

## Market Views

- Analyses and updates from the Norwegian real estate market

February 2023

# The post-pandemic office

## Macro Insights

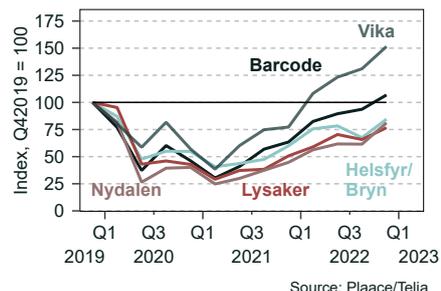
## Office jobs prevail

- Typical office jobs remain fairly resistant to economic fluctuations. We therefore expect employment in office roles to slow down but not fall this year even if a modest recession is expected for the Norwegian economy.
- Broadly speaking, fewer people now appear to be working from home than was predicted during the pandemic. Nationally, mobility data suggest people work an additional half day per week from home.
- Workplace activity levels are lower than before the pandemic on the fringes of Oslo, while in the financial district they are as high as before, or higher.

## Typical office jobs remain fairly resistant



## WFH more prevalent on the fringes of Oslo

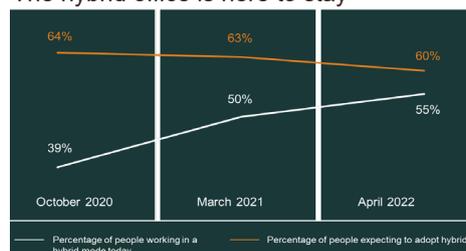


## Commercial Real Estate

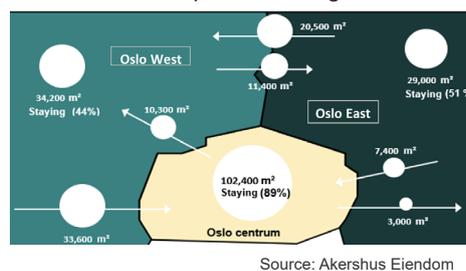
## Flight to quality

- The hybrid office is here to stay. Most workers have returned to the office but expect a higher degree of flexibility in terms of where they are working from.
- Awareness of how we work is increasing, and the role of the office is changing. The office is no longer just a place to work but should also offer a range of services and facilities.
- The geographical location of the office is becoming increasingly important. This year's relocation pattern analysis recorded an unusually high proportion of businesses on the move choosing to stay in, or move to, the city centre. This allows them to be closer to their customers and be seen as attractive by job seekers.

## The hybrid office is here to stay



## Office relocation pattern - a flight to CBD



## Macro | Office jobs prevail

The Norwegian economy has just emerged from a period of strong recovery growth with the highest employment figures since just before the financial crisis. Unemployment is now at its lowest since 2007, and many sectors have struggled to attract enough qualified labour.

As a result of high inflation and rapid interest rate rises, the Norwegian economy is now expected to slow, and Norges Bank predicts the overall employment rate will fall this year. However, the fall is expected to be less severe than what we saw during the financial crisis, for example. The central bank expects the mild recession being forecast to spark a rise in unemployment, but only to levels deemed normal for the Norwegian economy.

Typical office jobs remain fairly resistant to economic fluctuations and usually perform better than the average across all job

categories. We therefore expect employment in office roles to slow down but not fall this year. Oslo has seen the proportion of typical office jobs increase in recent years, boosted by IT/tech in particular.

Broadly speaking, fewer people now appear to be working from home than was predicted during the pandemic. In the country as a whole, workplace activity appears to be 10 per cent below pre-pandemic levels, roughly the equivalent of an additional half day per week working from home. WFH is more common in Oslo than in the country as a whole, but there are significant variations in the city itself. Workplace activity levels are lower than before the pandemic on the fringes of Oslo, while in the financial district they are as high as before, or higher.

## CRE | Flight to quality

The pandemic has changed the way we work. It is true that far fewer people are working from home than was predicted in the early stages of the pandemic, but there have still been changes in how and where we work in the past three years. We conducted a survey of different office users that confirmed this trend. All companies surveyed confirm that they have switched to hybrid working and that employees are now expecting a greater degree of flexibility.

The office continues to play an important, yet somewhat different role. There are certain differences depending on sub-market (location) and type of business, but our survey found that staff continue to work more in the office than in other locations. This is in line with mobility data for Oslo and Norway. However, after the pandemic, businesses have been focusing more on making the office a place for exchanging knowledge, creativity and innovation, as well as a social meeting place in which the company culture is built. The office is no longer simply a place to work but also a place that offers a range of services and facilities. The businesses responding to the survey point out that it is

important to have offices of a high quality in order to retain and attract key personnel.

We are also seeing how the geographical location of the office is becoming increasingly important, both when it comes to recruitment and to being closer to clients. Akershus Eiendom's relocation pattern analysis for 2022 shows that as many as 89 per cent of businesses with existing offices in central Oslo opted to relocate to new sites within the city centre. This is a record high and around 15 per cent higher than the average of the past five years. We also found that no fewer than 42 per cent of businesses on the western axis who were preparing to move chose to move to the city centre. It would therefore appear that demand for office space in central Oslo has increased at the expense of other adjacent areas. We expect demand for central office space to remain strong in the times ahead and for office vacancies in the centre of Oslo to remain low. This can in turn put further upward pressure on office rents in central Oslo despite the expected mild recession in the Norwegian economy.

# Office jobs prevail

by Kari Due-Andresen, Chief Economist and Head of Research - Akershus Eiendom

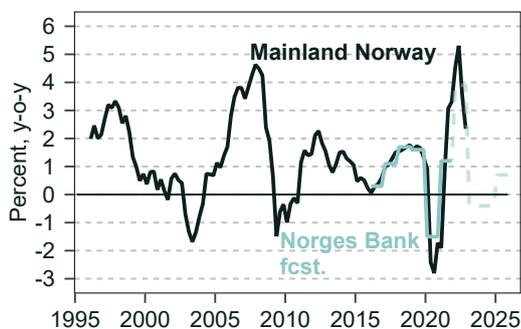
Although the Norwegian economy is likely to enter a moderate recession, we do not expect employment figures for typical office jobs to fall. The number of people working from home in Norway appears to be lower than previously thought. WFH is more common in Oslo than in the country as a whole, but there are significant variations within the city itself. Office activity levels in Oslo's financial district are as high as before, or higher.

## From boom to bust

The Norwegian economy has just emerged from a period of strong recovery growth with the highest employment figures since just before the financial crisis. The upshot of this is that unemployment is now at its lowest since 2007. Many sectors have struggled to attract enough qualified labour.

As a result of high inflation and rapid interest rate rises, the Norwegian economy is now expected to slow, and Norges Bank predicts the overall employment rate will fall this year.

Figure 1: Employment growth, Mainland Norway



However, the fall is expected to be less severe than what we saw during the financial crisis, for example. The central bank expects the mild recession being forecast to spark a rise in unemployment, but only to levels deemed

normal for the Norwegian economy.

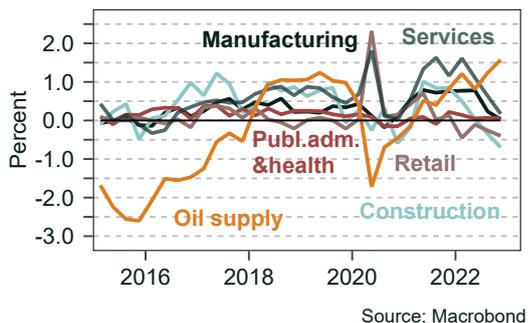
Figure 2: Employment growth, Mainland Norway



## Typical office jobs are doing relatively well

There are already signs that the momentum is beginning to subside. Retail sales have fallen gradually in the past year as consumption patterns have normalised in the wake of the pandemic. The construction industry is also reporting falls in production, according to Norges Bank's regional network. The traditional export industry has seen a gradual slump in growth in the past few months, and according to the PMI surveys, businesses are reporting a fall in export orders. Oil and gas is still performing well, meanwhile, and the service sector has so far seen rising sales.

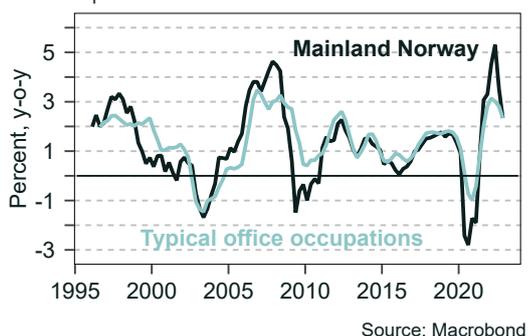
Figure 3: Expected employment growth, next 3 months



According to Norges Bank’s regional network survey, retailers expect the fall in sales to accelerate in the short term and that they will have to cut jobs. The same is true for construction. The sector believes employment figures will flatline, while the service sector predicts a slight rise in employment in the coming months.

When it comes to typical office jobs, many of them are relatively resistant to economic fluctuations, and over time employment in these roles has been higher during downturns than the overall employment rate. Given that the decline in employment figures across the country is predicted to be fairly moderate, we do not expect employment in office roles to decline, although growth will slow down after last year’s sharp rise.

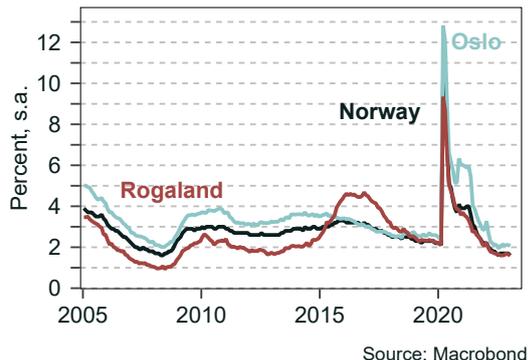
Figure 4: Employment growth, Mainland Norway vs typical office occupations



### Oslo – rising proportion of office jobs

Unemployment rates in Oslo have broadly speaking been higher than the national average over the past 20 years, just as they are at present. However, unemployment in Oslo is also at its lowest since before the financial crisis.

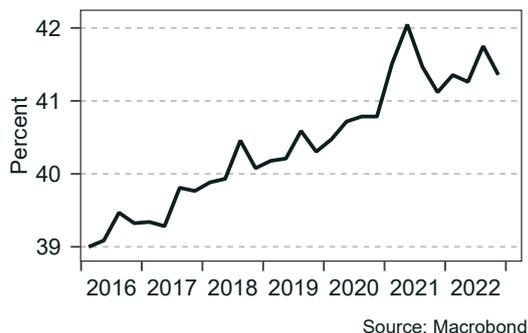
Figure 5: Registered unemployment (NAV)



In Oslo, health and social care – a sector not particularly dependent on the economic climate – accounts for a large share of total employment. On the other hand, employment in retail and wholesale, sectors likely to be facing difficult times, also constitutes a high share.

Another trend in the capital’s sector composition is the growing employment share of typical office jobs.

Figure 6: Oslo: office occupations, share of total empl.



IT/tech has seen especially high employment growth in recent years, and the growth has been reinforced during and after the pandemic. Professional, scientific and technical services, including real estate, have also seen rapid growth in employment rates.

Figure 7: Oslo: employment, office occupations

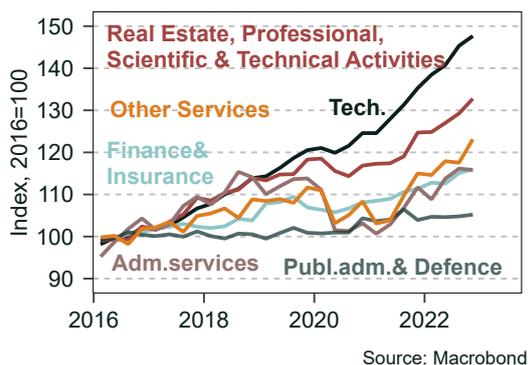
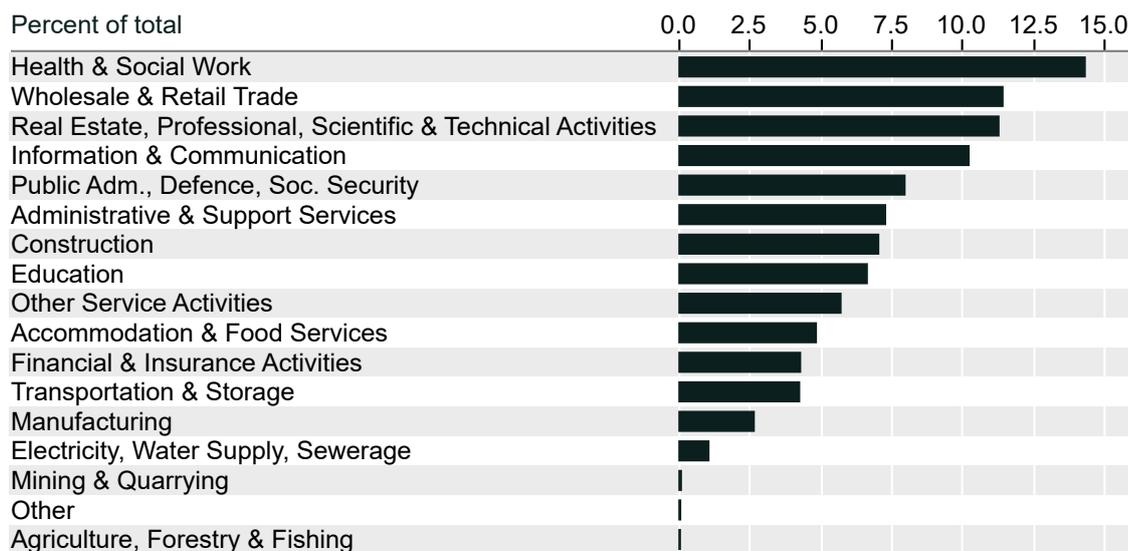


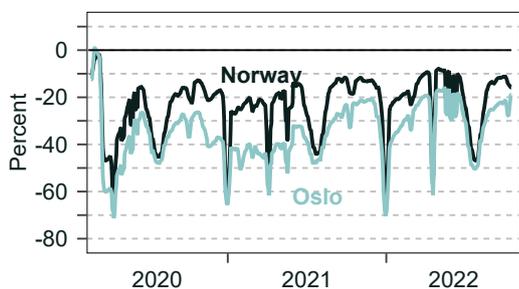
Figure 8: Oslo: sectors, share of total employment (Q4 2022), source: Macrobond



## Working from home? It depends

Norway appears to have fewer people working from home after the pandemic than was predicted at the height of it. Between the start of the pandemic and November last year, Google published mobility data showing activity levels in workplaces compared with before the pandemic. The figures varied greatly depending on season and holidays, but despite the volatility they appear to show that workplace activity in the country as a whole stabilised at around 10 per cent below pre-pandemic levels. This means that people spent on average half a day more working from home than before the pandemic.

Figure 9: Workplace mobility - deviation from pre-pandemic level

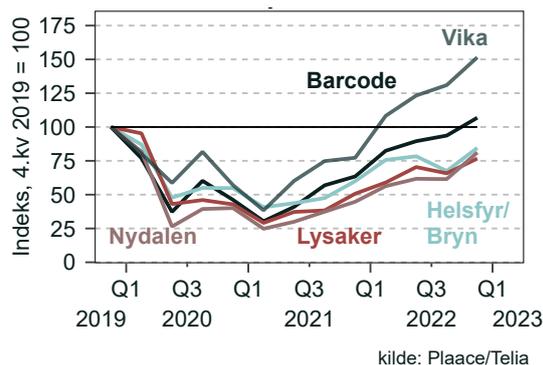


Source: Macrobond

In Oslo, work from home (WFH) figures appear to be slightly higher and some 20 per cent higher than before the pandemic, i.e. around one additional working day per week. Compared with other international capitals, WFH rates in Oslo

appear to be similar to those in Stockholm but higher than in Berlin and lower than in London.

Figure 10: Oslo: workplace mobility

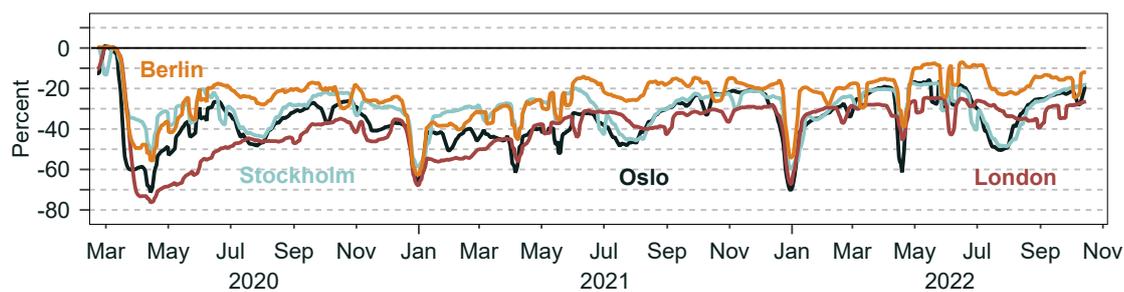


kilde: Plaace/Telia

There are significant differences in WFH statistics in Oslo itself, however. According to data from Plaace/Telia, activity levels in workplaces in the Vika and Barcode districts are as high or higher than before the pandemic. These neighbourhoods are often referred to as Oslo's CBD and have a high density of financial, law and consultancy firms.

Meanwhile, fringe areas such as Helsefyr/Bryn, Nydalen and Lysaker are seeing lower levels of workplace activity than before the pandemic and implicitly a higher proportion of WFH, or possibly an increased use of third-place workspaces compared with before the pandemic.

Figure 11: Workplace mobility, Oslo, Stockholm, London and Berlin



Source: Macrobond

## Conclusion

The Norwegian economy is emerging from a period of strong recovery and a sharp rise in employment. However, activity levels are now expected to slow down, and overall employment is likely to fall this year. Typical office jobs remain fairly resistant to economic fluctuations and usually perform better than average across all job categories. We therefore expect employment in office roles to slow down but not fall this year. Oslo has seen the proportion of typical office

jobs increase in recent years, boosted by IT/tech in particular. Broadly speaking, fewer people now appear to be working from home than was predicted during the pandemic. WFH is more common in Oslo than in the country as a whole, but there are significant variations within the city itself. Workplace activity levels are lower than before the pandemic on the fringes of Oslo, while in the financial district they are as high as before, or higher.





## Flight to quality

by Birgitte Heskestad Ellingsen, Camilla Hvistendahl and Kristian Småvik - Akershus Eiendom

Fewer people are working from home than was predicted in the early stages of the pandemic, but there have still been changes in how and where we work in the past three years. The office is taking on a new role, which has affected layout decisions and facilities. Workers are demanding more from their office in order for them to return. This is confirmed by businesses that Akershus Eiendom has spoken to. We are also seeing a flight central locations.

### The pre-pandemic office

Most people were primarily working from the office before the pandemic broke out in 2020. The option to log on from home did exist back then, but people would often not have the necessary equipment to make their home office particularly effective.

Many businesses saw the office as a place where employees turned up in the morning and went about their work at their assigned desk. The office was more one-dimensional in design and often lacked areas for social and creative activity.

The past three years have taught us that the office should be seen in a multi-dimensional perspective and enable the average employee to engage with more activities and tasks during the working day. This places new and different demands on the office.

### No pandemic effect on office demand

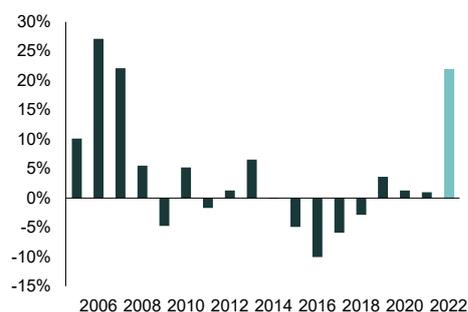
The pandemic forced office workers all over the world to work from home, and once they were up and running they stayed at home for longer than

first envisaged. Homes were filled with the office equipment that was needed to make the work effective, and digital meeting and collaboration solutions were adopted. The home office seemed to work relatively well, and many people were pessimistic about the future of the physical office. The prediction in the early stages of the pandemic was that more businesses would be needing considerably less space as their employees would largely be working from home.

It was therefore a little surprising to find in our office space surveys in both August 2020 and 2021 a slight increase in the space requirements of the businesses with whom we spoke. In 2020 the increase was explained by the growing need amongst businesses for more space per employee in order to maintain social distancing and protect themselves from future pandemics. By 2021, however, social distancing appeared to be all but forgotten, and businesses were envisaging a return to the office. And by 2022, our annual survey saw the highest demand for office space since 2007, driven by a sharp rise in employment figures. According to our space requirements surveys from the past three

years, there is no pandemic effect to be found in businesses' demand for office space.

Figure 1: Proportion of new space compared with existing space (Akershus Eiendom)



## The hybrid office is here to stay

As mentioned in the macro analysis, mobility data from Google and Telia (Plaace) shows fewer people working from home than was expected early on in the pandemic, both in Norway and internationally. Yet it appears that we are still working differently to before the pandemic, and the role of the office has therefore changed.

Akershus Eiendom has conducted a survey of both small and large office users in different sectors and with premises in different parts of Oslo in order to get a better idea of how many people are actually working from home.

Of the businesses we spoke to, most say that the majority of employees have in fact returned to the office. Yet the businesses are noting that employees are demanding that they be allowed to work from outside the office when they need to.

One key finding in our survey is that practically all businesses have switched to what we can describe as a hybrid office, i.e. arrangements have been made to enable people to work from at least two different locations. The rules on working from outside the office vary from one company to the next, however. Around half of the businesses surveyed say that they allow staff to work from home, subject to certain guidelines. The guidelines are broadly about how many days in the office and at home, and many are offering a 3/2 solution, i.e. maximum two days at home and at least three in the office. Around 40 per cent of the businesses say they are

February 2023

completely flexible, while 10 per cent only permit home working by explicit agreement.

*“Professional discussions and the social aspect mean that there is a strong incentive to go into the office, but the flexibility offered by home working is important.”*

– Young employee of a growing technology firm

Although employees have the option to work parts of the week from home, many still choose to come into the office. All in all, the businesses participating in our survey say that employees are working between one to two days from home every week. There are significant variations, however, and answers ranged from once a month to three days per week. It seems to be very much down to sector and internal company guidelines but also to the role and duties of the employee in question. The survey found that government enterprises are more likely to allow working from home than other sectors. This could possibly explain one of the findings described in the macro section where there is increased use of work from home on the fringes of Oslo – areas dominated by large public sector enterprises.

*“We actually find that older and more senior employees tend to work more from secondary locations compared to the younger employees. The younger generations spend more time at the physical office in order to socially engage with their colleagues and to learn from each other.”*

– HR in leading law firm

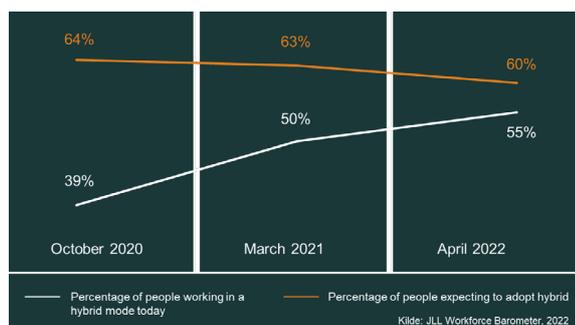
Who is more likely to work from home can also be down to personal circumstances and everyday domestic logistics. Older workers are more likely to stay at home than the younger generation, according to our survey.

## The hybrid office dominates internationally

International surveys show that hybrid forms of working are becoming increasingly popular

across the world and are now the dominant working model. Figures from JLL's survey of major companies in the US, Europe and Asia show that 55 per cent of workers at those companies work in a hybrid mode every week, up 5 per cent on 2021<sup>1</sup>. A further 5 per cent would like to work hybrid but are unable to for various reasons.

Figure 2: The hybrid office, today vs expectations (JLL)



Globally, the number of employers offering some form of hybrid working rose from 55 per cent before the pandemic to 91 per cent currently<sup>2</sup>. This is despite the management at 44 per cent of the firms wanting to see their employees back in the physical office full-time. Offering hybrid solutions is seen as vital to attracting and retaining the best staff<sup>3</sup>. The Norwegian tenants we have spoken to agree. The majority of them say workers are now expecting much greater flexibility than in the past.

Many businesses have either made or are planning to make changes to the design of their offices. It is clear that the role of the office has changed.

*“We work and use our offices differently these days, and that requires the premises to be redesigned.”*

– Facility Manager in technology firm

### Flight to quality

The office is primarily the place where you do your job, but it has also become much more than that. However, after the pandemic, businesses

have been focusing more on making the office a place for exchanging knowledge, creativity and innovation, as well as a social meeting place in which the company culture is built. The office is no longer just a place to work but also a place that offers a range of services and facilities that people's homes are unable to compete with. The office should ideally be so attractive that staff feel the commute is worth it.

The office also plays an important role when it comes to recruitment. Every single company in our survey recognised that it is important to have comfortable offices of a high quality in order to build the company culture and attract and retain key personnel. This trend has existed for a while but was reinforced by the pandemic. Companies such as Google and Facebook have been pioneering the “modern office” with social zones and generous perks for employees.

Leading Norwegian firms had begun to move in the same direction even before the pandemic struck. What has changed, however, is that there is now a much broader focus on the function of the office across different sectors.

*“The office has always been very important, but we have become more conscious of what the office means to our staff.”*

– Partner in leading recruitment agency

Many of the people we spoke to have decided to make changes in order to respond to the new expectations for the office.

*“We can see the value of making changes. Before signing the new lease, much of the discussion was about getting a better canteen, additional quiet rooms, more teams rooms and improved gym facilities and changing rooms.”*

– Employee in a company that has recently signed a new lease agreement

<sup>1</sup> Workforce Preferences Barometer 2022, JLL

<sup>2</sup> The Future of Work 2022, JLL

<sup>3</sup> CEO Survey fall 2022, Deloitte

Thus, our surveys have found that facilitating flexible working arrangements has become much more important in order to attract and retain the best staff. This means businesses must adapt their offices for hybrid working, which in turn means refurbishment projects are on the cards for many.

## Flight to the CBD

While we are seeing an increased focus on attractive offices designed for hybrid working, there is also greater importance being attached to the geographical location of the office.

Every year Akershus Eiendom conducts a relocation pattern analysis where we collect information about tenants on the move. The rental market was unusually strong last year and the volume of new leases saw a record high. Companies with combined space requirements of 251,000 m<sup>2</sup> relocated during 2022, according to our survey. In comparison, the figure for 2021 was 153,000 m<sup>2</sup>. In 2019, the last “normal” year before the pandemic, the volume of new leases stood at 205,000 m<sup>2</sup>.

This year’s survey found that an unusually high proportion of businesses wanting to relocate decided to stay in the city centre. As many as 89 per cent of businesses with existing city centre offices opted to relocate only within the area. This is a record high number and 15 per cent higher than the five-year average of 74 per cent in central Oslo.

In the past we have seen a trend whereby public and government enterprises have moved out of the centre to the eastern axis where rents are lower and there is a large number of newbuilds. There are now relatively few public sector enterprises left in the city centre, and in this year’s survey only 3,000 m<sup>2</sup> moved east from the city centre, equivalent to only 2.5 per cent of the total selection of city centre businesses.

Another finding in last year’s survey was that a remarkably high proportion of businesses on the western axis chose to relocate to the centre of Oslo. No fewer than 42 per cent of businesses on the western axis who were looking to move decided to move to the centre of the capital. This is the highest proportion of west-to-centre relocations since 2019. Amongst those opting to move to central Oslo were major consultancy firms such as KPMG, Accenture and Sweco. The one thing they have in common is that they want to be close to their customers while also being an attractive workplace when recruiting.

Large businesses moving from the west to the centre and a record-high proportion of businesses opting to stay in the centre strengthen the hypothesis that location is becoming increasingly important for businesses. According to Accenture, being in the city centre is increasingly important, especially for its younger employees. The firm also found that job seekers felt their former offices in Fornebu were too remote. Forte Digital, an international consulting

Figure 3: Relocation pattern analysis, February 2023 (Akershus Eiendom)

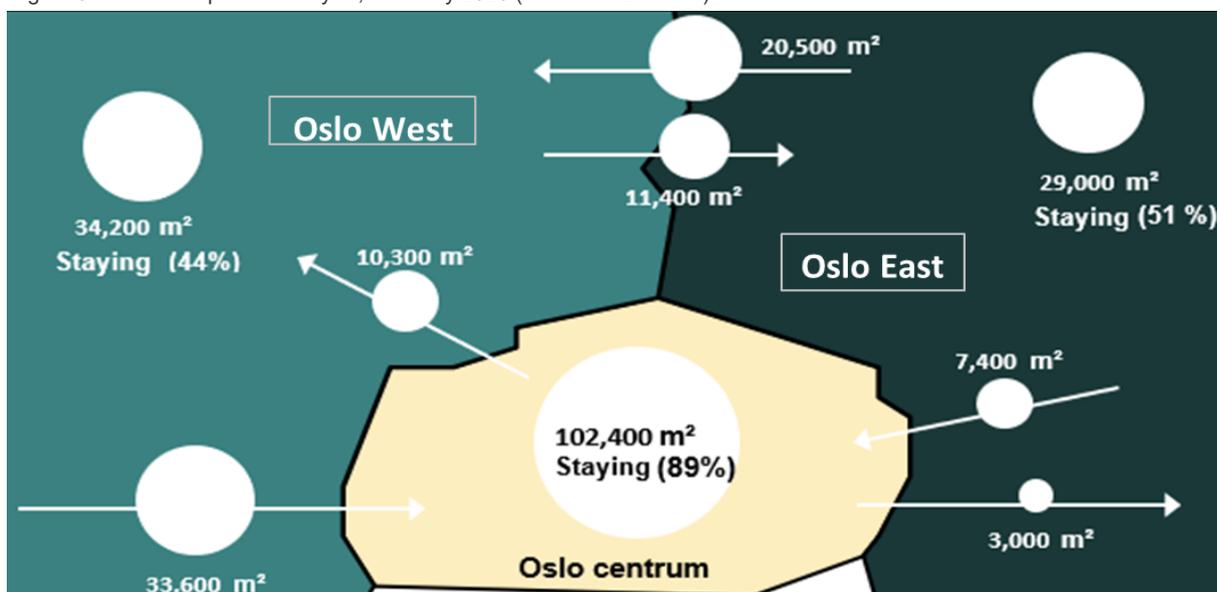
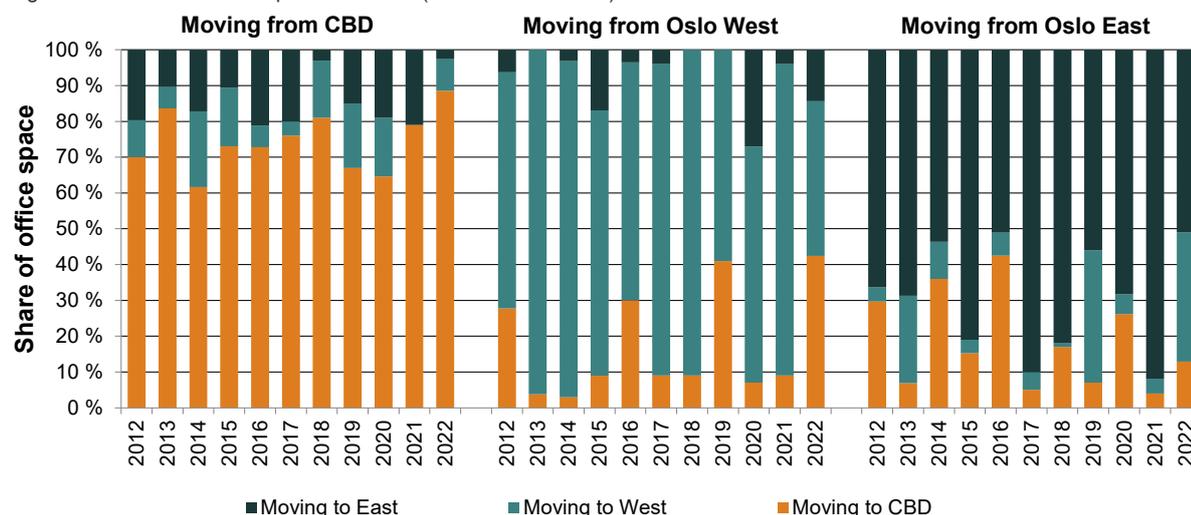


Figure 4: Historic relocation pattern in Oslo (Akershus Eiendom)



firm, says being close to public transport hubs is key, as is being closer to their customers<sup>4</sup>.

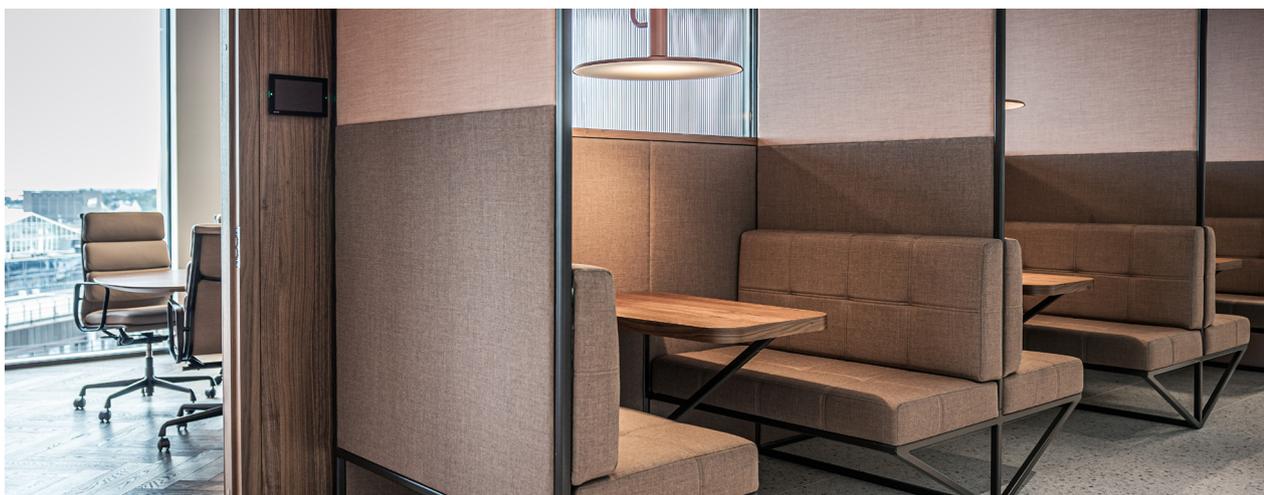
As previously mentioned, the Oslo rental market was exceptionally strong in 2022 with a high number of new leases, robust rent rises and falling vacancies. This was especially evident in central Oslo, where office vacancies now stand at just under 4 per cent and where some central areas saw rent rises of more than 20 per cent last year.

Our relocation survey suggests that as well as attractive and flexible premises, businesses are also looking for central locations. This could cause demand for office space in the centre to remain strong in the times ahead. On that basis, we expect office vacancies in central Oslo to stay low, which could in turn contribute to a continued rise in rents this year despite a mild recession being forecast for the Norwegian economy.

<sup>4</sup> "But the office was not dead" (Nw. "Men kontoret var ikke død", Aftenposten 2022)

## Conclusion

The pandemic has changed the way we work. Office workers are demanding much more flexibility in terms of where they can work, and the hybrid office is here to stay. This is confirmed by our office survey, which found that every company we spoke to has switched to a hybrid model. Yet the office continues to play a key role, and the businesses say their employees are working more from the office than from other locations. This is underpinned by mobility data indicating a relatively low prevalence of home working. Awareness of the function of the physical office has increased. One clear trend is that high-quality workplaces that offer facilities and services requested by employees are finding it easier to entice workers back to the office. We are also seeing a flight to central locations. Many firms have been compelled to move their offices to central Oslo in order to attract the best heads and also be close to their customers.



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