

**What will a post-COVID-19 Office market look like? The question can be answered from an occupier or investment perspective, or both.**

**Word Count: 1000**

The Covid-19 pandemic has raised questions about the future of the Office market. Directly and indirectly, the pandemic has altered the attitudes of both occupiers and investors of office space. To explore the future of the market this essay shall consider the question within the context of the United Kingdom office market, although certain learnings may be applicable globally. It was found that a post-Covid-19 office market will be influenced by the acceleration of long-term trends combined with nascent market responses.

The first factor to be considered is that firms are re-evaluating their use of office space. Surveying financial services firms, it was found that 74% are reviewing their current office space requirements, with 67% citing desiring to reconfigure current uses of space and 62% looking to reduce space (CBI/PWC, 2020). Although only covering financial services firms, its findings are likely to be replicated across industries and, at a minimum, affirms the notion that a post-Covid market will deviate from the former status quo.

Two core findings are found. Firstly, the survey indicates a reduction in occupier's requirements for office space. The most significant cause of this reduction in demand are the long-term changes in attitudes to office work: a focus on flexibility, lifestyle, sustainability and social aspects. At its peak in the first lockdown, 78% of UK workers in professional, scientific and technical services were homeworking (JLL, 2020), while 74% of firms said they will maintain increase homeworking after Covid-19 (IoD, 2020). This strongly suggests that remote working will continue into the long-term, with reduced office requirements adjusting accordingly. Yet significantly, this does not spell the end of the proverbial rope for office space. Instead, as supported by the CBI survey, a second finding is that remaining office space will be reconfigured. Office space will be rethought to reflect the aforementioned changing attitudes. Most significant is a greatly increased focus on flexibility. Flexible working may be defined as an umbrella term encompassing part-time work, condensed hours, telecommuting, remote work and flexitime (Knight Frank, 2021). Therefore, office space is likely to be repurposed towards a hot desking or shared workspace environment. In addition, due to the increasing competition for workspace (effectively between traditional office and remote) office space will have increased social and amenity provisions such as gyms, cafés and concierge-styled receptions. Office space will continue, occupiers will just be demanding a different level of service.

This trend of increasing service levels existed prior to Covid-19 and will only continue to accelerate. This dynamic has been termed the 'Customer Experience Revolution' by the British Council for Offices (BCO) who suggest the UK office sector is decades behind the levels of service provided by the hospitality industry from which much can be learnt (BCO, 2019). Relatively nascent entrants to the market, such as WeWork, have established a strong reputation for the level of service they provide. This is facilitated by the rebranding of a traditional 'property manager' towards that of a

'community manager' whose responsibilities extend beyond the management of the physical property but of the relationships fostered within (Tattersfield, 2020). It is best summarised as a transition "from functional to fun" (C&W, 2020). An appreciation of these benefits, and the potential for lower costs and lack of long-term commitment, suggests there will be an increasing demand for coworking or serviced office space post-Covid.

Regional variations in office market demand may shift post-Covid, with the potential development of 'hub and spoke models' (C&W, 2020). As remote work becomes increasingly acceptable firms may seek to relocate to more affordable secondary cities. An increased uptake of regional flex offices in the medium term seems the most likely response as they do not come with the long-term commitments of traditional leases. In the long-term the regional cities have potential to draw firms away from primary cities as they are no longer bound by the physical necessities. However, this impact may be diminished as the ultimate determinant is whether a continuous supply of highly skilled workers is willing to be located in such areas. The most likely outcome is that firms will make more efficient use of their core offices and, ultimately, the benefits of the hub-and-spoke model vary depending on a firm's culture.

Disruption caused by Covid-19 will have given market participants pause for thought and encouraged reconsideration of their commitments to existing Environmental, Social, Governance (ESG) agendas. An increased focus on environmental issues will reinforce demand for energy efficient buildings in line with the UK's legally binding commitment to meet its net neutral target by 2050 (UK Government, 2019). The market is quick to forget so social distancing measures are unlikely to remain. However, an increased focus on both physical and mental wellbeing, will ensure the general standards of office fit-out will improve with benefits to the occupants as a key focus.

An analysis on the post-Covid office market will not be complete without consideration of what will happen to office supply that is no longer commercially viable. This may see the most undesirable office locations repurposed, potentially into residential dwellings as office to residential conversions are aided by extensions made in 2013 to permitted development rights (Clifford, et al., 2020). There may also be an increase in management agreements with serviced office providers, which will be considered preferable by the providers over traditional leases. Conversion of large floor plates into smaller offices is also likely.

In conclusion, Covid-19 isn't death's knell for the office overall, but perhaps how we know it today. The post-Covid office market will generally follow established trends accelerated by the pandemic's impacts. An increased focus on the people in the office market will prove beneficial to all actors. Research has shown that a rise in occupier satisfaction by one level (on a five-point scale) will typically improve total returns by 1.9% a year (Sanderson, 2017), demonstrating the benefits to both occupier and investor. The disruption caused by the pandemic has encouraged firms to take a more proactive approach to real estate strategy in the future, facilitating anticipated changes.

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