

What will a post-COVID-19 office market look like?

COVID-19 has impacted all aspects of life over the last year and will continue to do so well into the future. Offices within the UK and beyond are no exception to this, with a definitive phrase being used in many media outlets: “the office is dead”. This statement has been a source of controversy and discussion within the property sector with some arguing that working from home is not only preferable but also inevitable (Prince, 2020). Others argue that offices have never been more important, with mental health, young talent retention and training suffering inevitably due to the current pandemic and would suggest a redistribution rather than a material reduction in office space as a preferable approach. Offices within the UK and Europe have been on a long path to updating and rethinking its core functions, COVID-19 has accelerated these modern concepts and ideas to the forefront of debate.

The office market post COVID-19 will tend to vary across geographical locations. With some areas demand being constricted to a higher degree hence pushing up vacancy rates and other locations being more resistant to economic uncertainty and pressure maintaining a high level of office up take. Areas of contrasting office culture will see differing levels of disruption to office markets within their region. For example, the office market within Amsterdam has long had a culture of employees working part-time from home with the pre COVID-19 rate being 40% of staff doing so. Consequently, remote working trends within Amsterdam will not change dramatically and have a minimal impact on vacancy rates due to the existing capability of the city to accommodate this culture. A question posed by what has happened in Amsterdam is: are more cities in the UK and Europe likely to follow suit and lean towards a heavily working from home system? (Real Estate Insights, 2020)

This may be easier said than done as many cities have a strong existing culture of working in the office with little evidence supporting the claim that a move towards working from home is imminent, as seen in Berlin. Currently the most undersupplied city in Europe with an office vacancy rate of 1.9% in Q3 of 2020. The low rate is partially down to the largest demander of offices being public institutions residing in the capital as well as the culture of firms wanting large amounts of office space in the city to facilitate its work force. This low vacancy rate allows rents to be held relatively stable, with prime rents only falling two euros from €40 to €38 in Q3 this is a relatively small reduction against a backdrop of severe economic uncertainty and is unlikely to have prolific impact on future office markets within Berlin. (Neisser, 2020)

Specific industry sectors will likely come to the forefront of the post COVID-19 office market, with demand for office space from life sciences and technology firms remaining positive. Life sciences forecasted for the most significant growth over the next 5 years are in artificial intelligence, ancestry/genetic testing and diagnostic centres with some companies projected growth being up to 37% over this period. There is scope for growth to increase further through increasing ageing populations in many developed nations such as in the US population where the those aged 65 and over is likely to increase 3% each year between 2020-2030. As a result, life science firms will continue to demand large surface areas for offices and R&D in close vicinity to help streamline operations. However, this comes with some challenges as landlords will have to adapt existing properties to accommodate for these new kinds of occupier, perhaps elongating the rent-free period as it may take

longer for firms such as these to set up specialist equipment used in R&D (Greenwood, 2020).

Flexible office markets have seen a rise in demand over recent years, however due to the pandemic and short-term nature of leases, some small companies are exiting leases to cut costs and work from home. The pandemic has also meant occupiers are delaying decisions on moving, meaning any empty spaces due to this will remain difficult to let in the foreseeable future. Some argue that in the long-term the flexible office will bounce back because if more people work from home firms may not require as much space and hence move to a flexible office instead (Strathon, 2021). Landlords will perhaps have to make changes to office layouts depending on the success of vaccination programmes. With the potential of social distancing rules being implemented into the future, offices will have to make a sharp reversal and significantly reduce employee density of which will incur further cost and potentially longer vacant periods.

Technology is likely to play a significant role in office markets post COVID-19. Short term effects of technology on offices include remote working becoming increasingly accessible with the number of daily users on Microsoft teams jumping from 32 million in March 12, 2019 to 75 million as of April 30, 2020. This has the potential result of lowering demand for office space as increasingly, firms can maximise utility from technology available. In the longer-term, improved technology means occupiers are likely to gravitate towards smart buildings due to their ability to meet safety, financial and environmental targets (Statista, 2020).

Due to these new requirements, it is likely secondary buildings will become far less attractive as they can no longer facilitate the needs of a post COVID-19 workplace due to out of date layouts, poor energy efficiency or not meeting environmental standards (BREEAM and EPC ratings). However, demand for the best and smartest buildings will hold relatively stable or perhaps even increase. It is imperative that investors and landlords have this in mind to make informed decisions regarding future strategies. The future of offices has the potential to be a volatile and unpredictable asset but with the correct management it can be a great addition to investment portfolios and help boost productivity of many occupiers.

References

- Greenwood, R. (2020). *Life sciences 2020: The future is here*. London: Cushman and Wakefield.
- Neisser, U.-B. (2020). *BERLIN OFFICE MARKET: TAKE-UP IN CURRENT YEAR WEAKEST SINCE 2014, STRONG DEMAND FOR CORE PROPERTIES*. Berlin: Cushman and Wakefield .
- Prince, R. (2020). *It's time to face facts – the office is dead*. London: The Telegraph.
- Real Estate Insights, f. S. (2020). The office is dead. Long live the office [Recorded by G. Ruddle]. London, England , United Kingdom .
- Statista. (2020, April 30). *Number of daily active users (DAU) of Microsoft Teams worldwide as of April 30, 2020*. Retrieved from Statista.com:
<https://www.statista.com/statistics/1033742/worldwide-microsoft-teams-daily-and-monthly-users/>
- Strathon, C. (2021, January 7th). Director - Valuation Advisory. (C. Bell, Interviewer)

