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

Every professional, from graduates to the FTSE 100 CEOs, has gained a tangible appreciation of COVID-19's immediate impacts on the office sector. From this common experience, however, there seems to be a radical divergence in thinking when it comes to what the post- COVID-19 office market will look like. This divergence, and the considerable public interest it has generated, is illustrated by frequent headlines outlining major corporations' contrasting viewpoints, whether that is Twitter extending its working from home indefinitely (NBC, 2020), or the CEO of Goldman Sachs labelling working from home as an "aberration" that stifles employees' productivity and innovation (BBC, 2021). In reality, the future of the office market will probably fall somewhere between these two extremes. Whilst there is likely to be an overall consolidation of the office market, this will be accompanied by a flight to quality with the demand for highly specified, sustainable properties located in prime locations intensifying.

Following the biggest recession since the Great Depression (IMF, 2020), the ability to slash fixed costs by exploiting the trend of home working is an attractive proposition to many organisations. Especially as an increase in home working confers additional benefits such as access to a wider talent pool that is not limited by spatial constraints (Kier, 2021). However, these savings need to be weighed against the costs of homeworking as organisational norms and standards, which underpin corporate cultures and make home working feasible, begin to strain (McKinsey & Company, 2020). The resultant reduction in productivity and innovation will quickly begin to outweigh any savings in occupancy costs. This is evidenced by Global Workplace Analytics (2016) who found that most companies' annual occupancy costs could be entirely offset by a mere 8 minute per day increase in employee productivity. As a result, many companies will only seek to consolidate their office space up to the point where marginal benefits of doing equal the marginal costs. This happy medium seems to involve a hybrid approach of hotdesking and allowing "knowledge workers" to work from home one day one each week (PWC, 2020). As a result, the office market is likely to consolidate following COVID-19, with boardrooms paying greater attention to how office space can influence their financial performance.

In order to maximise performance, companies will increasingly look to occupy buildings with high specifications. As seen with the retail sector in recent years, technological disruption will push the office market further towards experience-making and brand creating (KPMG, 2019). Although current efforts have focused on bringing the office into the home, with companies providing much needed equipment to facilitate home working, companies will need to pivot their attention to bringing home comforts and amenities into the office. By doing so, organisations will encourage people back into the office and foster the collaborative and innovative environment that is being sorely missed during lockdown. As such, buildings which incorporate hospitality style amenities centred around health and wellbeing, such as mediation rooms and gyms, will attract significantly more demand going forwards (ARUP, 2020).

Alongside greater quality, the trend for sustainable office space is also likely to increase dramatically post-COVID. Whilst there was a growing consciousness and action concerning sustainability issues before COVID, the pandemic and governments' haphazard response has starkly exposed the vulnerability of modern society to natural phenomena and the dangers of a reactive approach. As such, this has further fuelled the market and regulatory pressure on companies to become more sustainable which, in turn, has led to the rate at which major corporations are signing up to science-based targets doubling between 2015-19 and 2020. (Science Based Targets, 2021) The ramifications of this on the office market is evidenced by a recent research conducted by JLL (2020) which found that sustainability has rapidly become one of most pivotal factors shaping occupation decisions. Therefore, buildings which have a poor energy performance, no matter how highly specified they are, will struggle to attract demand in the post-COVID office market.

Moreover, highly specified, sustainable buildings will still need to be located in prime locations in order to perform well. Although the widespread adoption of Zoom and Microsoft Teams has arguably diminished the importance of office location in many respects, the long-term disruption to business travel may actually increase its importance going forwards. Measures to contain further outbreaks of COVID, notwithstanding the increasing sustainability agenda of major corporations (Science Based Targets, 2021), will likely lead to all but essential business travel being halted for foreseeable future. Therefore, the agglomeration economies that a company can gain from its immediate surroundings will gain in significance, with occupiers being prepared to pay a premium for offices located nearby competitors and those providing essential professional services (Brueckner, 2011).

Overall, despite the changes to our working lives we are currently experiencing as a result of the pandemic, the majority of corporations will still occupy considerable, even if smaller, amounts of office space following the pandemic. However, they nature of the space that they occupy will be radically different, with an increased emphasis on quality, sustainability and location. Therefore, a post-COVID office market will be smaller in size, with highly specified, sustainable buildings fetching a premium whilst poorly performing assets are improved, and new offices are developed. Therefore, investors should factor these changes to occupier demand when evaluating the resiliency of the current portfolios and making decisions on whether to purchase or dispose of assets.

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