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Out of Office: New McKinsey Report Highlights the Lasting Impact of Hybrid Work

For most industries, the past few years have brought some big changes. One of the most significant has been the shift towards remote or hybrid work, with businesses and commercial real estate professionals alike needing to be quick on their feet when it comes to supporting new modes of hybridity.

While there's been a lot of speculation about the longevity of the hybrid work trend, over time it's become increasingly clear that it's likely to continue and businesses need to adapt.

Attendance Down in "Superstar" Cities

The report, titled "Empty spaces and hybrid places: The pandemic's lasting impact on real estate," shows that as of mid-2022 office attendance has "stabilized" at 30 percent below pre-pandemic norms. Naturally, this varies somewhat by industry and location but, interestingly, McKinsey did identify some tell-tale common characteristics of areas with low office attendance.

However, it's worth noting that the report deals specifically with what McKinsey terms "superstar" cities, those with "a disproportionate share of the world's urban GDP and GDP growth." The focus is therefore mainly on nine major metros (Beijing, Houston, London, New York, Paris, Munich, San Francisco, Shanghai, and Tokyo), though there is some additional data from other large metros included.

Moving Out

In those major metros, McKinsey found that a sizable percentage of the urban population had moved out of city centers and into the suburbs or even further afield as the requirements to be in office were relaxed.

New York, for example, lost 5 percent of its "urban core" population between mid-2020 and mid-2022, while San Francisco lost 6 percent.

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Meanwhile, populations in the suburbs grew (or shrank less than in urban centers) with 20 percent of workers surveyed stating they'd moved because they could now work from home at least part of the time.

In an interview with Commercial Observer, McKinsey's Brian Vickery adds that it's unlikely these people will return to superstar city centers. He states: "There's a lot of evidence they won't come back. Our survey populations said they're not planning to move back to where they once were. They're OK with longer commute times because they have to go in less often."

Lifestyle Living

Many of these workers seem to be opting for the shift towards lifestyle living that's been such a prevalent trend in recent years. A growing proportion of the population now prefers the convenience of living in areas where everything they need is closer at hand and where they can enjoy a more relaxed pace of life.

This is further evidenced by the fact that McKinsey found some common factors linking urban centers where population growth was lowest. Areas with high housing costs, a high density of office real estate, and limited retail outlets were all subject to lower population growth.

A high percentage of workers in the knowledge economy (defined in the report as professional services, information, and finance industries) was another factor that seemed to be associated with outward migration, presumably because these are professions where people can more easily work remotely.

Long-Term Projections

According to the report, superstar cities should also be prepared for this period of low demand to stretch far into the future. McKinsey notes: "In a moderate scenario that we modeled, demand for office space is 13 percent lower in 2030 than it was in 2019 for the median city in our study. In a severe scenario, demand falls by 38 percent in the most heavily affected city."

These are concerning figures, but there are a few important caveats to consider. For one thing, the report also found that the rate at which people are migrating out of cities has returned to pre-pandemic levels. Also worth highlighting is that McKinsey's model doesn't account for price elasticity. In other words, the tendency for decreasing demand and falling prices to create fresh demand in their wake.

And, as McKinsey themselves note: "We performed this research during a time of exceptional macroeconomic uncertainty. Inflation and interest rates are high; fears of a recession are mounting; stress in the financial system has been making headlines. Actual outcomes, of course, will depend on how those variables and others play out."

An Eye on Opportunity

Caveats aside, there's no getting around the fact that these results present an environment where CRE professionals will need to be sharper than ever to succeed and thrive.

With that said, there's also an opportunity for CRE professionals to to take advantage of new ideas like the move towards mixed-use developments and flexible workplace trends.