Here’s what employers are cutting instead of your job

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You may get to keep your job, but you might lose your Zoom and your desk.

Companies are cutting back on real estate ahead of a potential recession.
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Uncovering and explaining how our digital world is changing — and changing us.

In the last three months, **Dumbo Moving** downsized about 200 offices into storage and about another 100 into smaller office space. That’s double what the New York City-based moving company did in the same period last year and multiples higher than what it would have done pre-pandemic.

The moving company has a front-row seat to **pervasive** cost-cutting ahead of a recession, as businesses try to do anything they can to keep from having to lay off workers. Ditching office space is one of many levers companies are pulling to reduce their costs. Some companies are doing away with eye-rolling perks, like **Meta’s free laundry service**, while the more mundane among them are stocking **crappier snacks** and **getting rid of free coffee**. Others are freezing hiring for new positions and suspending business travel. Many more are taking a much harder look at their software licenses than they did earlier in the pandemic — even as they potentially allow more people to work from home. In other words, more people might get the option to work from home again, but this time they might be stuck with Microsoft Teams even if they prefer Zoom.

Of course, none of these cuts mean jobs are completely safe. There have been a number of high-profile layoffs in tech this year, and more are expected. Still, it's important to realize that the **140,000 tech layoffs** this year are only a tiny portion of **total tech employment**, which numbers in the millions. Notably, many of these layoffs followed a period of brisk hiring during the pandemic, while other industries had cut back.

As for the economy as a whole, layoffs were near historic lows at less than 1 percent of total employment in October, according to the latest available **Bureau of Labor Statistics data**. Meanwhile, there were an admirable 10.3 million open jobs. Companies **fear making the same mistake** many made early in the pandemic: laying off hordes of workers only to spend the next two years struggling to hire them back as the economy rapidly improved.

For now, instead of layoffs, expect big cuts to everything else — especially real estate and remote software.

Return to the office, meet the recession

Historically speaking, companies have always cut back on real estate during economic downturns, even before remote work made office space go from required to optional. A recession in the coming months could be especially tough for the commercial real estate market. This summer, the consulting firm **Gartner** found that nearly three-quarters of CFOs wanted to trim their organization's real estate footprint by the end of 2022, representing the biggest cut of any type.

Those cuts will likely put a dent in companies' return-to-office plans. So far, the share of days worked from home has **remained remarkably steady**, even as many companies accelerated their return-to-office plans this summer and fall.

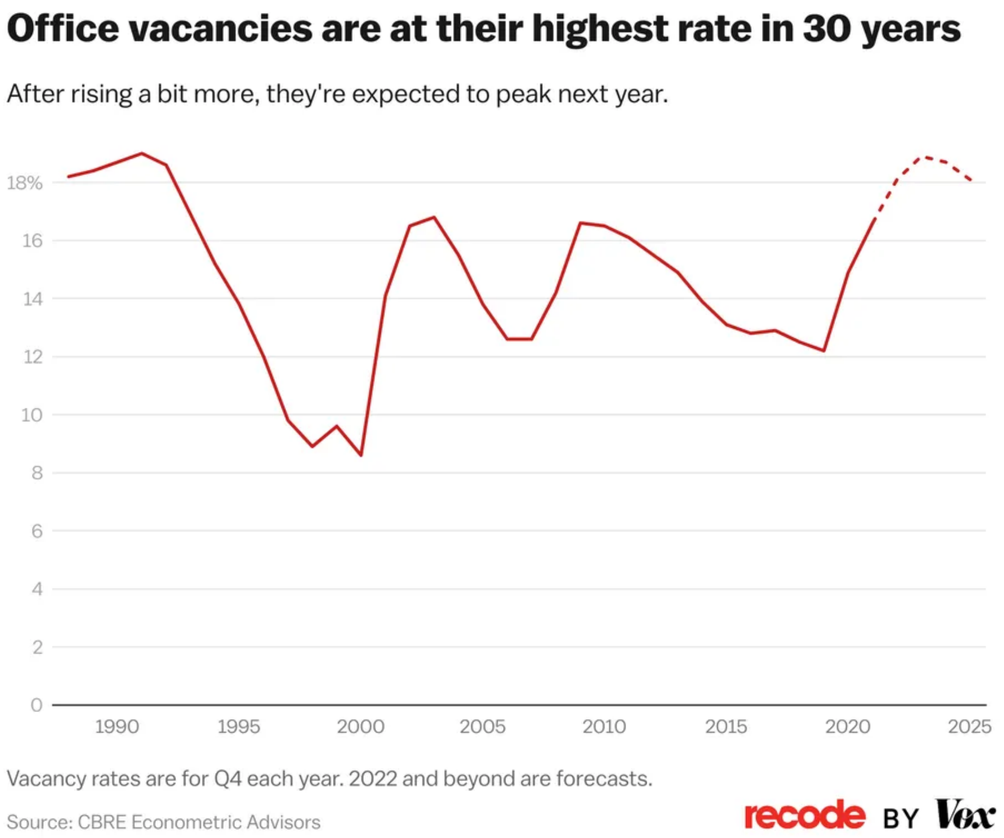
Rebecca Kehoe, a professor of human resources studies at Cornell University, said companies that haven't pushed very hard on the return to the office will be the most likely to cut back on real estate. But even companies that did ask employees to return to the office more could cut back on office space as well.

"This might actually be the push that organizations need to be open to a more remote approach," Kehoe said. She added that remote work has the dual benefit of helping companies retain employees and perhaps ameliorate some of their upset at, say, not getting a raise.

Just how big real estate cuts will be depends on the type, size, and age of the company, according to Arpit Gupta, an associate professor of finance at New York University. For large conglomerates, real estate might be a small fraction of their spending, while for startups it could be a major expense.

"From their point of view, this is one of the base expenses they have to deal with, and if in fact they can get rid of it in a way that keeps their own employees happier than before, then that seems to make sense all around," Gupta said.

Real estate downsizing might be most significant in tech, which both is facing the brunt of a potential recession and was more accommodating about remote work in the first place. Meta, for example, recently announced in an earnings call that it was **spending $3 billion to get out of leases** this year and next, a move that it hopes will save money in the long run. The company expanded the option of remote work to all levels of employees in **2021**. Of course, Meta has also turned to **layoffs**, letting go of 11,000 employees this month.



Economy-wide, these cuts will certainly be significant, but fortunately for building owners, experts don't expect these cuts to go on forever.

The Econometric Advisors unit at the real estate services company **CBRE** anticipates office vacancy rates in the US to top out next year at about 19 percent. Currently they're at a 30-year high of 17 percent. Julie Whelan, CBRE's global head of occupier thought leadership, doesn't think there's much more office space companies can reasonably cut.

"Companies made so many cuts during the pandemic to space that they're going to have to be really careful that they don't cut too close during recessionary times," she said.

Farewell, corporate Zoom account

As companies continue their so-called digital transformation, they are going to rely more heavily on software. But while software spending is expected to rise, it's not happening as fast as it was, and some areas will see cuts.

Gartner expects overall IT spending to rise **5 percent**next year. **Enterprise Technology Research (ETR)**, which surveys CIOs and other IT decision-makers on their software spending decisions, expects IT spending to rise about 4 percent this quarter and next, compared with the same quarter a year earlier (these estimates have declined over the year). However, considering inflation is at a whopping**7.7 percent**in the last year, companies will have to be more choosy about what software they actually need.

The biggest way companies are cutting their internet technology spending is through consolidation, according to ETR data, with a third of organizations saying they're doing so. That typically means looking for multiple software licenses that offer the same technology and getting rid of one of them. In many cases, that decision-making will benefit big tech companies like Microsoft and Google, which throw in lots of different offerings — videoconferencing, chat apps, spreadsheets, documents, productivity management, cloud computing — under one license.

"If you happen to be a Google shop, you're going to go with Google's enterprise content management in Google's Workspace," Erik Bradley, ETR's director of research, said. "But more often than not, large organizations already have a Microsoft 365 license, and since you already have it, you might as well use it."

That means employees with a license for the videoconferencing tool **Zoom** might soon be making calls through Google Meet, for example, if they already pay for its email service. Or they might ditch the communications software Twilio if they already have a license for Microsoft, which has a competing product. Or they could lose Dropbox if they already have file sharing through AWS. Companies feel that they won't jeopardize their business since they'll still have a version of their software — perhaps just not the one that employees prefer.

These cuts represent a bit of a reversal from what we were seeing earlier in the pandemic, when executives were much more generous about software that facilitated remote work collaboration and productivity, according to Alexander Bant, chief of research for CFOs at Gartner.

"They selected multiple different collaboration tools. Different regions and leaders had more of a blank check with software," he said. "Now they're looking to consolidate."

Consolidation is less likely to happen if a software is seen as integral to companies' continued functioning or if it's in an area companies are afraid to risk. Key areas where spending growth is highest are in cybersecurity and data analytics, according to ETR. Software related to sales is also relatively safe. That necessarily means some things will fall by the wayside.

"CFOs are really prioritizing software that drives near-term sales as opposed to longer-term innovations and new product development," Bant said.

How drastic overall corporate spending cuts are will depend on how severe the recession is and how long it lasts. For now, though, people's jobs are relatively safe, while the conversation about cost cuts revolves more around real estate and technology redundancies than people.