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Briefing Paper BP4/2020

After the Coronavirus Pandemic: the home as a workplace and the new housing market

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The lockdown-induced increase in working from home has already given rise to speculation about what it will mean for the post-pandemic world, the 'new normal'. This briefing considers the grounds for expecting that there will actually be a long-term upward shift in working from home, what that might in turn mean for the decisions households make about their homes, and how, collectively, those decision might impact on housing market outcomes. The ownership of housing generally constitutes the largest asset in household portfolios, so that these consequences have considerable significance.

This briefing is an extension of a broader research paper by the authors on home working across Europe; it specifies only those sources which are not otherwise provided in the broader report - <https://urbanstudies.uva.nl/content/working-paper-series/working-paper-series-no.43.html?origin=%2Bq1hThT4TCOhbrnggQ2NMA>

The home as workplace: the fall then rise

The broad picture is actually common across most advanced, western economies. Towns and cities in the twentieth century were characterised by the spatial segregation of buildings and areas in which people worked – business and financial districts, industrial zones – and the buildings and areas in which people lived – inner and outer suburbs and the commuter belt.

This was not a tight distinction. To different extents in different countries, there were some population groups, often self-employed, whose house was the site for income-generating activities. Nonetheless, it was the norm in all advanced economies that most workers lived in one place and worked in another, generally the premises of their employer.

Over the course of the last three or four decades the distinction has also commonly weakened, driven by technological developments that have made working at home increasingly feasible. Successively, landline telephones and personal computers, then mobile telephones and laptops, wi-fi connectivity, smartphones, and sophisticated software increasingly allowed workers, located away from their employer's workplace, to remain connected to other employees, to customers as well as to company files, software and processors. By the start of the present century, working from home – or elsewhere – was for some workers no longer a barrier to interaction with colleagues in the firm and this included forms of supervision and accountability.

Supporting the means were the motives. For some companies, reducing the numbers of employees operating from a central location enabled cuts in production costs. For some workers, working at home could respond to their domestic and personal circumstances by prioritizing more flexible work conditions, eliminating commuting, and adapting working time to needs.

The result has been a gradual expansion of the numbers who work at home at least several times per week. Across the EU as a whole, for example, the rate about doubled over the period 2005-2015, to about 17% of all workers. Generally, higher in the more economically advanced northern and western member states – the UK was 6th with 23%. The trend has been commonly skewed in two main ways. Working at home has become increasingly a male preserve across northern and western European countries, and, across Europe as a whole, has seemingly moved up the income and skill distributions. By 2015, whereas 1 in 6 of all workers frequently worked at home, among those with high incomes and in managerial and professional occupations the rate was about 1 in 3.

It is clear that in 2020 these trends have rapidly increased. While national policies aimed at mitigating the coronavirus pandemic have varied from country to country, most governments have encouraged people to work at home wherever possible. A survey conducted by Eurofound on April 9th, 2020 revealed over a third of workers across the EU had shifted to working at home due to the coronavirus measures (<http://eurofound.link/covid19data>). This was over half of workers across Finland, Belgium and The Netherlands with still high shares in other EU countries – i.e. Italy (40.8%), France (37.2%), and Germany (36.9%). Data released by the UK Office of National Statistics, reports that over the period from 9-20 April, 2020, 45% of adults in employment worked at least some of that time from home

<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/datasets/coronavirusandthesocialimpactsongreatbritaindata>)

The degree of disruption of all aspects of national economies as well as the uncertain time dimension, do not support accurate predictions of the future of all aspects of labour markets and employment patterns. Anecdotal evidence and ad hoc reports, many in the written media, however, point to an eventual return to a 'new normal' in which there will be a lasting increase in working from home. The foundations for such a claim lie partly in the rapid, significant and forced upgrade in the means of remote working. Access to new software such as Zoom and Microsoft Teams has become more widespread across firms and individual workers and with that access has come increased expertise, effectively an up-skilling of work forces. They contribute to ways of maintaining contact – and control – within firms, and of interaction with collaborating partners, suppliers and customers. But national lockdowns have also brought about an enhancement of the motives. On the one hand, more workers who have had home working forced on them – there is no reason to believe it will be all – may have come to welcome the release from the grind and cost of the daily commute (as well as the positive environmental consequences of reduced levels of traffic) , and the increased flexibility over their lives. On the other hand, many businesses will conclude that working at home doesn't have to mean losing control of workers and a consequent lowering of productivity. Conversely, many companies may conclude that home working, in that it effectively transfers costs to employees, reduces the need for expensive, central office accommodation.

These shifts in thinking, which in some countries – notably Finland and Germany – have been reinforced by announced intentions to introduce legislation giving workers a right to undertake their work duties from their homes, suggest post-pandemic labour markets characterised by a marked up-scaling on pre-pandemic levels of home working.

How does the use of the home as a workplace affect decisions about housing

There has been a long-standing representation of housing as having two dimensions, one as a consumption good – the size and quality that contribute to the function of the dwelling as living space – the other as an investment good, as a means of saving and a repository of wealth. The general picture in western countries is that the latter has become increasingly significant. With a gradual increase in the numbers of households holding housing assets in the form of home ownership, house prices have tended to rise faster than GDP, and households have been able to use their equity in order to support their well-being and consumption, for example, by enhancing pensions.

While the demand for housing has been seen as following from the ways in which households balance the consumption and investment, the home as a workplace requires an extension of

the framework to a third dimension: housing as a capital good. This recognizes that housing may have a value by virtue of its use as an input to production, contributing to the ability of the household to obtain an income from work. It thus has the characteristics of 'capital goods' such as offices, factories, and machines that are used by business organisations, not themselves directly creating revenue, but contributing to productivity in creating goods and services.

In the case of home owners, the extension to a capital good can be seen as creating a sort of virtuous circle: the home being an input of the work process through which income is generated, supports the ability of the household to pay for the home in which the household lives. The home is thus literally somewhere to live, somewhere that enables investment, and at the same time somewhere that contributes to its acquisition.

In contrast, for those who rent their homes, whether from a private or social landlord, the possibilities afforded by the three dimensions, while varying greatly both within and between countries, are generally more restricted. They will almost certainly not benefit from investment gains and, in some settings, may not even be entitled under their leases to using the house as a workplace.

Housing space as working space

Evidence from the pre-pandemic experience indicates that the first way in which the extension of the decision framework affects outcomes is through the demand for increased housing space. For some the move to home working may involve very little: a work station that could be no more than the kitchen table, somewhere to sit and operate a laptop, make phone calls, send emails, and engage in video conferences. Many white-collar workers attempt to replicate aspects of the sort of office with which they will be familiar. In some cases, the work task may ideally require more extensive facilities that actually do change the physical form of the home. This may include designated office space, perhaps using a spare bedroom or reception room, or constructing an office in the garden. The point about these adaptations is that they all involve using existing or additional space, not for purposes of meeting living needs, but of meeting work requirements.

House location

The more interesting question is how does home working affect where people decide to live. Once the home becomes a capital good, the geographical link between house and workplace is severed so that commuting distance, time and cost no longer need structure the decision about where to seek work or where to live. Evidence about the practices of pre-pandemic home workers identify three general household strategies: stay-putters, lifestyle migrants, and nomads.

The first group, 'stay-putters,' represents those households that choose to stay in the same dwelling even as they transition from working outside the home to (increasingly) working from home. There are many reasons for staying put: social and kinship ties to a particular location, life-style amenities of the existing location, access to an existing network of customers, or only one of several household members is location-independent. This group would thus remain in the same home while undertaking either minor or major adaptations to its physical form towards meeting new home working necessities.

The second group, 'lifestyle migrants,' reflect those who, free from commuting restrictions, choose to relocate for lifestyle aspirations. The behaviour of retired people, who, by definition, no longer need to consider work location in deciding where to live is enlightening. No longer tied to the workplace, many have taken the opportunity to boost their consumption aspirations to search for a better lifestyle, moving away from cities to smaller towns, villages, or coastal resorts – sometimes across national boundaries – in order to achieve 'the good life'. Even though national lockdowns have – up to the time of writing – been of relatively short duration, there is already evidence from analysing online searches for property sales of an increased interest in locations beyond large cities (in relation to the UK see: <https://www.theguardian.com/money/2020/may/08/homebuyers-plotting-move-to-country-amid-increased-home-working>)

Finally, there is a third group: 'nomads.' Empirical evidence points to a significant group of workers that are taking locational freedom and lifestyle prioritization to the point of having no permanent home at all. This group of so-called 'digital nomads' embrace a location-independent, technology-enabled lifestyle that allows them to travel and work remotely, often spending a few months in one city before moving to another. One estimate is that in 2018 almost 5 million US citizens could be labelled as 'nomad' workers.

What will this mean for house prices and housing wealth?

Beyond the investment decisions made by individual households, the rise in home working implies potential aggregate impacts on house prices. One possible overall effect could be an upward pressure on prices, arising because some of the money that would have been incurred in commuting is diverted into an increase in the ability and willingness to pay for housing. Consistent with this, surveys have shown that houses with office accommodation commonly attract higher prices than equivalent houses without.

In that employer location, often concentrated in central urban areas, ceases to act as a constraint on residential decisions, the gradient of land (and house) prices with distance from the central business district may become less pronounced. In other words, house price formation may become less determined by external employment location and more by life-

style consumption considerations. In crude terms, the demand for housing in cities and large urban areas would be expected to decline as more workers, many relatively high paid, re-direct their housing aspirations away from urban centres. The corollary is that demand, and therefore prices, would increase in the areas (i.e. more peripheral, smaller towns, or rural locales) in which they expect their lifestyle aspirations will be met.

While this may be seen as a spatial re-distribution of housing wealth, it may have important social and political consequences. New sites of housing market pressure may restrict the ability of local residents to get onto the housing ladder. We may see a further concentrating of housing wealth in hands of people who are able to use their home as a workplace. At the same time, a flight of middle class, higher income families from cities implies new dynamics of urban decline. Set against this, it is also possible that other groups, perhaps especially younger cohorts, might take the opportunity to realise their aspirations for the vibrancy of city centre living. Taken together, the changing relationship between place of residence and employment implies a major restructuring, particularly spatially, of housing markets. There is a clear need to further understand in a (post-) coronavirus era, the full implications of growing home working for households, housing studies, and housing markets.

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