

Fit for Future

The impact of Covid-19 on
workplace and portfolio strategies





Foreword

Whilst much has been written on matters such as the way to manage space during and in the immediate aftermath of the pandemic, we believe there continues to be a dearth of informed opinion and lateral thinking on long-term real estate strategy and the future of the workplace.

The Royal Institution of Chartered Surveyors (RICS) is very pleased to have lent its support to this important research project that draws more attention to the relationship between real estate and those who fund, occupy, use and invest in the asset class – from HR professionals and workplace strategists to technology providers and investors. This relationship has been put to the test over recent months and we must not revert to an era where professional disciplines can take precedence over collaborative, collective decision-making.

In recognition that real estate does not exist in a bubble, the research also quite rightly addresses the sharpened focus on social, economic and environmental concerns post-pandemic.

I am optimistic that this paper will encourage more debate and that we will continue to challenge the 'old ways' that governed how we worked prior to Covid-19 reshaping society and the economy.



Paul Bagust
RICS Global Property Standards Director

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About the survey

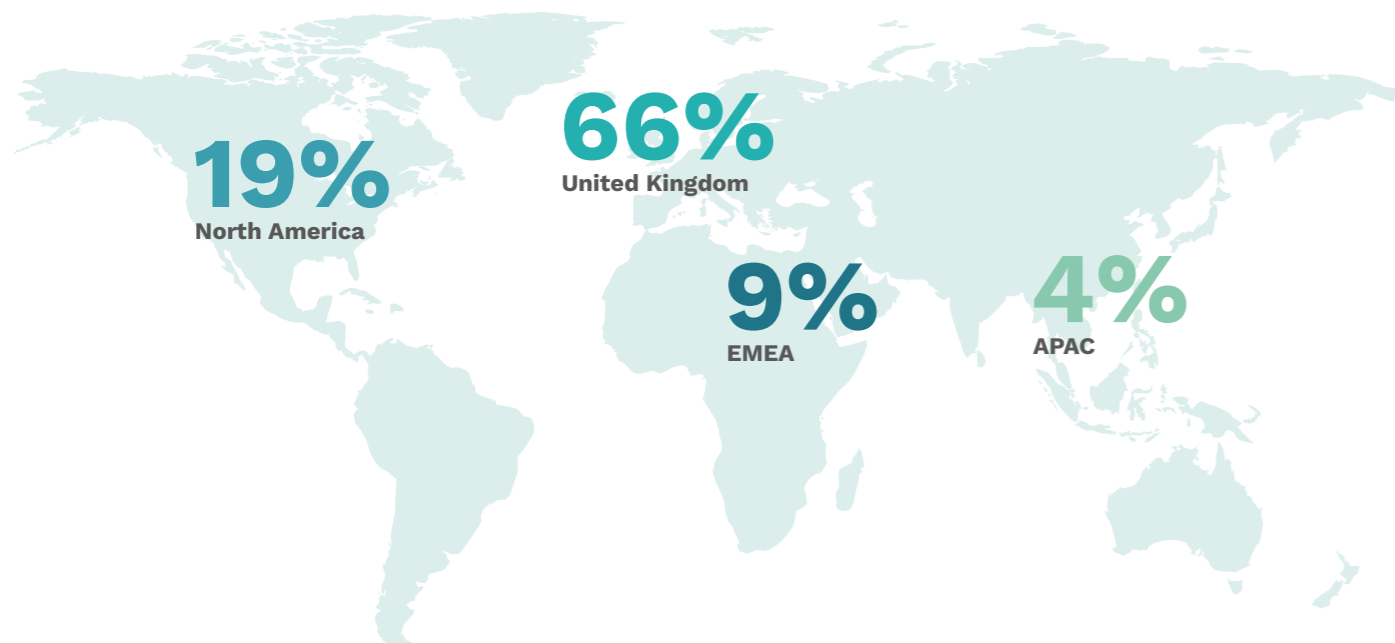
The impacts of Covid-19 have no doubt resulted in a radical transformation of the world of work. Supply chains are being reconfigured, consumer preferences have changed and working practices and expectations have adapted, influenced by the use of technology.

Shortly after the first wave of the pandemic, many advisors and other experts pronounced the immediate impact of social distancing on the workplace – and offered sound advice on how to sustain business operations or service delivery within a new set of constraints.

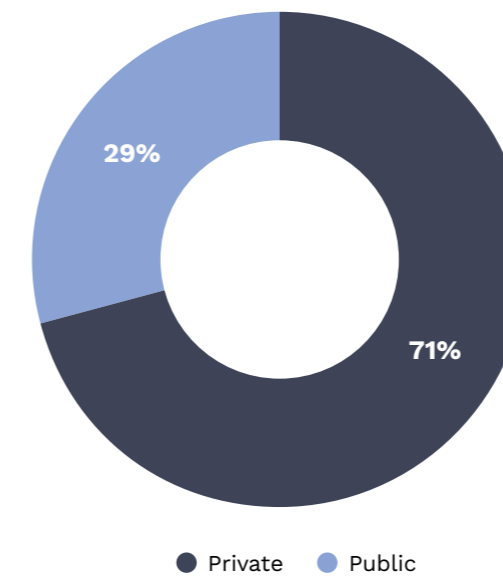
Avison Young UK, HLM Architects and realestateworks shared a view that whilst Covid-19 will no doubt have short-term impacts, there are likely to be profound longer-term impacts that greatly affect the way we plan and manage our workplaces and develop our real estate strategies. With this in mind, a collaborative research team sought to canvas opinions from those at the forefront of the decision-making process through a wide range of surveys and interviews.

A questionnaire survey was conducted with the support of more than 100 organisations spanning governmental bodies and private sector companies many with a global reach. Approximately 20% of the survey participants were interviewed and their views are captured in this report, which is aimed at real estate occupiers, the supply chain and policy-makers.

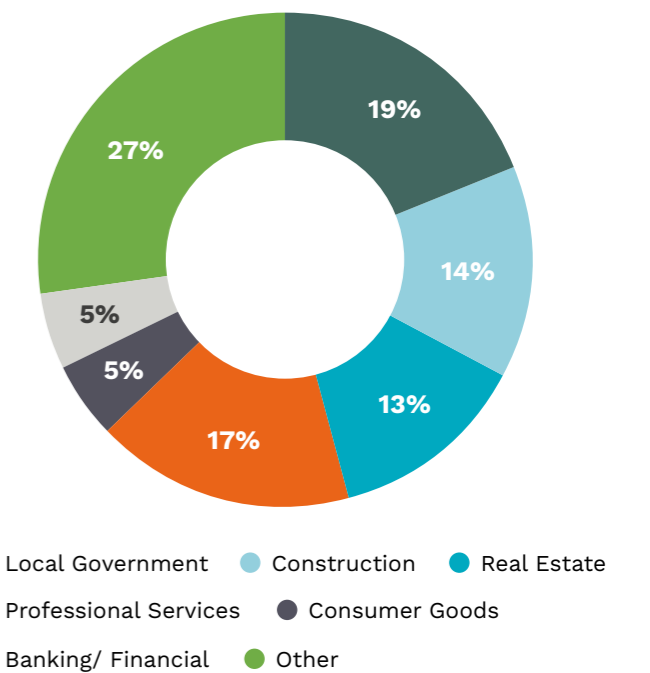
Where is the majority of your occupational estate based?



In what sector do you operate?



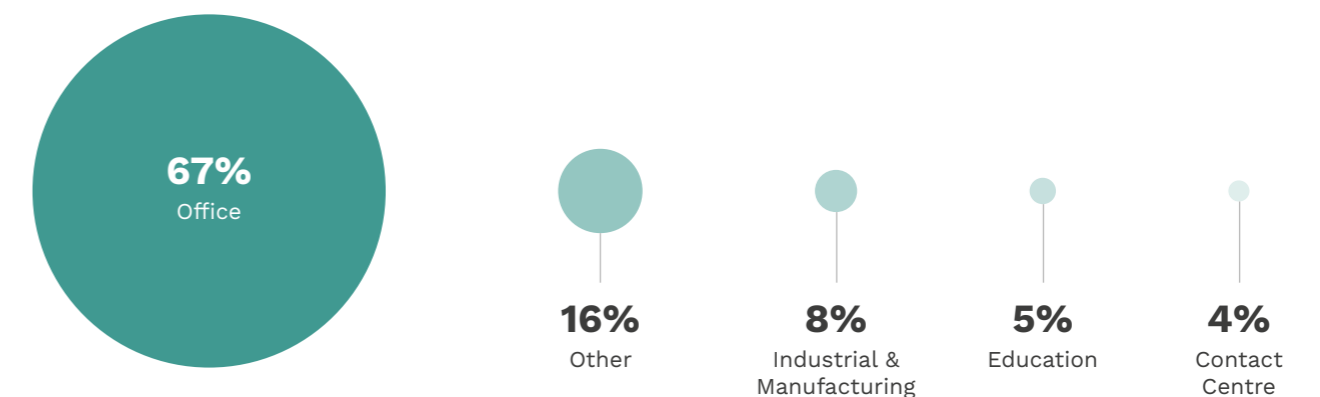
What is your primary industry?



What is the headcount in your organisation?



What is the predominant nature of your occupied property assets?



1

The impact of Covid-19 on organisations

The pandemic has changed the relationship between employer, employee, the location of work, the environment and technology. We were interested to learn from real estate leads about how the balance of power has shifted and, in turn, how this will impact workplace and portfolio strategy. Our survey questions included:

- Do you believe that the expectations of the workforce will be increasingly difficult to meet in the workplace unless it is adapted?
- Do you expect to adapt your buildings to become more energy efficient and consume fewer resources as a consequence of the pandemic?
- Do you expect your organisation to adapt its footprint with occupier wellbeing in mind?
- Do you see technological investment to support a distributed workforce as more or less important than investing in your physical workplace?



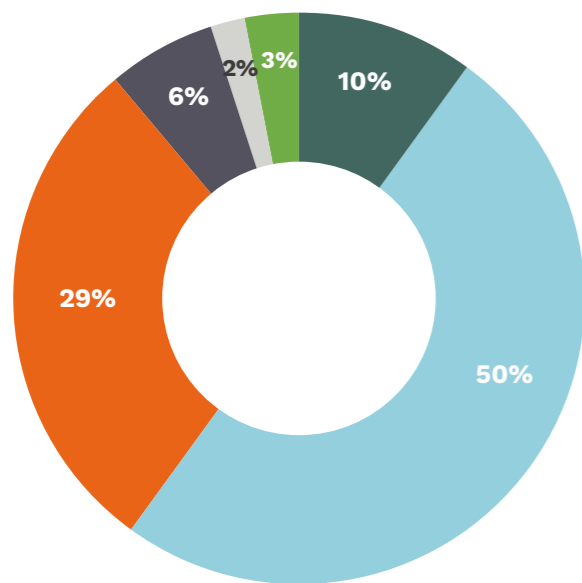
The war for talent

It may not feel like it in the midst of an economic crisis, but the balance of power has shifted to the employee, at least in the short term. The pandemic has illustrated the need of employers to look after their most valuable assets. The workforce has grabbed the attention of employers who are more sensitive to requirements for a better work-life balance, reduced commutes and freedom over when and where to work. Embracing this realignment will enable employers to differentiate their offer in the war for talent.

Although the shift in the balance of power and influence is perhaps subtle, as the economy recovers and employment opportunities increase, it is reasonable to expect the scales to tip further in favour of the employee.

This in turn could have radical implications for location, portfolio and workplace strategies as companies make changes that best work for the collective.

We will engage more actively and frequently with our workforce to understand their requirements when developing our portfolio strategy as a consequence of the pandemic



● Strongly Agree
 ● Agree
 ● Neutral
● Disagree
 ● Strongly Disagree
 ● Don't know

60%
 of organisations will engage more actively and frequently with their workforce when developing their portfolio strategy as a consequence of the pandemic

63%
 of organisations believe that workforce expectations will be increasingly difficult to meet in the workplace unless it is adapted

“

The pandemic has resulted in an increase in the level of trust placed in employees. There used to be suspicion in some quarters about ‘working from home’. Experience has shown that such suspicion was misplaced. This has given our employees ammunition to argue for more regular home working.

Head of Development, UK Property Company

PRACTICAL CHECKLIST

- Can working from home satisfy all your employee and organisation needs?
- Will you be systematically capturing the preferences of your workforce in terms of place of work?
- Are you capturing and learning from employee perceptions of productivity under different working models?
- Have you explored how the workplace is linked with recruitment, retention and the employee experience?



Green is gold

The political and social drive for environmental sustainability has intensified over recent years. As a result, over half of respondents were already implementing zero carbon strategies, with sustainability embedded into their service delivery models.

This highlights the fact that many occupiers were not paying attention to climate change. However, for many the crisis has brought home our vulnerability to nature and the need for organisations to further reduce the environmental impact of property assets. This is having an effect not just on the physical workplace (with 56% expecting buildings to be decarbonised) but on attitudes to employee travel.

The public sector responses show a greater intent to reduce environmental impact through investing in places of work and travel to work arrangements. Many have already understood the Climate Emergency, set a net zero target to reduce greenhouse gas emissions and embedded sustainability into their service delivery models.

“

We used to look at the ‘green’ agenda as a distinct programme of activity divorced from others. Now the property strategy and our ‘green’ objectives are interwoven and will remain so.

Head of Property, Local Authority

“

Our high hurdle rate for return on equity hinders investment to decarbonise – we need to recalibrate how we measure benefits.

Director, Global Real Estate, Multinational Chemical Company



56%

expect to adapt their buildings to become more energy efficient and consume fewer resources as a consequence of the pandemic

52%

expect to conduct sustainability audits as a step to reducing their impact on the environment as a consequence of the pandemic

71%

expect to increasingly encourage their employees to adopt environmentally friendly modes of transport to/from work and while at work

PRACTICAL CHECKLIST

- Are you designing ‘personalisation’ and environmental control into your workplace strategy to give employees a sense of ownership?
- Are you working to better support your employees minimise their travel?
- Do you have a decarbonisation strategy that is based on a modelled trajectory for achieving net zero carbon?
- Have the interventions to achieve the strategy been prioritised, costed and translated into actionable plans and programmes?
- Do you have a process to measure, verify and report progress against targets?



From well-meaning to wellbeing

The health and wellbeing of employees has not been a key organisational metric for the majority of businesses and policies have often appeared tokenistic. Only half of organisations surveyed stated that they systematically measured the satisfaction of their workforce prior to the pandemic.

Virtually all respondents (98%) agreed with the statement that Covid-19 has raised the importance of health and wellbeing. Given the enormous amount of coverage in the technical and popular press of health and wellbeing, this shift in attitude is perhaps to be expected.

To support this agenda, respondents overwhelmingly agreed (97%) that they would help employees to spend more time working remotely post-pandemic, to improve life satisfaction and reduce stress.

A realisation that more remote working equates to a reduction in fixed and variable property costs will no doubt add weight to the argument - but only for those organisations where remote working is feasible because of the nature of the business, or practical because of personal circumstances. Understandably organisations in, for example, the construction and education sectors do not expect to adjust working hours or the location of work in support of the health and wellbeing agenda to the same extent as others.

“

We used to measure the satisfaction of employees with the workplace but not in any consistent or systematic way. We know we need to do better going forward.

Property Asset Manager, Global Bank



We believe that sustainable health and wellbeing strategies need to be drawn up and implemented covering all locations from which work is undertaken. Organisations should also provide support and guidance for employee health and wellbeing outside working hours. Not only that, there needs to be a strong evidence base upon which measures are introduced, coupled with transparency in the way progress is measured and monitored, crucially capturing the experiences of the employee.

As a result of the increased understanding of the importance of occupier wellbeing, we expect the proliferation of best practice health and wellbeing standards and frameworks to be commonplace in design and construction procurements, and operational decision-making, within a few years.

50%

of respondents were accustomed to monitoring the satisfaction of occupiers with the workplace in a systematic manner

98%

believe that occupier health and wellbeing will become an increasingly important strategic driver as a result of the pandemic

65%

of organisations expect to adapt their footprint with occupier wellbeing in mind

PRACTICAL CHECKLIST

- Have you undertaken DSE assessments for home-working environments?
- Have you considered the health and wellbeing pros and cons of remote working during the pandemic and factored this into future workplace policy and strategy?
- Do you have policies or principles in place to enable a healthy work life balance to be achieved e.g. core hours and being mindful of out of hours emails?
- Do you have an Employee Assistance Programme (EAP) and a Mental Health First Aid team?
- Have you assessed and implemented changes to the fresh air provision to your workplace?
- Are there workplace facilities for your employees to shower / change should they wish to walk, run or cycle to work?

Tech matters

The pandemic has accelerated digital transformation across sectors – even ones that were previously resistant to change. Technology enabled remote working has helped organisations to maintain business continuity and productivity.

Digitised processes, increased cloud capabilities and communication technologies have helped companies perform their day to day activities. Internal collaboration and engagement with customers has been able to continue in ways that would have been unthinkable only a few years ago.

With the great homeworking experiment awakening a wealth of new converts to the benefits (and drawbacks) of remote working, the future of the workplace has been questioned in a way that it hadn't previously. We believe that hybrid working models, which blend the physical and virtual workplace, will become commonplace and the effectiveness of this model will depend on the technology platforms that support them.

Successful hybrid working models will depend on investments in technology across collaboration tools, health and wellbeing, cybersecurity, HR policy and training. When queried about increased IT investment to support remote working models, one in five respondents plan to double their current level of investment in this area over the next five years. Furthermore, almost half of respondents regard investment in remote working as more important than investment in the workplace.

In the future, investment in digital infrastructure to support new ways of working is expected to vary across organisations and sectors. Due to the current economic uncertainty, most respondents are understandably cautious in their forecasts for budgeted investment. Nevertheless, technology will underpin the reimagining of how and where we work, supporting both physical workspaces and smart working models.

Employees will expect a seamless experience from their physical and virtual workplaces with the integration of remote workers into meetings and conversations. Smart building technology will be used to optimise user experience, and give employees back control of temperature, sound, light and air quality.

Digital platforms will strengthen their features to support collaboration, workflow, training and socialising. Human resource will also increasingly use technology tools and applications to monitor physical and mental wellbeing and the engagement of a distributed workforce.



“

We were astonished that the IT we complained about actually worked and we learned how to use it.

Global Estates Director, Multinational Chemicals Company



believe that the crisis has demonstrated that their companies were agile in their rapid adoption of new technologies

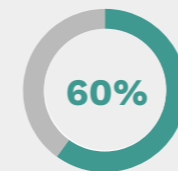


expect to double investment in IT to enable remote and flexible working over the next 5 years as a consequence of the pandemic

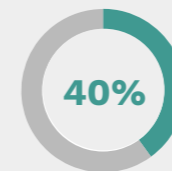
In the medium term, we see technology investment to support a distributed workforce as more important than investing in our workplace

Respondents by sector

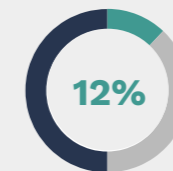
● Agree ● Neutral ● Disagree



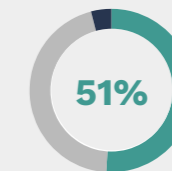
Contact Centre



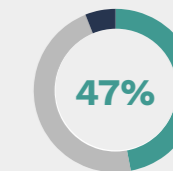
Education



Industrial & Manufacturing



Office



Other

PRACTICAL CHECKLIST

- How will technology and physical workplaces together be leveraged to provide employees with choice and autonomy and support hybrid working models?
- Are real estate leaders working closely with technology teams to ensure investment that supports engagement, collaboration and productivity for remote workers?
- How will you measure the success and value created by technology enabled hybrid models and how will this impact longer-term digital strategies?
- Are you using smart building technology to automate and optimise workspaces for an enhanced user experience?

2

A post-pandemic workplace

Space will be needed to support the activity of work - it may be less than before, it may be in different locations, and it will certainly need to support a different blend of uses. Organisations can expect to pay much greater attention to the contribution the physical workplace makes to the productivity of occupiers and their wellbeing. We asked some challenging questions about how space was used and how that might change, including the following:

- Do you use workplaces because they are there rather than the added value they bring to the organisation?
- Do you measure the productivity of employees in a systematic and evidence-based manner?
- Do you collect information on how space is used?
- Will you adapt the workplace to provide a wider social function?



Making the workplace work

As mentioned in the previous section, the future of the workplace is very much up for debate. Perceived problems have been solved out of necessity and many aspects of work have been adapted. Digital infrastructure and virtual platforms have been developed at pace to help sustain company culture, support wellbeing in a variety of personal circumstances, and enable office-based organisations to continue to operate.

Surprisingly over half of real estate leads surveyed admitted that workplaces are used because they are there, rather than the added value they bring to the organisation's business activities. While it is true that real estate is a slow-moving asset, there is surely now more than ever a desire, and in some cases a need, to challenge the rationale for holding or occupying each asset.

The lockdown experience has shown that many of us don't need to be in the workplace to be productive or adhere to traditional working hours.

There is an abundance of research and anecdotal evidence linking increased productivity, with staff satisfaction; and, in turn, linking contentment with controllable and adjustable environments, and access to a variety of work settings. This is explored further in Avison Young's 'Productivity, the workplace and Covid-19', December 2020 and the RICS report on Workplace design and productivity, 2008.

For some, the home or a local coffee shop can provide these environments – and contribute to less stress, shorter commutes, reduced personal costs, and greater flexibility about when to 'do work'. For others, the hybrid model involving a blend of remote and formal, but personalised and activity-based work settings, will be appropriate - or indeed essential depending on personal circumstances. However, organisations also recognise the huge value in people meeting physically to exchange ideas, solve problems, co-create and build trust.

“

Is it really the case that centuries of business evolution – and vast amounts of investment in expensive office space – have been revealed as a complete waste of time in a few short months?

'Productivity, the workplace and Covid-19', Avison Young, December 2020

For many organisations, we are likely to see a movement away from attendance-based performance measures, towards output-based measures, which are achievable from any remote work setting. Where these may be difficult to assess, there is a need at the very least to measure employee satisfaction and perceptions of productivity.

Our research backs up the belief that significant adaptations to the workplace will continue beyond the end of social distancing, as organisations respond to new patterns of attendance. Indeed the expectations of the workforce will be increasingly difficult to meet unless the workplace is modified to support the need for more individual freedom, personalisation and respect. The workplace needs to improve the facilitation of social interaction and support a balance between work and relaxation.

“

It would be inappropriate to try to impose our approach to workplace in the United States to, say, Kenya. We need to respect cultural differences.

Director of Real Estate, Energy and Utilities Company



50%

have tended to use their workplaces because they are there rather than the added value they bring

78%

expect the workplace to be adapted to enable it to perform additional social functions

“

This is now a great opportunity to redefine the purpose of the workplace – this will require leadership but we must gather the evidence and understand the needs of our employees as we seek to create a blend, or hybrid, of the benefits of both the physical workplace and remote working.

Commercial Lead, UK Housebuilder

The workplace is frequently cited as having a significant but indeterminate impact on the culture of an organisation. Several interviewees emphasised the important role of the office setting, in particular in amplifying the desired corporate culture. We often hear of a pervasive negative culture within an organisation and wonder whether the workplace is a major contributory factor.

The workplace is not just about culture and building social capital, it also provides the settings for different types of work – whether that is individual task-based or work that requires people to come together to solve problems, agree plans and forge ideas.

It is incumbent on business leaders to not only understand how the workplace can impact (positively and negatively) on the prevailing culture and productivity but, more importantly, utilise the physical workplace to support positive change.

Our research suggests that the expected role of the workplace will be increasingly reviewed, extending beyond simply a place to ‘do work’. For some organisations, particularly those competing for talent, the workplace will be created as a destination with a strong social interaction function. Many workplaces clearly perform a multi-faceted role at present, but occasionally more by accident than design.

More than three quarters of respondents felt that adaptations will be necessary to the workplace to allow an organisation to build social capital, advance its culture and support the employer value proposition to attract, cultivate and retain talent. Indeed, as the chart alongside shows, the expectations of the workforce will be increasingly difficult to meet unless the workplace is adapted.

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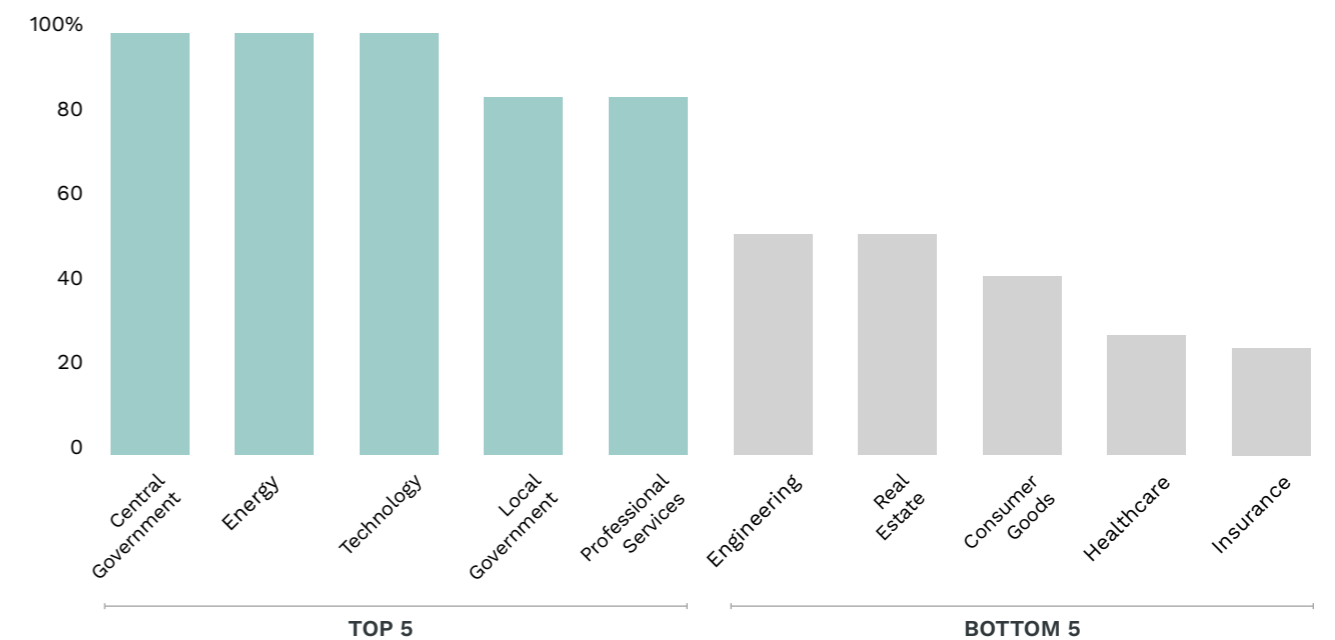
The workplace is a great place to sustain the culture of our business. Without a physical presence, it will be very difficult to demonstrate and sustain our great culture.

Head of Property, Global IT Company



The expectations of the workforce will be increasingly difficult to meet in the workplace unless it is adapted

By Industry



37%

collected data (pre-pandemic) on how all space was used over time using sensors, other artificial intelligence tools, or manually

43%

measure the productivity of employees in a systematic and evidence-based manner

55%

expect their workplace to be re-designed and better managed to improve productivity as a consequence of the pandemic

“

We will need more space for meeting rooms and touch down but people still need a workspace to learn from experiences and to keep enfranchised.

Head of Property, UK Government Department

The challenge for organisations is to not only provide support for those willing and able to work remotely, but also to create compelling reasons why employees should spend time in the workplace. With diverse and dispersed places from which employees are able to work, creating a 'destination' that adds value to a brand and cultivates a highly collaborative, personalised and welcoming environment will become a prerogative.

Whilst we would caution against an aggressive increase in staff to workstation ratios, it is clear that a greater understanding of the way we work will lead to changes in the allocation of workstations for task-based work and zones for collaboration, interaction and teamworking.

In creating a bespoke environment that best supports a successful team culture and high utilisation of real estate assets, it is important to collect qualitative and quantitative data before determining what types of work settings and facilities to retain, adapt or remove.

For staff visiting the workspace less frequently, many will undertake a variety of activities throughout the day including individual workstation-based tasks, requiring ergonomic set ups to work independently in-between meetings, training and informal interactions.

“

The virus has undermined the culture of presenteeism and associated barriers to sharing workspace; this means that we will accelerate our slow adoption of open plan work settings outside the UK, once social distancing allows this.

Head of Workplace, Insurance Company



“

We currently have a 1:1 desk to staff ratio and do not see that changing any time soon even though our staff will undoubtedly be spending less time in the office.

Principal, Group Property, Mining Corporation

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I want an office for myself to be safe.

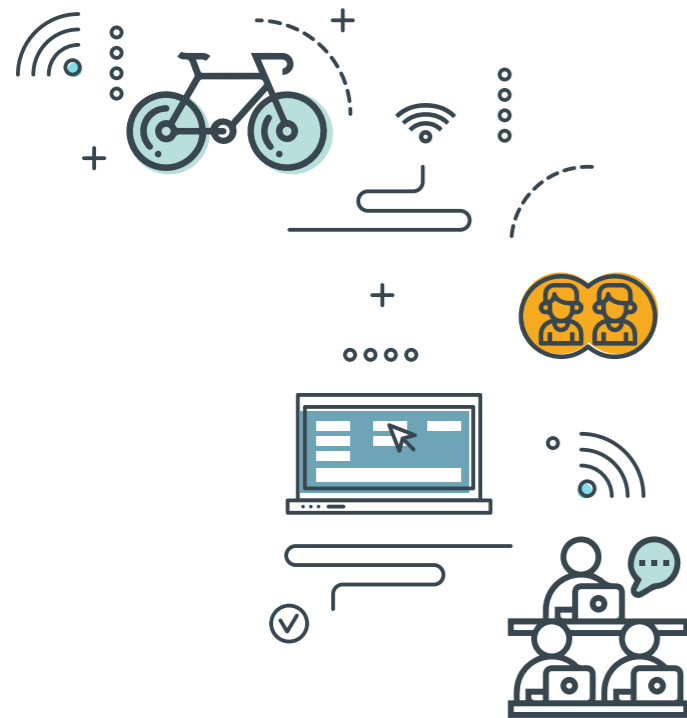
Global Real Estate Director, Financial Institution

PRACTICAL CHECKLIST

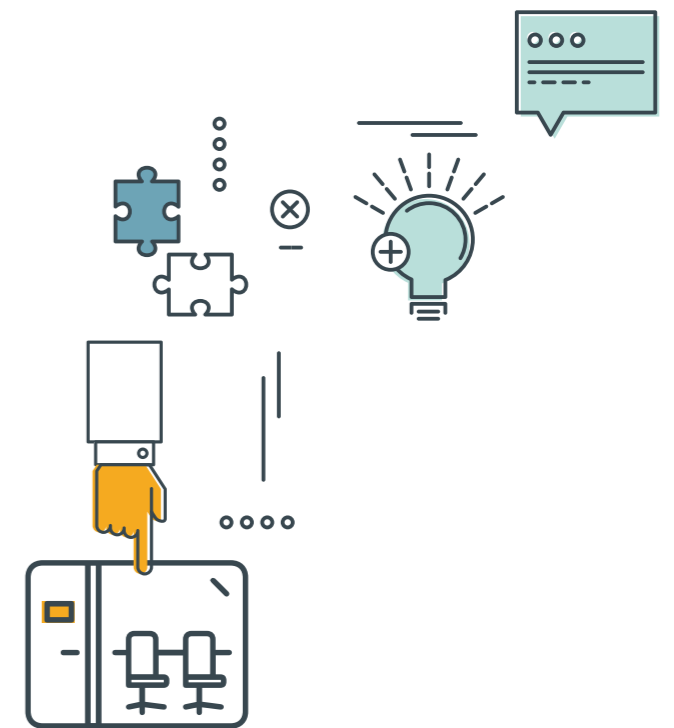
- Have you explored the role of the workplace in defining the culture and brand of the organisation?
- What perceived benefits to employee productivity, wellbeing and social/ business connectivity has the virtual workplace enabled that need to be sustained?
- Will you be engaging employees to understand what they expect the corporate workplace to provide?
- Does the workplace need to be considered a destination in its own right, in order to attract staff to interact and collaborate?
- How will you design a workplace that attracts employees, makes them feel safe and at home and supports all their needs?
- If employees feel that some aspects of work are better performed at home, have you asked what that means for a better designed workplace e.g. quiet, task-focused workspaces?
- Have you considered the right balance of space between formal desks and collaborative and communal interactive spaces?
- Does your design have the flexibility to accommodate peak occupancy when a high percentage of the workforce attends the office?

What workers want

MORE OF..



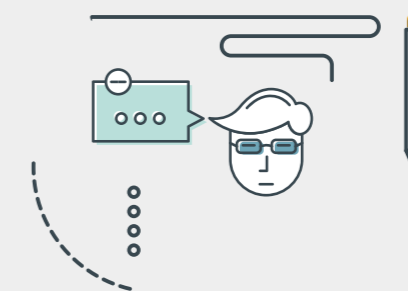
- 'cycle storage and showers'
- 'open areas with appropriate ICT/AV equipment, for a more seamless collaborative working'
- 'IT hardware for homeworking'
- 'facilities to support digital mentoring'
- 'variety of breakout spaces'
- 'worksettings for communal interaction'
- 'improved kitchen and break out spaces that don't feel like a corporate office'
- 'meeting pods for zoned conversations'
- 'variety of team break out spaces for collaborative working'
- 'workstations in an open plan environment providing additional space for social distancing'
- 'meeting rooms that can be used for "blended" virtual/physical meetings.'
- 'much greater use of permanent video conferencing facilities in ALL meeting spaces'



LESS OF..



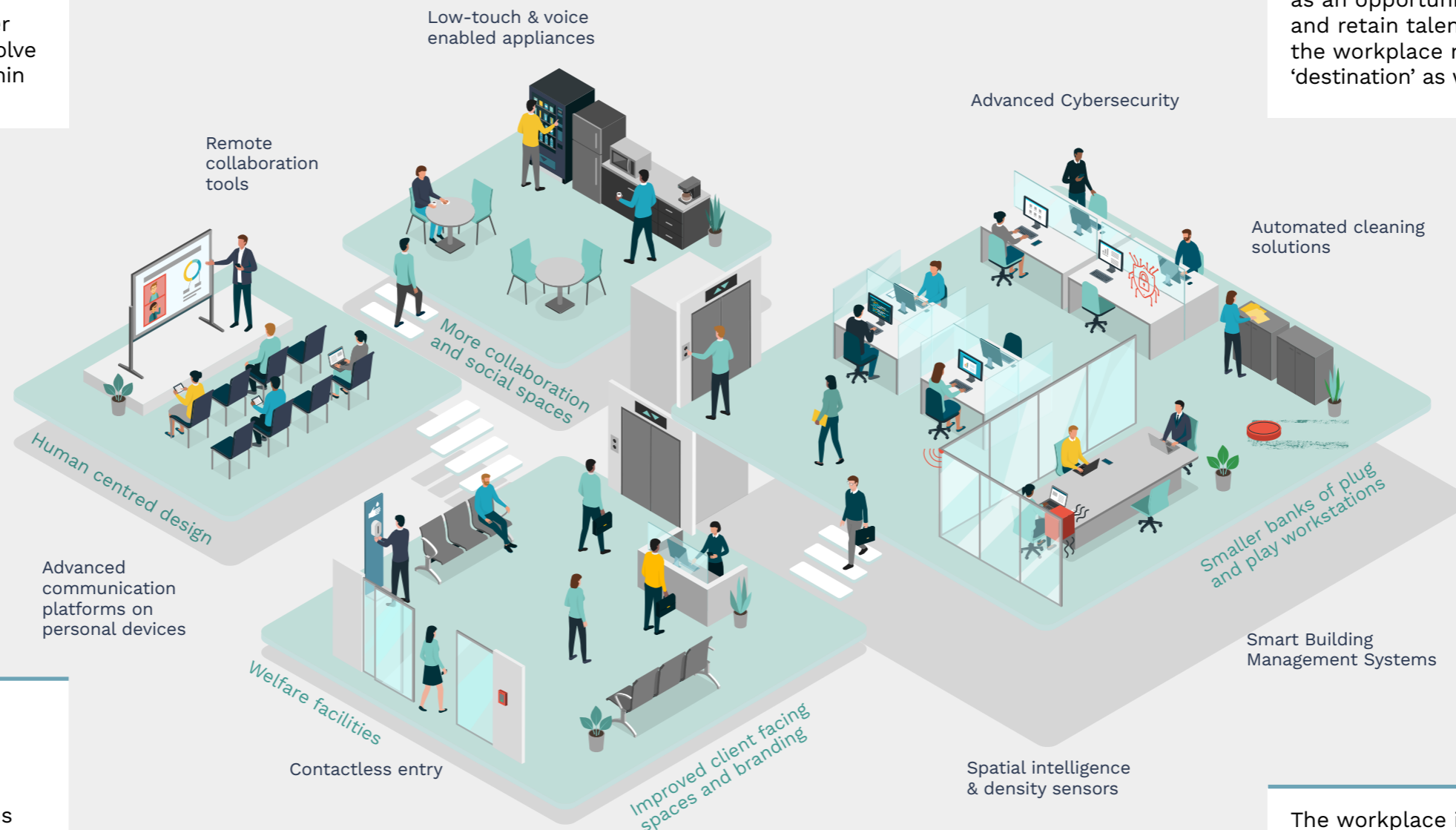
- 'traditional bank of desks'
- 'desk farms, replaced by a range of alternative worksettings'
- 'dense configuration, fixed seats'
- 'formal enclosed meeting rooms'



Building a workplace

The health and wellbeing of the workforce is now firmly on the corporate agenda. Organisations will need to monitor wellbeing and adapt their management and systems to deliver on their commitments. This may involve embedding AI tools and sensors within the workplace infrastructure.

Organisations are in a position to shape how and where their employees work and should treat this activity as an opportunity to develop, grow and retain talent. This will mean that the workplace needs to turn into a 'destination' as well as a place of work.



There is a need for the real estate sector to respond to the climate emergency. The pandemic, in some ways, could act as a catalyst to positive change, with travel patterns changing and energy consumption under closer scrutiny.

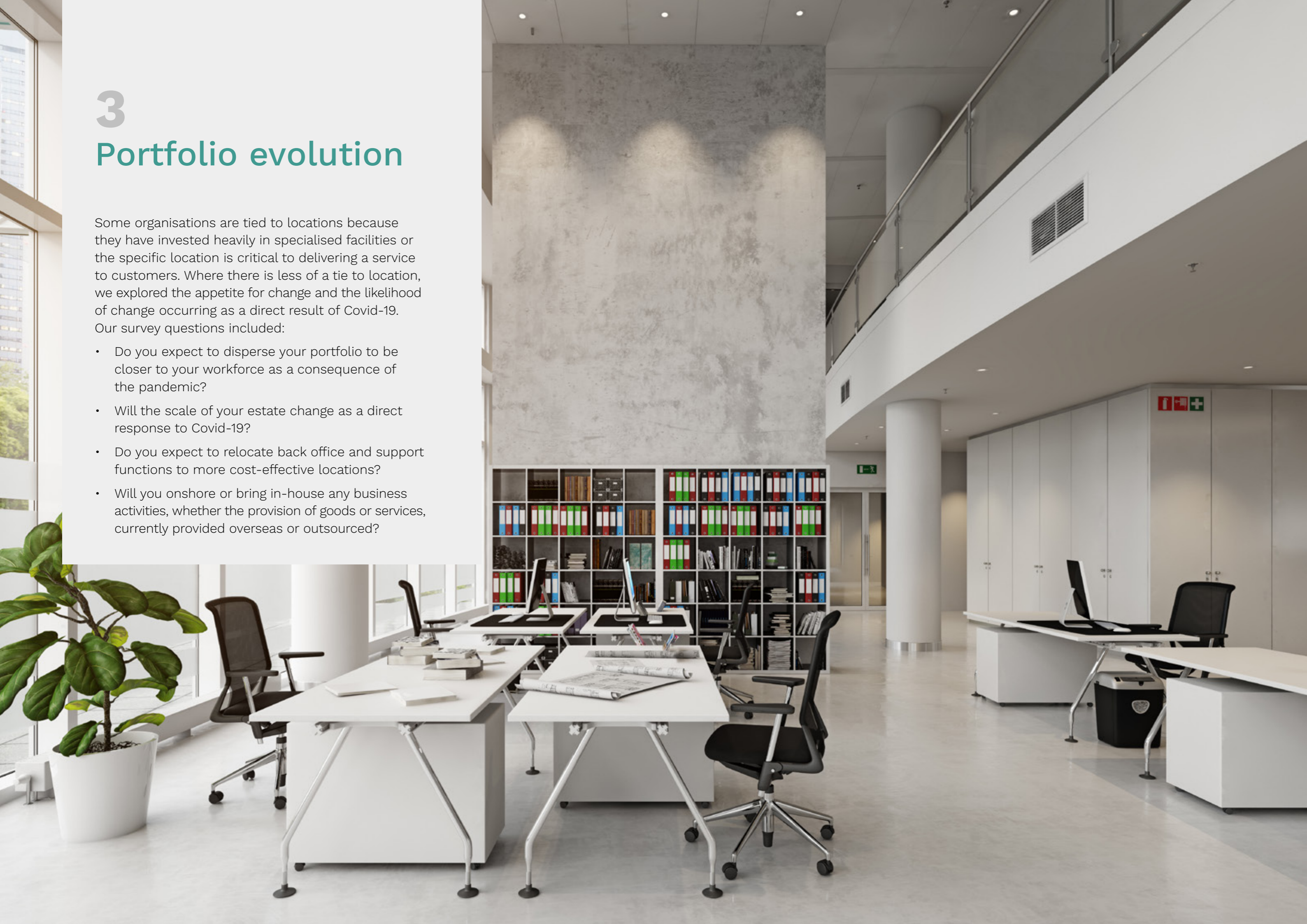
The workplace is clearly important in building and sustaining an organisation's culture. Further thought should be given to how to use the workplace as an enabler, rather than leaving it to be a barrier to change.

3

Portfolio evolution

Some organisations are tied to locations because they have invested heavily in specialised facilities or the specific location is critical to delivering a service to customers. Where there is less of a tie to location, we explored the appetite for change and the likelihood of change occurring as a direct result of Covid-19. Our survey questions included:

- Do you expect to disperse your portfolio to be closer to your workforce as a consequence of the pandemic?
- Will the scale of your estate change as a direct response to Covid-19?
- Do you expect to relocate back office and support functions to more cost-effective locations?
- Will you onshore or bring in-house any business activities, whether the provision of goods or services, currently provided overseas or outsourced?



Right place, right time

The geographic distribution of a typical occupier’s portfolio is likely to change as it adapts to a host of factors, including changing workforce preferences, cost pressures, business resilience and a stronger focus on wellbeing and the environment. Many of these forces have been prevalent for decades, but the impact of restrictions has accelerated and intensified the rate of change.

One fifth of respondents anticipate that they will disperse their portfolios to be closer to where their workforce live and want to work, with a further 38% neutral on the subject. Moving buildings closer to where the workforce lives is a relatively radical move and perhaps partly reflects the shifting balance of power between employer and employee.

The growth of ‘central hubs’ with ‘spokes’ and rural satellites is likely to gather pace. A number of organisations are actively considering this location strategy for the first time, motivated by staff wellbeing, sustainability and resilience, e.g. reduction in days lost to sick leave by avoiding public transport.

This has the potential to have a positive impact on local economies and lead to significant increases in the daytime population of some smaller towns.

While the sample size is relatively small, the majority of North American organisations in the survey are anticipating making locational changes to their portfolios.

In the UK, while the vast majority of organisations were yet to conclude a locational review, just a quarter were confident that their city centre footprint would not change.

This has the potential to slightly ‘dull’ the magnetic pull of some of the largest cities, including London. From a public sector perspective, we see a continuation of the recent trend of government relocation outside of London and the south east to other parts of the UK. This is being driven by the expectation to provide a localised physical service offering. The political imperative to ‘level up’ across the UK is undoubtedly a further driver for decentralisation of the central government estate.

It is also worth pointing out, that whilst we do expect a diversification away from traditional city centre offices, the prevailing sentiment is of organisations catering to their workforce by adapting their locations. For some organisations workforce issues will provide a countervailing force to decentralisation. One technology company reported that their European strategy to move out of business parks into city centres will continue, as it seeks to attract younger talent.

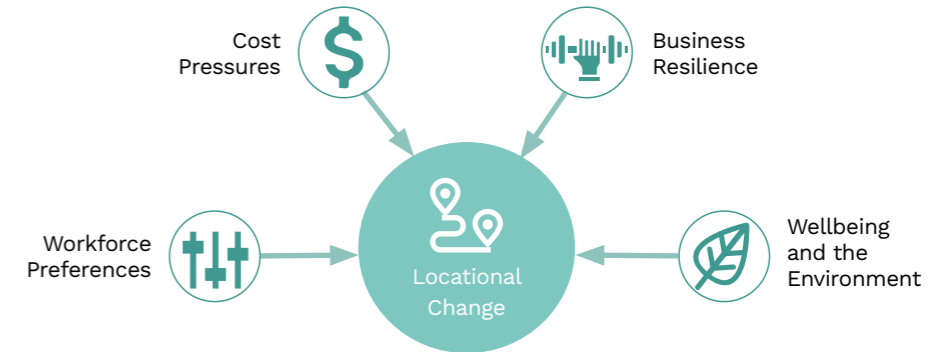
Over one-third expect to see locational change take the form of an increase in flexible office space. The trend towards more flexible occupancy arrangements is expanded upon in the next section.



We want to be able to provide touch-down offices closer to where our staff live and at the same time reduce costs.

Head of Facilities, Law Company

Drivers of locational change



Our workforce plan is to recruit over time more people from outside London on flexible homeworking contracts to reduce wage and property costs.

Managing Partner, Professional Services Company

47%

see technology investment to support a distributed workforce as more important (in the medium term) than investing in their workplace

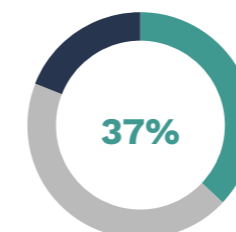
34%

do not expect the location of their estate to adapt to meet changing occupier expectations

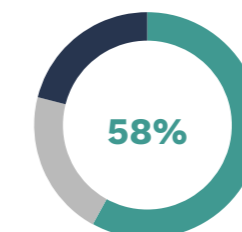
We expect the location of our estate to adapt to meet changing customer or user expectations

Respondents by location

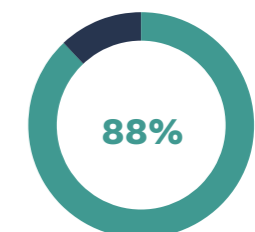
● Agree ● Neutral ● Disagree



United Kingdom



EMEA



North America

Whether those organisations moving functions out of the city centre translates into significant vacant space, will depend on a number of factors, including the extent to which reduced densities are designed into re-purposed workplaces. With lease lengths in the UK typically in excess of 8 years and relatively high workplace densities the shift from the city centre, if it takes place, will be slow.

Another element to consider is the pressure for businesses to strengthen the resilience of their supply chains, which brings an international perspective to locational change. A number of global companies reported that some production and distribution centres are likely to be moved 'back' to Europe and the US to increase supply chain resilience.



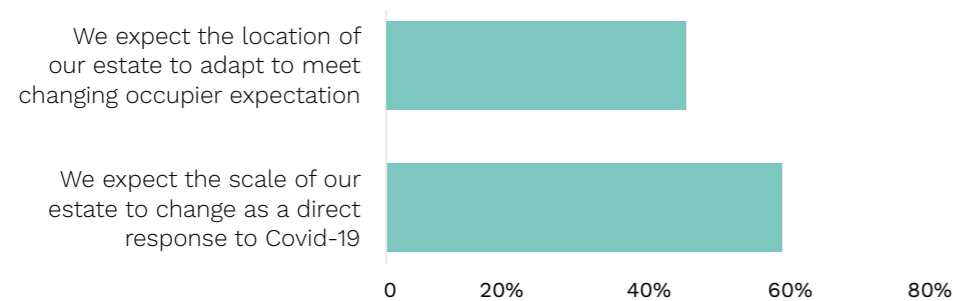
We are looking at another factory in Europe... during the lockdown we could get orders in but parts were locked in China.

Director Global Real Estate, Chemical Company

Comparison between impact on location and impact on portfolio scale

All Respondents

● Agree



20%

expect to disperse their portfolio to be closer to the workforce as a consequence of the pandemic

23%

expect to disperse their portfolio to be closer to their customers and service users as a consequence of the pandemic



We are planning to move 10,000 staff in Beijing into 5 or 6 satellite offices so that people do not have to travel into the centre every day.

Corporate Real Estate Leader, Multinational Technology company



We are looking at spreading back-office functions around the world as our centre in Asia was hit hard.

Senior Director EMEA Real Estate, Global Tech Company

PRACTICAL CHECKLIST

- Has your footprint strategy been reviewed to reflect business changes triggered or accelerated by the health crisis?
- Have you reviewed the costs and benefits of relocating staff and activities to lower cost locations, for example, wellbeing, resilience and potential productivity benefits?
- Have you considered providing flexible touch down space (or satellite offices) to support 'work near home' policies?
- Are property costs factored into decisions to inshore/ near shore and other business model changes?

More with less

There is general agreement that it is too early to predict the extent of footprint reduction due to the current dynamic environment. Several real estate leaders commented that they were attempting to distinguish between short, medium and longer term changes.

Despite this, a significant number do expect to see a downsizing. Over half of respondents expect to see a reduction in the scale of their estate, with the majority attributing their intention to downsize their office and retail space to a change in their operating model.

In a recessionary environment, there is likely to be a prevailing sentiment of downsizing. However, for many the scale of an organisation's portfolio is much less important than its make up.

For many organisations in an environment of such change, the pandemic has raised the opportunity to challenge their own status quo, not only in terms of how their organisation works, but where and why. This has obvious ramifications for the make-up of a portfolio – why are we holding these assets? How much are we paying for them? How are they utilised?

55%

expect the scale of their estate to change because of the expected changes to their business operating model

69%

expect the scale of their estate to inevitably change but it is too early to predict the nature and extent of that change

“

Offices aren't as important to the business as we thought they were – as a real estate team we are under pressure to see how we respond and add value.

Workplace Director, Transport Group

“

I will fight against minimising our office workspace in the long term, because we will need collaborative hubs, individual workspaces with ergonomic set-ups, social spaces and project rooms.

Real Estate Director, Professional Services Company

“

Our portfolio is 20% oversized and the pandemic is making us more ruthless and accelerating our rationalisation programme.

Senior Director EMEA Real Estate, Global Tech Company

63%

of respondents have worked hard to create an optimum portfolio and workplaces that are fit for purpose over the medium term

36%

expect to adopt, or increase their use of serviced offices, co-working facilities or similar



Even before the pandemic, occupiers were increasingly willing to pay a premium for flexibility. However, 85% of survey respondents now expect their estate to become even more flexible to cope with the changing landscape. Despite this, only one third of respondents expect to adopt or increase their use of serviced offices. This is because the increase in flexibility is likely to manifest itself in different ways – only one of which is serviced offices.

We are likely to see occupiers committing to flexible and shorter leases as well as rolling agreements. The grey space market where occupiers sub-let surplus space is likely to provide a supply of ‘plug and play’ facilities to cater for this demand. Landlords are reacting and providing more flexible options such as fully fitted offers on managed agreements, and allocating increasing proportions of their assets to fully flexible space.

“

If 70% of our workforce attend the office less frequently but arrive on the same day then we still need the same amount of space, even before we consider health policies and new spaces for collaboration and interaction.

EMEA Real Estate Leader, Technology Company



“

We anticipate that core will reduce, flex will increase, but total workspace will remain about the same.

Head of Real Estate, Global Industrial Company

“

We recognise that we should be demanding more from landlords to meet user expectations and provide flexibility.

EMEA Real Estate Leader, Professional Services Company

50%

expect an increasing proportion of their estate to be held on shorter terms or flexible leases

85%

expect their estate to become more flexible to cope with changing demands

PRACTICAL CHECKLIST

- Have you assessed the impact of changing business models on the footprint for different building types?
- Do you use space utilisation data to understand floor area requirements?
- Have you factored government health policies into your space forecasts?
- How well equipped is your organisation to sustain a high level of remote working, and how does this impact your design and space requirements?
- Will you be considering the degree of flexibility required when you reassess your portfolio strategy?
- Have you examined your lease terms for opportunities?
- Have you considered adjusting the balance between core and flexible occupancies and exploring the smaller and more flexible options that are increasingly available?
- Are you discussing the opportunities for both landlord and tenant to benefit from any negotiation or renegotiation?

The bottom line

In the short term, the economic impact of Covid-19 and the recessionary environment we find ourselves in is likely to drive the most significant changes.

This is likely to impact portfolios as organisations look to make cashable savings. Approaching half of organisations expect their property cost base to reduce significantly.

69% expect the active management of property-related costs to intensify post-pandemic. Furthermore, many organisations (37%) expect to realise the hidden value in their freehold or long leasehold assets, although this is clearly not an option available to all.



We are expecting landlords to invest in capex on retrofit and new offices.

Principal Group Property, Global Mining Corporation



We are looking to make financial savings from opportunities to negotiate, as leases near end and improve our cash position through an HQ sale and leaseback.

Director of Real Estate and Workplace, Telecommunications Company

35%

expect to relocate some/all of their back office and support functions to more cost-effective locations

37%

expect to realise the hidden value in freehold or long leasehold assets to sustain operations



Businesses are tending to focus on ten areas for cost containment

45%

expect their property cost base to reduce significantly in support of a new operating model

69%

expect the active management of property-related costs to become more significant post-pandemic



<https://CostContainment>



We're using the crisis as an opportunity to accelerate and save money – for the first time we're pulling belts in tight.

Senior Director EMEA Real Estate, Global Tech Company

PRACTICAL CHECKLIST

- Do you know the size of the savings opportunity from rightsizing and relocation?
- Have you reviewed your long-leasehold and freehold assets from which value could be released?
- As an occupier of leasehold space, have you attempted to renegotiate your terms of occupation?
- Have you reviewed and challenged your operating costs including rates, service charges, utilities and FM?

Building a portfolio

Portfolios right-sized, but floorspace not necessarily radically cut, particularly if an organisation has already adopted smart working and the operating model is unchanged. Sufficient space will be needed to cater for peak occupancy.

Reduced city centre presence and touch-down satellites closer to where the workforce live. Global production and back offices spread across multiple locations to improve resilience.

An increased demand for flexible and serviced occupancy agreements, supported by an increase in supply of tenant sub-let space and managed landlord/operator agreements.



The speed and extent of change will depend on the flexibility inherent in the occupation agreements, the importance of location to the business, its risk appetite and the nature of the change agenda.

Cost management will be a core functional requirement of the real estate team as finance departments chase cashable savings from property.

An increase in sale and leaseback is predicted as capital is raised to invest in business stabilisation or change strategies, with pricing at historically low levels.

4

Fit for future - conclusions

The legacy of the pandemic will live on and lessons are being learned every day. There should be no turning back and instead, we should see 2020 as the year when a new baseline was created.

Our research has confirmed that the world of real estate, HR, finance and IT need to be treated as inseparable, with a new critical overlay for many – the ability to ‘do work’ at the right time and place. As a result, traditional boundaries between the employer and employee, and the tenant and landlord are being challenged.

We have summarised on the following page what ‘fit for future’ looks like for occupiers’ real estate and workplace strategies.



Fit for future - conclusions

The impact of Covid-19 on workplace and portfolio strategies



Organisations will increasingly provide physical and virtual workplaces that support and engage all employees whether physically present or remote working.



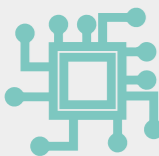
The physical workplace will remain relevant for many, as the challenges of homeworking for long periods become apparent to workers and employers alike (including loneliness, problems 'switching off' and challenges maintaining corporate culture and identity).



We need to recognise that the environment people work in is very important and employees need a 'destination' experience that includes a choice of spaces to personalise, collaborate and socialise within.



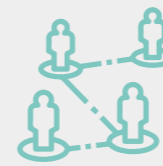
Long term, sustainable health and wellbeing strategies are a given, with improvement needed in the area of transparently measuring and monitoring progress.



Continued investment in technology is required to seamlessly integrate remote workers and office workers e.g. using virtual reality environments. Technology is also central to supporting more personalised productive workplaces, with control handed back to employees, e.g. environmental control.



We expect to see many more occupiers preparing transformational real estate strategies that relocate, right-size, cut costs and raise finance, while supporting net zero carbon, personalisation and the integration of the physical and virtual workspace.



There is a sentiment to move office-based functions out of the city centre. However, in the UK where significant lease lengths and relatively high workplace densities are the norm, this is likely to be a drawn out process.



We believe that the opportunity to cut space has been exaggerated in some quarters. Real estate leaders should exercise caution and await more clarity on the efficacy of virus control and the space ramifications of longer-term hybrid models.



Environmental sustainability will extend well beyond bricks and mortar and associated asset infrastructure to embrace location, accessibility, communication technologies and the creation of sustainable workforces and communities.



The uncertainty will see many tenants seeking short lease terms and renewing on a rolling basis. The market for sub-let surplus space will expand, and landlords will take on new roles and partnerships with operators and tenants.



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