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TELEWORKING ARRANGEMENTS AND ITS IMPACT ON FIRMS' DEMAND FOR OFFICE SPACE

BOX 1: TELEWORKING ARRANGEMENTS AND ITS IMPACT ON FIRMS' DEMAND FOR OFFICE SPACE¹

The shift towards teleworking has been a significant global trend in recent years, accelerated by the COVID-19 pandemic. Eurostat LFS data show that the share of persons working from home as a percentage of the total employment in Malta, reached a peak of 14.8% in 2020 and 2021 when containment measures were in full force. Although this figure declined to 11.5% in 2023, it remains well above pre pandemic levels (6.1% in 2019).

This round of contacts obtained insights from company representatives on the teleworking arrangements at their firm and its impact on the companies' demand for office space. It seems that this trend has had a varied impact on the demand for office space across different sectors, reflecting both the opportunities and constraints associated with remote working, as well as companies' perception of teleworking.

Most companies in the services sector reported limited impact on their office space needs due to teleworking. While some firms allowed hybrid systems or occasional remote work, the majority noted that employees preferred working on-site or that their roles did not allow for teleworking. This was particularly the case in contact intensive sectors or operations.

Nonetheless, a few firms, such as those in audit and consultancy and gaming, successfully reduced their use of office space through hybrid work arrangements. For instance, companies mentioned using telework as a cost-cutting measure, allowing employees to work from home two days a week, which lessened their office space requirements. Conversely, sub-sectors like accommodation and hospitality saw minimal potential for teleworking.

Teleworking had minimal to no impact on office space needs within the wholesale and retail sector, due to the nature of business in this sector. Companies in this sector typically found that teleworking was not feasible for most of their operations. In the manufacturing sector, teleworking was generally limited to administrative activities. However, telework did not translate into a reduced demand for office space, especially since manufacturing companies operate from their own plants. Once again, the nature of manufacturing work, which often requires physical presence, meant that the impact of teleworking on office space was negligible. This was consistent across sub-sectors such as consumer durables and electronics. Despite the high scope for automation in this sector, it seems that Maltese manufacturing firms still rely on traditional methods of production. Nevertheless, recent company insights point at a slow shift towards more automation to rely less on human capital.

For construction firms, teleworking was largely impractical. However, the real estate sector has been significantly impacted by a shift in demand. Real estate agents and developers highlighted that the supply of commercial office space has exceeded demand, partly due to changing work habits post-pandemic and potentially less foreign direct investment. The views of the former thus appear to contrast the replies obtained from companies

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themselves. Yet, many companies that had invested in office spaces for leasing purposes found it challenging to rent out these spaces. The challenges with the oversupply of office space, seem to highlight the misalignment between pre-pandemic investment strategies and current market demands. Real estate agents confirmed that this caused rent prices for such spaces to fall, in order to close the gap between demand and supply. Moreover, some agents highlighted that new commercial spaces will soon enter the market and thus could have more severe repercussions on commercial rent prices. Landlords, however, typically insert annual price increase clauses in commercial leases.

In general, company contacts indicate that while teleworking has been adopted to some extent, it has not led to a substantial reduction in office space demand for most firms. This is primarily due to the specific nature of many roles that require on-site presence as well as companies' reluctance to offer such work arrangements, fearing disruptions to the workflow. However, the real estate market has felt the impact more severely, with indications of a non-negligible oversupply of commercial office spaces. Real estate professionals have stressed that the commercial segment has slowed down, attributing this to both an oversupply and the pandemic-induced shift in working patterns. Contacts in this sector highlighted that investments made by developers in recent years have led to a significant surplus in office space, which has not been matched by demand, despite continued strong growth in employment, which could indicate that job creation in sectors that usually demand office space may contain a higher element of telework.

Company replies also hint that teleworking has allowed some firms to tap into a larger pool of labour supply by hiring workers that offer services from overseas. Should this practice become more widespread, it could have more significant consequences on the demand for office space.