



June 10, 2021

WESTERN REGION RESEARCH INSIGHTS



Work-From-Home and “The Big Quit”

Key Points:

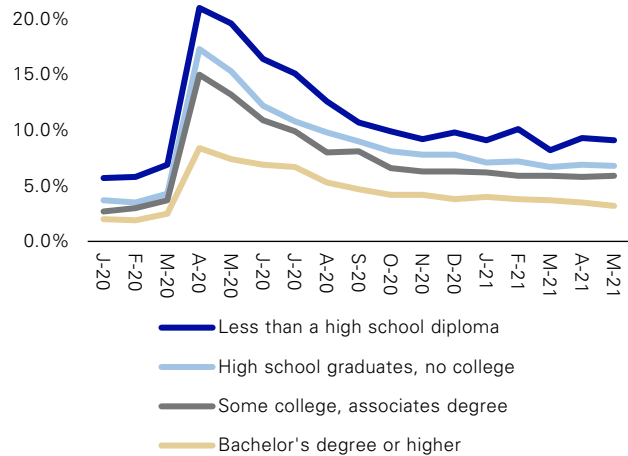
- With the employment market heating back up, competition for skilled labor will intensify.
- Voluntary resignations (quits) fell to near-record lows in 2020 as workers postponed career moves; the data suggests a surge in turnover is already beginning to occur.
- While work-from-home (WFH) strategies for employers generally succeeded in maintaining productivity, they came with a host of issues (from employee disengagement to higher burnout levels) that could add to turnover rates.
- Despite the challenges of WFH, polling indicates workers want greater flexibility to work remotely.
- Employers will need to demonstrate flexibility and patience as they balance employee concerns with the need to reopen. Otherwise, they could risk greater near-term labor disruption.

In May 2021, the U.S. unemployment rate fell to 5.8%; the lowest rate since the start of the pandemic. According to the Bureau of Labor Statistics (BLS), total nonfarm payrolls rose by 559,000 in May. Though April’s employment numbers disappointed analysts (266,000 new jobs vs. forecasts of as much as one million), the job market is clearly roaring back.

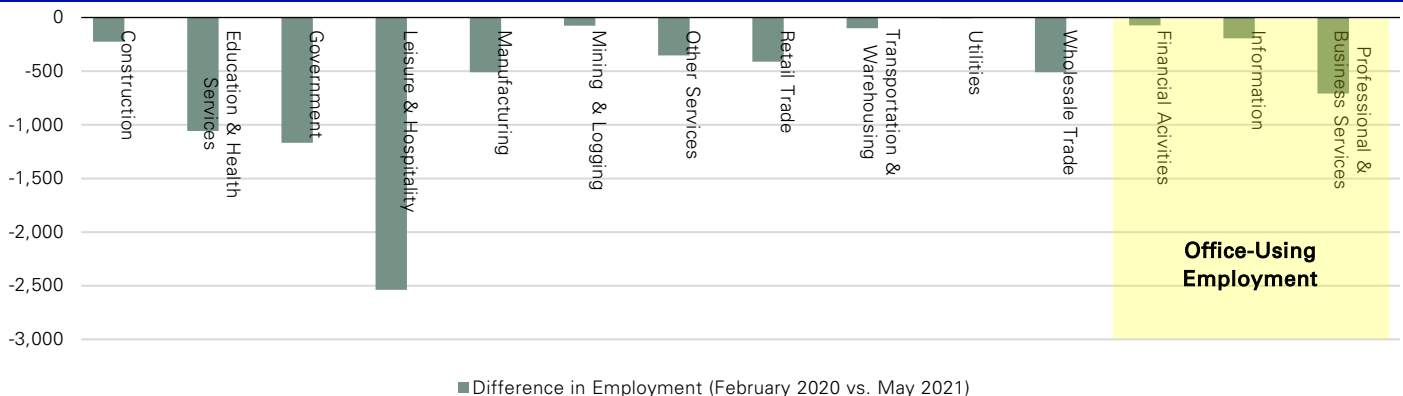
U.S. Unemployment Rate



Unemployment by Educational Attainment



Difference in Employment by Sector: February 2020 to May 2021



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There are still roughly 7.9 million more unemployed people today than in February 2020 and at least 1.6 million people have dropped out of the workforce. But economic impacts have been vastly different across gender, race, educational attainment and industry. For workers with a bachelor's degree, unemployment is now just 3.2% (compared to 2.5% pre-pandemic).

The ability to work from home (WFH) has been one of the dividing lines between economic impacts during CoVid-19 crisis. For office-using employment, there are still 974,000 fewer jobs today than there were pre-pandemic. But as of March 2021 (the latest data available), the number of job openings had reached 8.1 million, the highest level recorded since the BLS began tracking this data in 2000. Those numbers have likely only increased since.

Employee turnover rates largely reflect the strength of the job market. When unemployment is low (and the job market more competitive), workers are more likely to make moves both because there are more opportunities and because they also have greater confidence that they can find a better situation if they are unhappy in their current roles.

The quit rate had been steadily climbing for a decade as unemployment rates fell to 50-year lows by early 2020. But then the pandemic hit. According to the BLS, 36.4 million American workers quit their jobs in 2020 compared to 42.1 million in 2019. Against 2020's backdrop of heightened economic uncertainty, 5.7 million fewer employee resignations makes sense. Workers that were already unhappy with their current work circumstances largely "sheltered-in-place" and rode out the storm. These numbers alone suggest that, given no other factors, there is likely pent-up "resignation demand" in the marketplace.

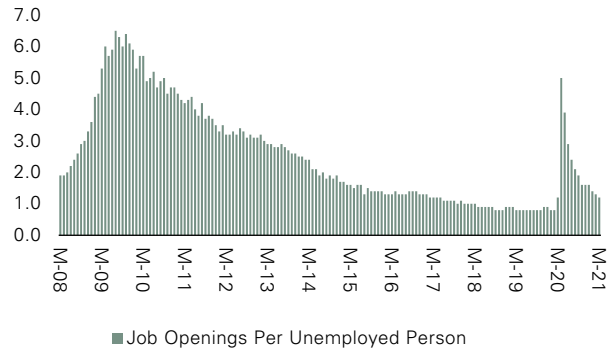
With the job market heating up, the employee quit rate has already begun to grow. It surged 20.9% between February and March 2021 (the latest data available). That trend has almost certainly continued and anecdotal evidence suggests it has intensified.

Given that the market for skilled labor remains the tightest of all (3.2% unemployment for workers with four-year degrees), this means that office-using employers are in the early stages of what will be a period of heightened employee turnover. The velocity and magnitude with which this occurs will depend largely upon employment growth levels by sector in the months ahead. Substantial turnover rates will place upward pressure on wages.

But there are some indicators that already suggest the turnover rate will be substantial. While the health and safety concerns of some workers returning to in-person work will certainly play a role, the bigger driver may likely be economic.

The disparate economic impacts of the pandemic, combined with unprecedented stimulus, mean that even while millions are still struggling, many American households are in better financial

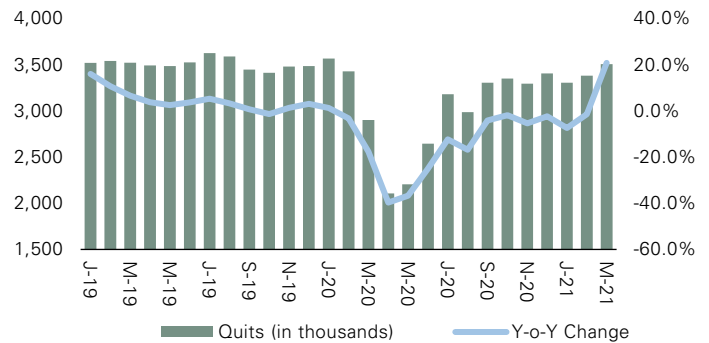
Unemployed People Per Job Opening



Source: Newmark Research, BLS

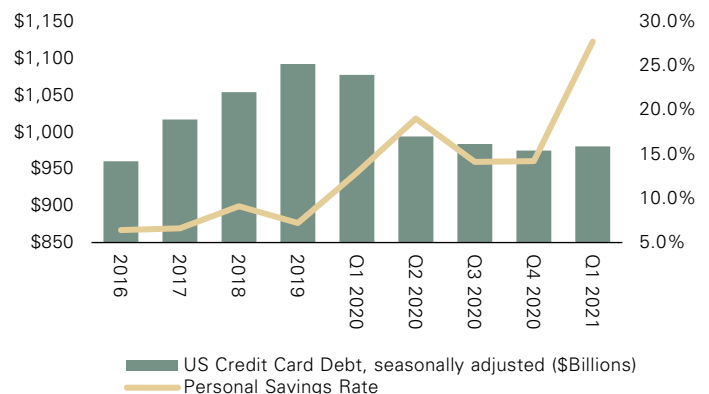
While most employment growth ahead will be from the rebounding service sectors, we expect robust expansion across the board. Given the complexities around WFH trends, this could create a perfect storm of labor and wage pressures for office users.

Employee Quit Rate/Y-o-Y Change



Source: Newmark Research, BLS

US Consumer Credit Card Debt Vs. Personal Savings Rate



Source: Newmark Research, Federal Reserve

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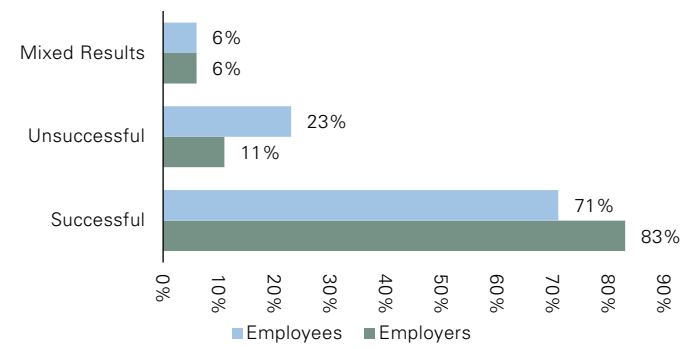
shape today than they were 16 months ago. Americans are carrying \$111.6 billion less in credit card debt than they were at the end of 2019. The average household is now saving a whopping 27.7% of disposable income and U.S. banks are now sitting on more than \$3.7 trillion more in deposits than they were in February of last year. While this foretells a potentially unprecedented surge in consumer spending ahead it also means that workers are in better shape to take risks. Considering that skilled labor faced the least amount of economic hardship during the pandemic, this also means that this portion of the labor force will be most likely to make moves.

Most importantly, and perhaps least understood, is the impact that WFH strategies may have played in undermining employee engagement and potentially driving even greater turnover.

In January 2021, PricewaterhouseCoopers (PwC) released a survey of over 1,300 office-using employees and executives that found that more managers (83%) than workers (71%) felt that WFH had generally been successful. PwC also polled employers and employees as to whether they believed they were more productive in a WFH environment in both June and December 2020. Both groups polled more positively later in the year than earlier, with employers again being more upbeat in their responses than employees.

This may reflect that employers simply weren't expecting the forced experiment of WFH to work at all. Worker productivity, though challenged for many, didn't fall off a cliff. Most organizations pivoted with record speed under trying circumstances. It could also suggest a reluctance among workers to fully disclose their own challenges.

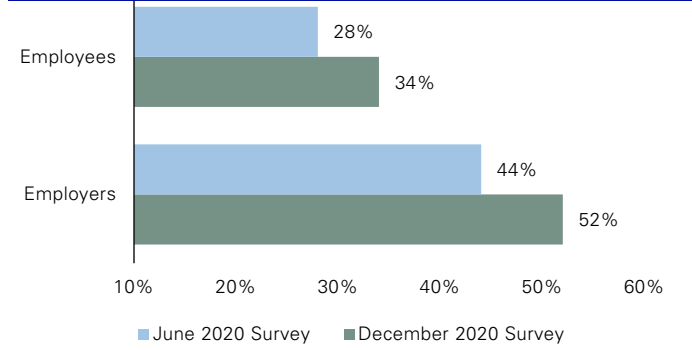
Has WFH Been Successful?



Source: Newmark Research; PwC

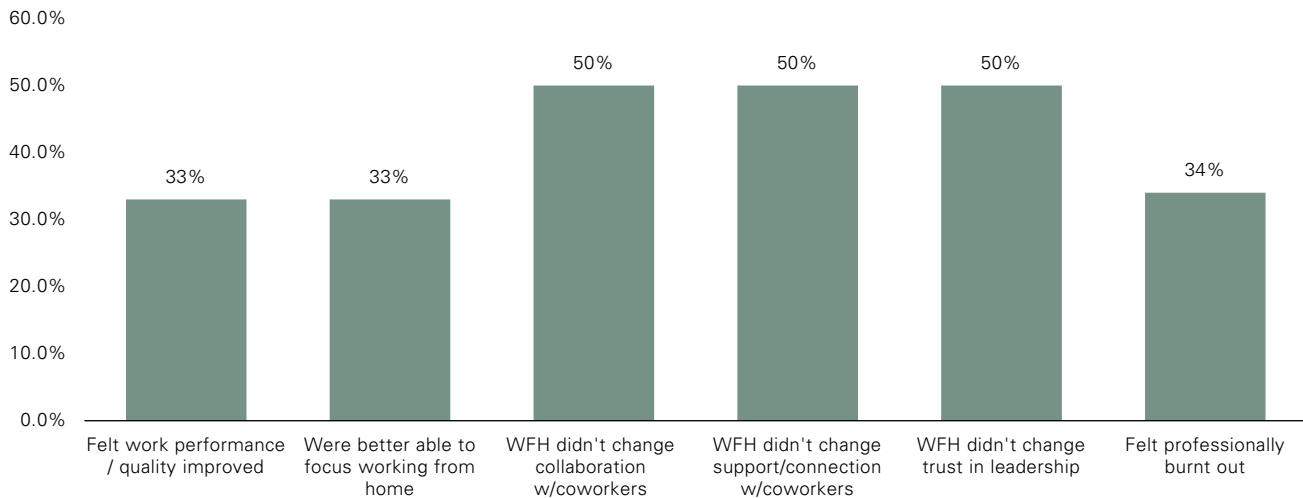
In the early days of the pandemic, both employers and employees were pleasantly surprised by the success of WFH. Extensive polling since then largely align on both the positives of WFH as well as the very considerable challenges...

Are You More Productive Working Remotely?



Source: Newmark Research; PwC

Harvard Business School Study: Remote Employees A Year Into Crisis: Mostly Positive Feedback on WFH, but...



Source: Newmark Research; Harvard Business School

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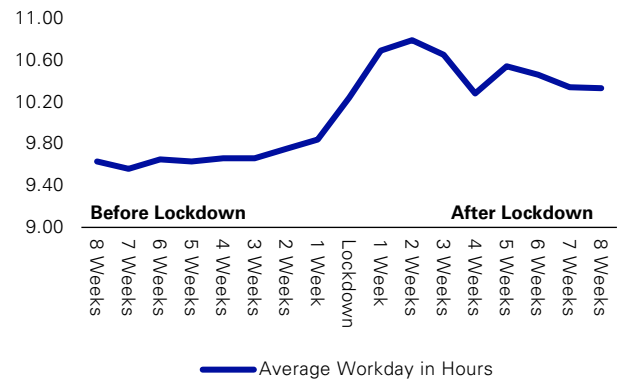
In March 2021, Harvard published a study conducted with over 1,500 professionals that had worked remotely the previous year that found mostly positive feedback from workers regarding their own WFH experiences. But while 50% of respondents reported no change in work relationships and 33% felt their work performance improved, another 33% said they were suffering from burn out. These same dichotomies were across the board; 59% said they made health a priority while roughly a third reporting drinking or doing more recreational drugs.

Most surveys found that somewhere between 25% and 33% of workers struggled with motivational issues. Those same numbers roughly applied to employees that complained of diminished work/life balance; largely due to the inability to disconnect. And most found that somewhere between 40% and 60% of employees either did well, or thrived, with WFH. WFH may have been largely a success, but not without substantial challenges across the board that have negatively impacted employee engagement and job satisfaction.

In October 2020, the Pew Research Center released their survey on WFH impacts. It found that 36% of remote workers were struggling with motivation during WFH. Meanwhile, 19% report working more hours while 26% said their work/family balance had worsened with WFH. These may sound like contradictory data points, but we believe they are simply parts of the same continuum. Perhaps most importantly, 23% reported less job satisfaction working remotely.

As to work/life balance and burnout, one of the earliest reports detailing increased workloads was released by the Harvard Business School last September. This analysis of e-mail and meeting patterns from over 3.1 million people in 16 global cities found that the average workday had increased by 48.5 minutes (+8.2%) during the first days of the pandemic.

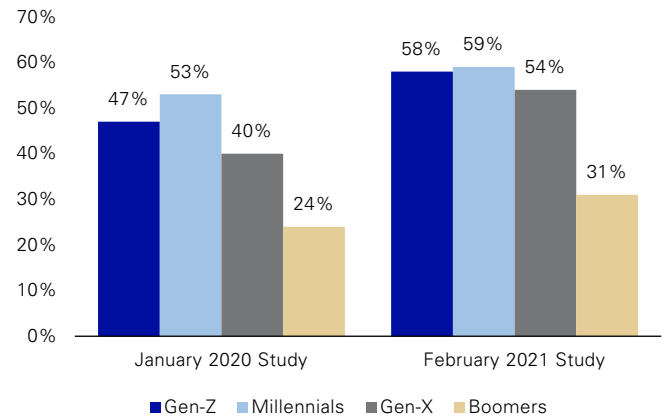
WFH or Just Always Working?



Source: Newmark Research; Harvard Business School

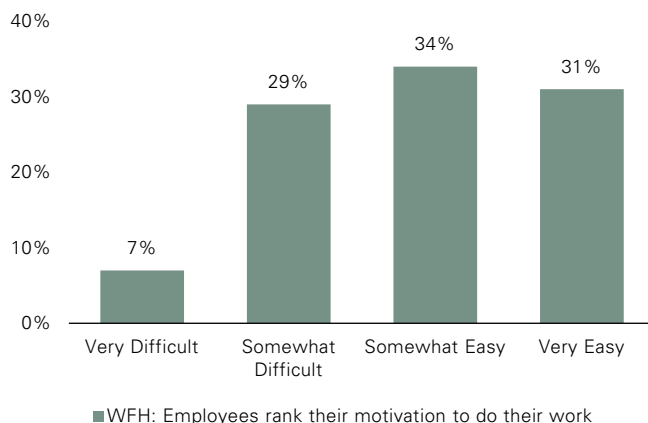
Hybrid models that offer greater workforce flexibility are emerging, but there will not be a "one size fits all" solution for organizations...

Pandemic-Accelerated Burnout



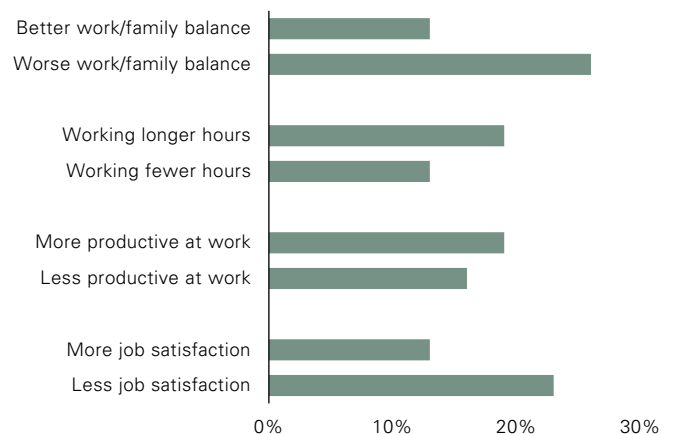
Source: Newmark Research; Indeed

WFH Workers: 36% Struggle with Motivation



Source: Newmark Research; Pew Research Center

Employees: How WFH Has Changed Things



Source: Newmark Research; Pew Research Center

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When online job aggregator Indeed.com conducted its own survey of over 1,500 workers across different age groups, experience levels, industries and US geographies in February 2021, they found burnout on the rise across all age groups.

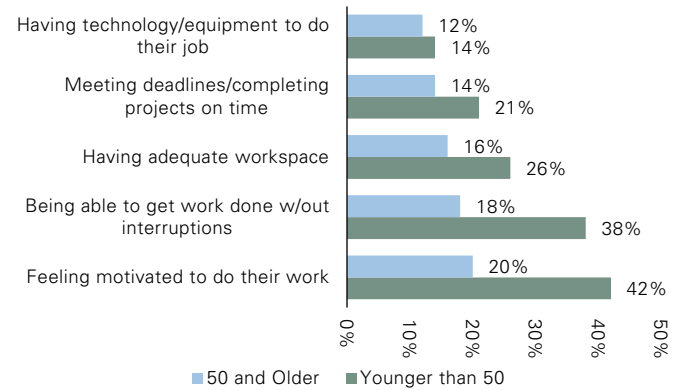
While Gen-X employees reported the greatest uptick in burnout rates of any age group, Indeed’s pre-pandemic 2020 survey already showed younger workers (Gen-Z and Millennials) claiming a disproportionately high level of burnout prior to the CoVid-19 crisis. Those numbers did not improve over the course of 2020.

Polling suggests that younger workers are struggling the most with WFH. They are less likely to be fully established in their careers and more likely to suffer from the loss of learning and mentorship opportunities with remote work. They are also far more likely to be single and potentially without the same levels of social support that their married colleagues with families may have. It also means that work-related social interactions likely are of greater importance to their well-being.

Pew data reflects a significant divide between poll respondents by age—particularly when it comes to motivation. Their October 2020 survey found that 42% of younger workers struggled with feeling motivated to do their work compared to just 20% of workers over 50. Microsoft’s 2021 Work Trends Index report found similar differences. Microsoft’s survey was released in March 2021. Its results should raise red flags for office-using employers. This survey was conducted among over 31,000 full-time workers across 31 markets—an immense survey pool. Polling was conducted using Microsoft Teams—meaning that respondents were overwhelmingly office workers.

It found stark divides between those that were “thriving” vs. just “surviving.” While 61% of business leaders reported that they

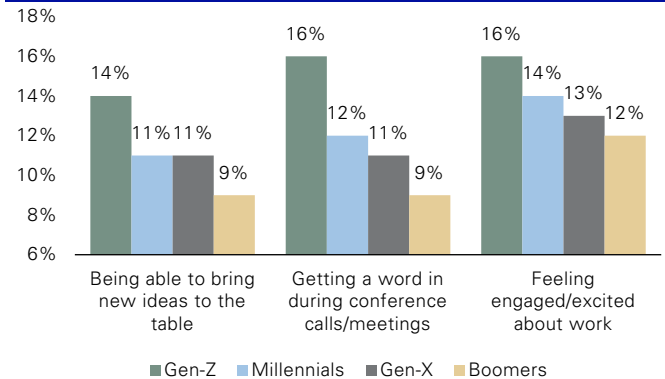
Top WFH Challenges, by Age



Source: Newmark Research; Pew Research Center

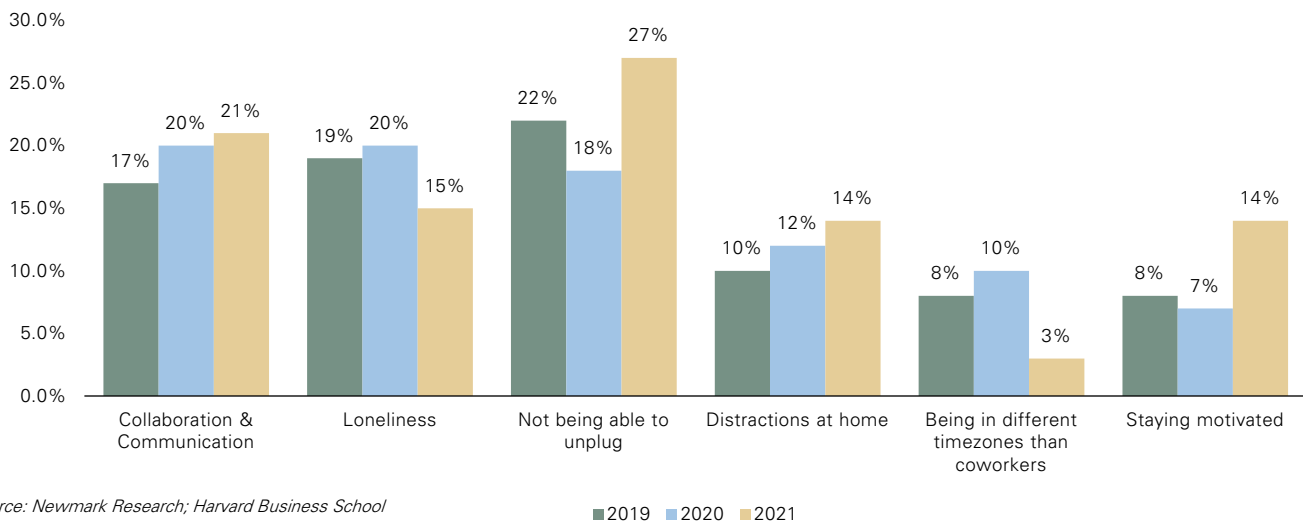
Younger workers are struggling the most with WFH. They are less likely to be fully established in their careers and more likely to suffer from the loss of learning and mentorship opportunities...

WFH: Generational Struggles



Source: Newmark Research; Microsoft 2021 Work Trends Survey

Buffer State of Remote Work Polling: 2019 to 2021 “What’s your biggest struggle with working remotely?”



Source: Newmark Research; Harvard Business School

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were thriving, working moms, Gen-Z, single workers and new employees (on the job less than a year) all fell below the 50% threshold.

Perhaps most disturbingly for organizations, it found 41% of respondents were considering leaving their current employer. It also reported that 46% of respondents indicated they were more likely to move to companies that would offer remote work options.

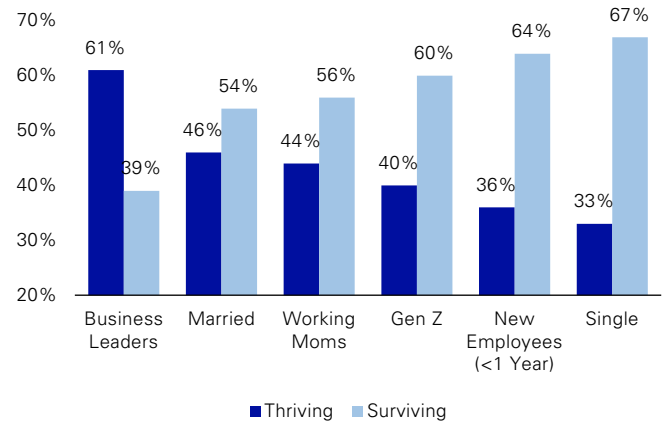
This was Microsoft’s first release of their Work Trends Index, so we don’t have historical numbers to judge current results against. But other sources give us some clues. Workforce research firm, Achievers Workforce Institute, annually polls at least 2,000 respondents on topics related to employee engagement. Their polling in 2019 and 2020 (pre-pandemic) consistently showed 35% of respondents planned on looking for a new job in the year to come. This number surged to 51% in their recently released 2021 survey. This survey also found that 40% of remote workers were working longer hours to compensate for their fears that management may doubt their productivity while working from home.

We believe the implications are clear. WFH has come with its own set of very substantial issues. Primarily, it has driven greater employee disengagement and dissatisfaction. As the economic recovery accelerates, this will be an additional factor driving employee turnover rates, wage pressures and competition for talent.

The irony is that despite the challenges employees have consistently documented regarding their own WFH experiences, these same surveys also demonstrate the clear message that employees want greater flexibility with remote work options.

The Harvard Business School’s recent poll found that 81% of respondents said they would prefer not to go back to the office at all, or to have a hybrid schedule going forward. Within those

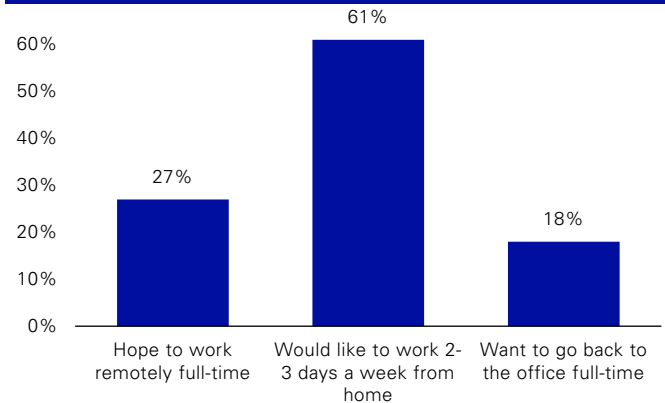
Thriving Vs. Surviving*



Source: Newmark Research; Microsoft 2021 Work Trends Index
 * Data reflects core responses analyzed by applicable life/employment circumstance. Respondents could qualify as members of multiple groups (i.e., married business leaders, etc.)

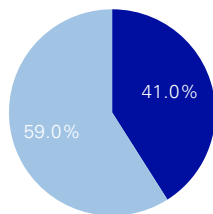
WFH has come with its own set of very substantial issues. Primarily, it has driven greater employee disengagement and dissatisfaction...

What Employees Want? Flexibility**



Source: Newmark Research; Harvard Business School
 ** Poll allowed for multiple responses from respondents, hence totals exceed 100%.

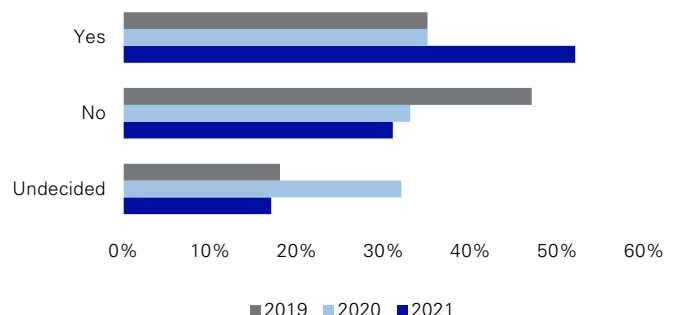
Polling: Employees Considering Leaving...



- Employees considering leaving their current employer
- Employees content in their current position

Source: Newmark Research; Microsoft 2021 Work Trends Index

Planning on Looking for a New Job This Year?



Source: Newmark Research; Achievers Workforce Institute

parameters, the majority (61%) wanted hybrid schedules that allowed them to work from home two to three days a week.

Besides the obvious challenges of a 100% WFH environment that employee themselves have consistently documented in polling, we think there is a critical metric that points to the near-term future of remote work. PwC’s January 2021 survey asked office-using CEOs how many days a week in office were necessary for a company to retain a strong corporate culture. Only 5% felt that a 100% WFH model was feasible. 68% of respondents believed that a minimum of three days a week in office was necessary to maintain a corporate culture. The same survey asked employees how many days a week would they like to work remotely post-pandemic? While 29% of respondents said they wanted a 100% WFH model, 47% wanted to be in the office three days a week or more.

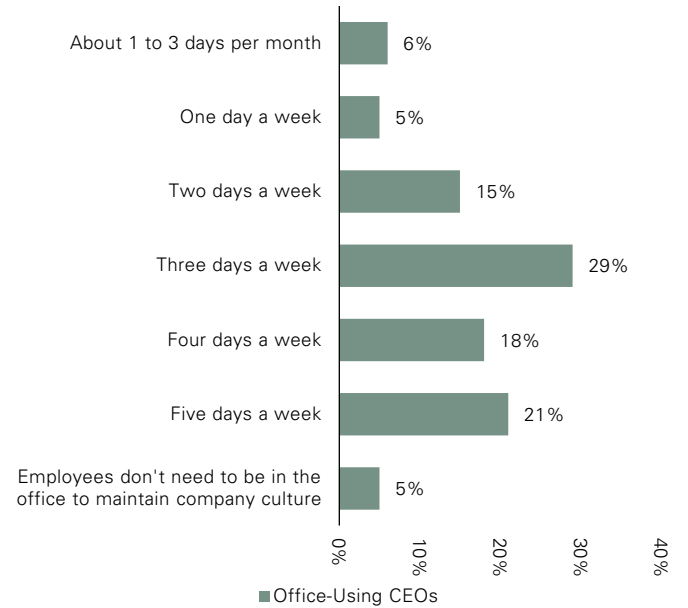
At least for the near-term, hybrid models with three days a week in office appear to be emerging as the solution. Google, Apple and Microsoft have all announced plans for three-day or 50% in office weeks for their employees. That said, there will not be a one size fits all solution for employers. Some office jobs simply can’t be done remotely. Not all workers thrive in a WFH environment, and for many it has led to greater disengagement.

The good news is that current polling suggests that employees are ready to return to the office at the highest levels since the pandemic began. A May 30th survey from Morning Consult (MC) found that 69% of respondents said they felt comfortable returning to the office. MC has been conducting this poll on a weekly basis since October 2020 and this metric has been steadily climbing as vaccination rates have climbed. But here is where employers need to proceed with caution. Most managers have spent the better part of the past year planning for, and processing, what a return to work would look like. Many workers haven’t and a considerable number still have very legitimate health and safety concerns. Case in point; this poll also found that 50% of workers said they would consider quitting if required to return to in-person work before they felt it was safe.

Given the labor pressures ramping up, it is critical that employers navigate the return-to-work process with extreme caution. The challenge for organizations in the immediate term will be demonstrating flexibility and patience as they seek to balance employee concerns with the need to reopen. Those that don’t, risk the challenge of even greater near-term labor disruption.

In the long-term, the challenge will be to rebuild employee engagement and to boost the in-office experience to help incentivize worker returns. It may take some time, but WFH will eventually evolve from a pandemic-era necessity to a post-pandemic perk.

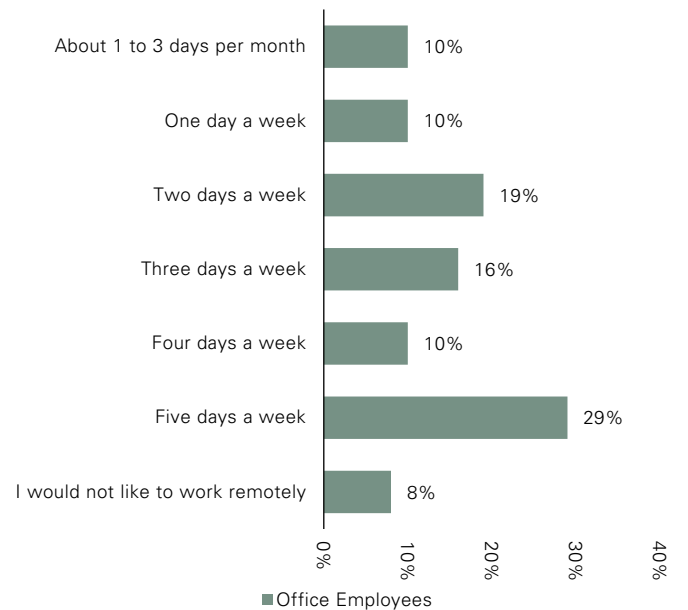
How Many Days A Week in Office are Necessary to Retain a Strong Corporate Culture?



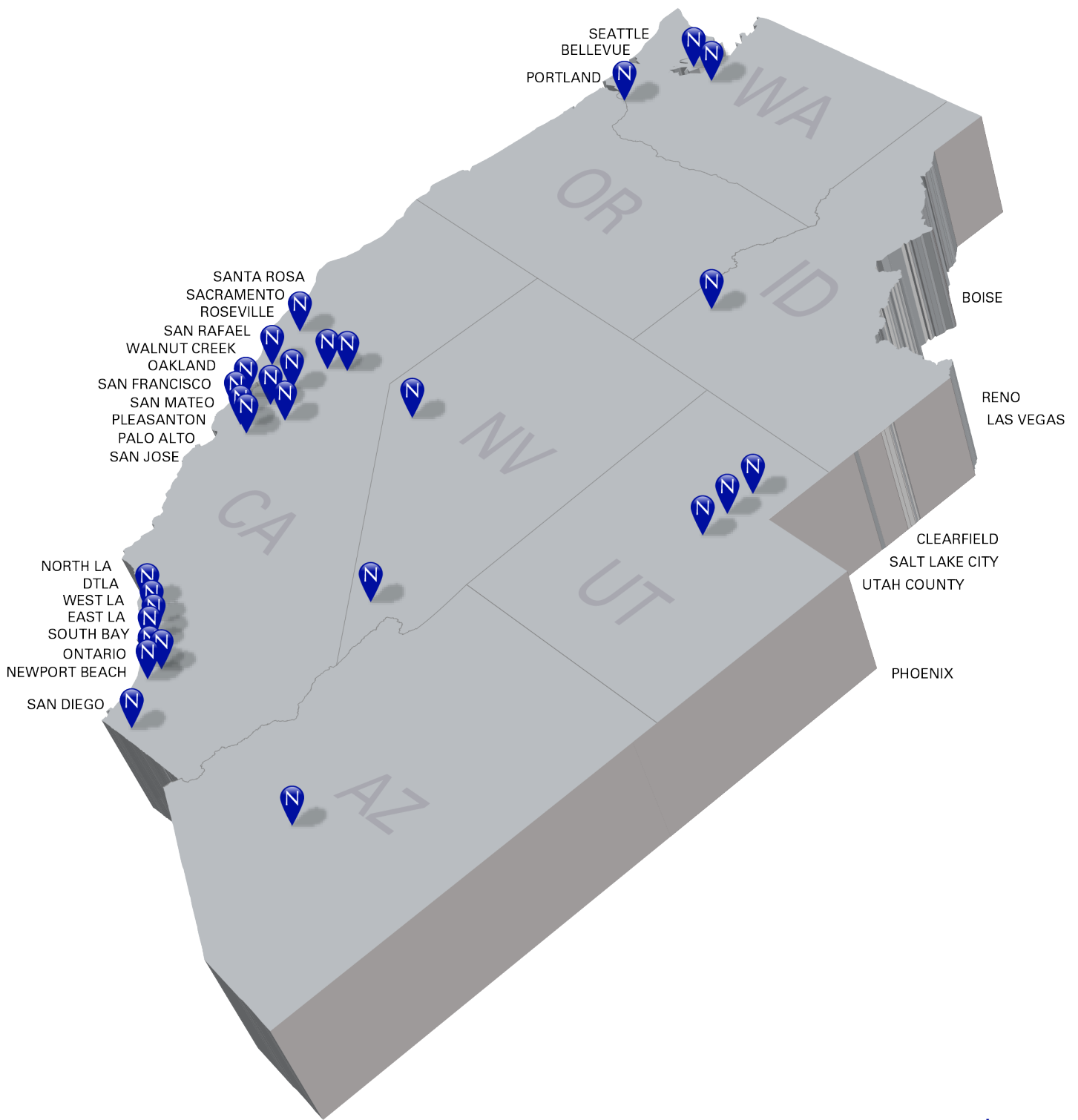
Source: Newmark Research; PwC

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How Many Days A Week do Employees Want to Work Remotely?



Source: Newmark Research; PwC



Garrick Brown

Managing Director of Western Region Research

Garrick.brown@nmrk.com

nmrk.com

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