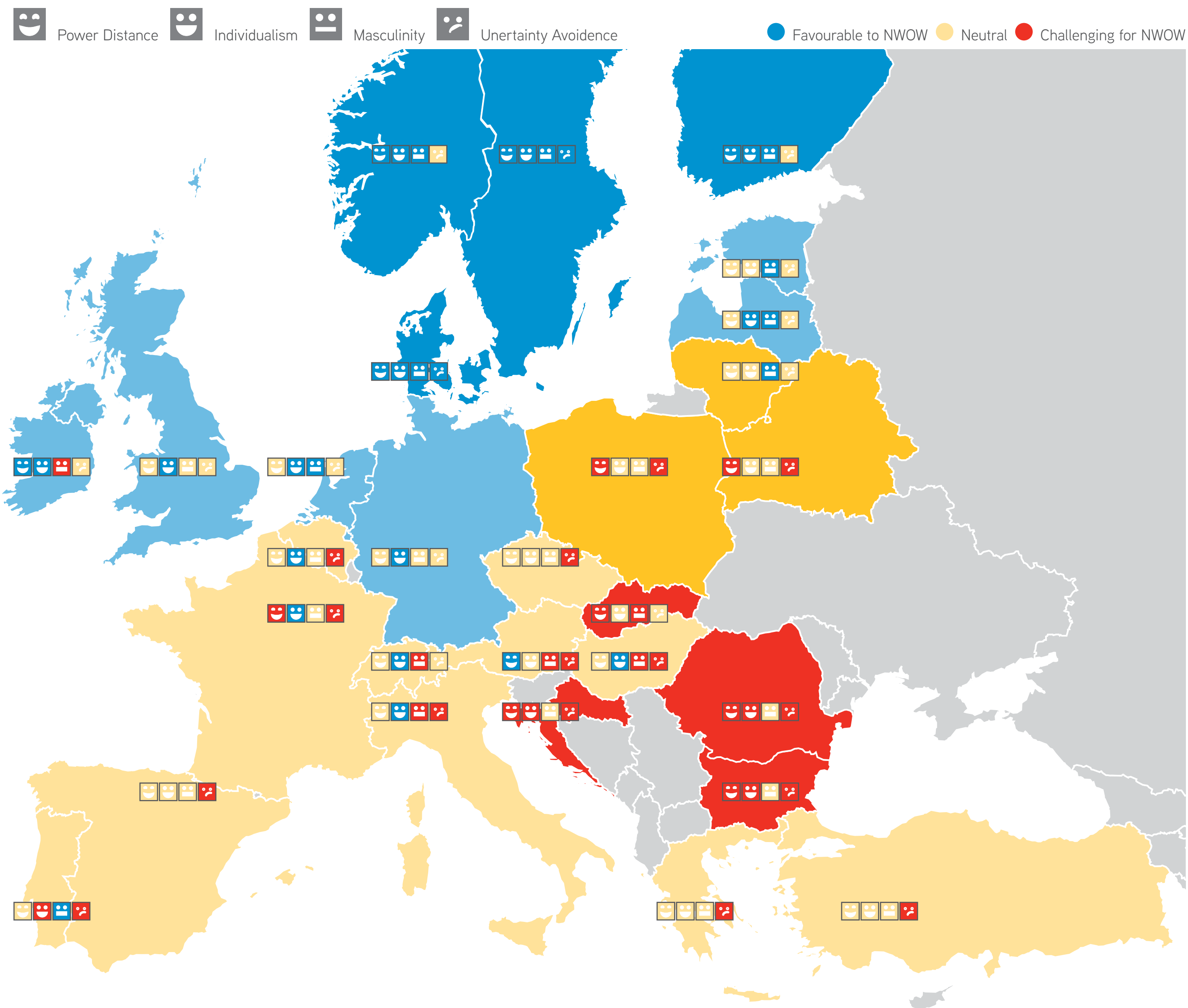
A quick review of the map in Fig 8 outlines the variety of workspace cultures across Europe. This highlights that adopting NWOW to create greater flexibility/productivity in a workplace is far from straight-forward, when moving across borders.

For instance, the Nordic and north west European markets appear to be far more pre-disposed to accepting new ways of working cultures, and increased flexibility/collaboration in the workplace. The fact that these markets have by far the strongest, and largest self-employed workforces, is no coincidence. The further south and east you go, you see the reverse, as markets move to yellow, orange and then in some cases red.

However, even in the markets coloured orange and red, we have witnessed a number of companies adopting new ways of working, including Colliers own operations. The driving force behind this comes from the fairly rapid rise of the office-based services sector, and the continued growth of younger generations in the workforce. As more mobile and technologically savvy employees come into the workforce we expect that the orientation towards NWOW will continually improve across Europe. To some degree, this will change the underlying European workspace culture over time.

Is flexibility the future? It would seem increasingly so.

Fig. 8: The 'Hefstede' European Cultural Workspace Map



Source: http://geerthofstede.com/national-culture.html/ Colliers International

502 offices in **67** countries on **6** continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

€1.75
billion in
annual revenue

160
mln sq m
under management

16,300
professionals
and staff

AUTHORS:

Damian Harrington
Director | Head of EMEA Research
+358 985 677 600
damian.harrington@colliers.com

Neil Crook
Consultant EMEA Research
+48 666 819 280
neil.crook@colliers.com

BUSINESS CONTACTS:

Guy Douteil
Managing Director | Corporate Solutions
+44 20 7487 7040
guy.douteil@colliers.com

Willem van Ansem
Director Facility Management
+31 104 120 035
willem.vanansem@colliers.com

Jan Jaap Boogaard
Workplace Innovation & Project Mangement
+31 104 120 035
janjaap.boogaard@colliers.com

CONTRIBUTOR:

Juliane Priesemeister
Information Designer | EMEA Research
juliane.priesemeister@colliers.com

About Colliers International Group Inc.

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 16,300 professionals operating from 502 offices in 67 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.

colliers.com