



Coronavirus

What will it really mean to office occupiers?

The 2020 COVID-19 pandemic has caused a complete change in the way in which people live and work globally.

It is likely to have significant consequences both in the short, medium and long-term. We have worked closely with our client, Spring4, to identify the impact coronavirus will have on the future of office-based businesses.

Spring 4 advises corporate and other occupiers on their real estate operational requirements across EMEA and globally.



Contents

- ▶ Lockdown
- ▶ Transition
- ▶ Effects on the workplace
- ▶ Economic ramifications

Lockdown

As the world transitioned through February and into March 2020, it became increasingly clear that the COVID-19 pandemic, which originated in China, had become a global concern.

Most countries have, to different extents, imposed advisory or mandatory lockdowns on their citizens and imposed travel restrictions.

The aim of the lockdown is to minimise interaction between people and encourage and impose social distancing measures to reduce the spread of the virus from person to person.

Key workers, including those involved in providing essential services, such as the food industry, transport and distribution and health and emergency services, are permitted to travel to and from work. **All others are strongly advised to work from home and to minimise any travelling and contact with other people.**

The traditional office-based workforce is now working from home, commercial offices are largely empty and the only people using offices are specialist staff who cannot operate remotely.

The advent of cloud technology and much improved communications coupled with

significant recent investment means that **most businesses are now able to work remotely from the office.**

Transition

Governments around the world are now trying to establish how they can

ease and then end the current lockdowns and return to Business As Usual (BAU).

There is an increasing realisation that BAU will not occur until there is an effective vaccine (or other effective treatments), which is unlikely to be available until the first half of 2021.

The reality is that there is likely to be a period from now until potentially mid-2021 during which transitional arrangements will have to remain in place.

The themes developing now suggest that the transitional arrangements are likely to focus on minimising the spread of Covid-19 by techniques

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such as social distancing so that health services are not overwhelmed, and the death toll does not rise any further.

Any transitional arrangements may be of little to no benefit to businesses which require large gatherings of people to operate, such as theatres, cinemas, restaurants, pubs, clubs, bars, large sports events and music venues.

Additionally, the transitional arrangements will see much lower use of public transport to maintain social distancing and many facilities that we have become accustomed to such as restaurants, bars and theatres and most sporting events will remain closed.

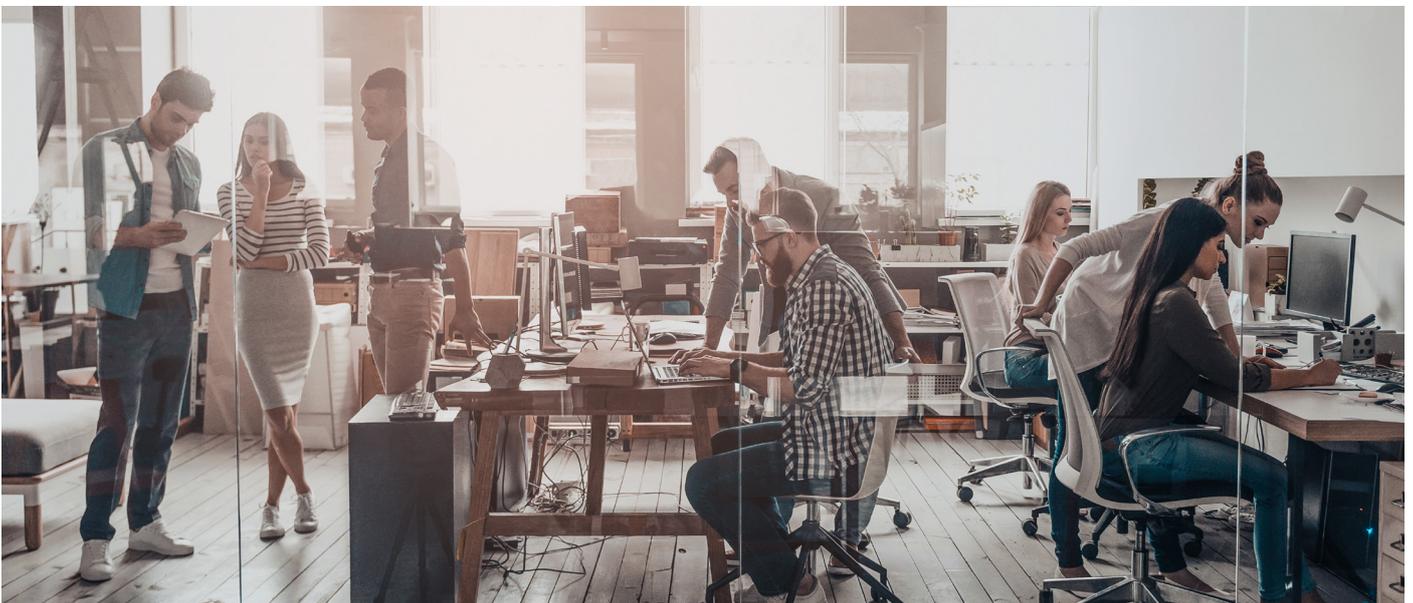
During the transitional phase businesses will be anxious to conserve cash and curtail discretionary expenditure to ensure survival. Given this, it seems **unlikely that businesses will take larger offices to maintain social distancing and or invest significant CapEx to change the physical workspace.** Even if they did so, limitations on public transport capacity are likely to restrict the ability to travel particularly in urban conurbations. Most office staff now seem able to work reasonably effectively from home.

Specialist furniture manufacturers are examining

the construction of simple and cost-effective devices which would allow some screening of workstations but this will have to be combined with strict protocols on the use of lifts, staircases, tea points and common areas to maintain social distancing.

Themes emerging for the transition phase suggest:

- ▶ Staff that are considered vulnerable on the grounds of age and/or with pre-existing health conditions are likely to **remain working from home until an effective vaccine is developed** and widely available.
- ▶ Employers will be very wary of requiring employees to return to the office environment for fear of **the legal implications of making any return to the office compulsory** – it is likely to be a personal choice for each employee.
- ▶ Employers may be prepared to provide additional facilities, in certain cases, such as **greater screening between workstations**, particularly in contact centres and dealing environments, and may issue suggested protocols for maintaining social distancing. However, there will be an onus on individual employees to take responsibility for their own personal risk assessments, health and safety and behaviour.





▶ **Meeting rooms and collaboration spaces are unlikely to be used for their primary purpose** due to social distancing requirements. Therefore, virtual technology such as Zoom and Microsoft Teams will continue to be used during the transitional phase.

▶ The major urban conurbations are likely to face the greatest challenges as social distancing requires limited use of circulation and shared areas in buildings and sparse use of public transport. **High rise buildings will face even greater issues due to their reliance on lifts.** Much of the usual support infrastructure may remain closed - shops, bars, cafes etc.

▶ Notwithstanding actions which employers may take within the workplace, there will be a significant ongoing **fear of using public transport** as social distancing will be perceived as not achievable. This will impact on all areas that rely upon public transport. There will be an increase in the popularity of cycling and walking to work. **These factors will limit the number of people who can realistically commute to urban areas.**

▶ The challenges of maintaining social distancing will require **restricting the number of people at present in the office environment at any one time.** As recently speculated on staggering working methods, this may entail teams being allocated to specific days and time slots when they are permitted, at their choice, to attend the office. Employees in the lower age groups are more likely to attend, given that they seem to have a lower risk of developing the most serious life-threatening health issues resulting from infection by COVID-19.

Transitional arrangements will seriously limit a return to normal office-based working and will need to be very carefully planned if employers are to avoid significant legal implications.

In summary, however governments plan to try to ease the lockdown, the transitional arrangements

will seriously limit a return to normal, office-based working and will need to be very carefully planned if employers are to avoid significant legal implications.

Effects on the workplace

The COVID-19 pandemic has already advanced a series of trends, which have been developing over the last decade, primarily due to advances in communications technology such as smart phones, fibre and broadband, cloud computing and remote working and conferencing capabilities.



It is these advances that enable most people to be able to work remotely from the office.

Working from home has become increasingly popular in recent years and we frequently see low numbers attending offices on a Friday! Particularly among the younger employees, it is common to see up to two days a week where they work from home as part of their employment package.

There are significant perceived advantages to an increasing number of office-based staff working from home for part of the week. It is interesting to see a widespread realisation that employees who would previously not consider themselves as able to work remotely clearly can, for example, those in accounts. It avoids the significant time, cost and stress of daily commuting, and removes the need to use overcrowded public transport. It also enables them to strike a better work/life balance which is particularly important to younger mothers as it enables them to remain in employment where they would not otherwise be able to do so.

Historically, corporate culture has often dismissed homeworking, following the mantra that 'if I cannot see you then you are not working'. **However, this has all changed as a result of the enforced lockdown** arising from the COVID-19 pandemic.

Several trends are emerging, which include:

- ▶ A permanent position where staff work from home for part of the week.

- ▶ A more agile and shared workspace within the office environment to minimise the amount of accommodation required – many are already suggesting a requirement of around 70% of their current footprint.

- ▶ A change in the use of offices in that they will be used in the future for collaboration, internal and client meetings and touchdown as opposed to 9-5 working. The concept is that the office becomes the social hub of the organisation where people meet to interact with immediate team colleagues, and other teams and clients rather than primarily for the delivery of the actual work.

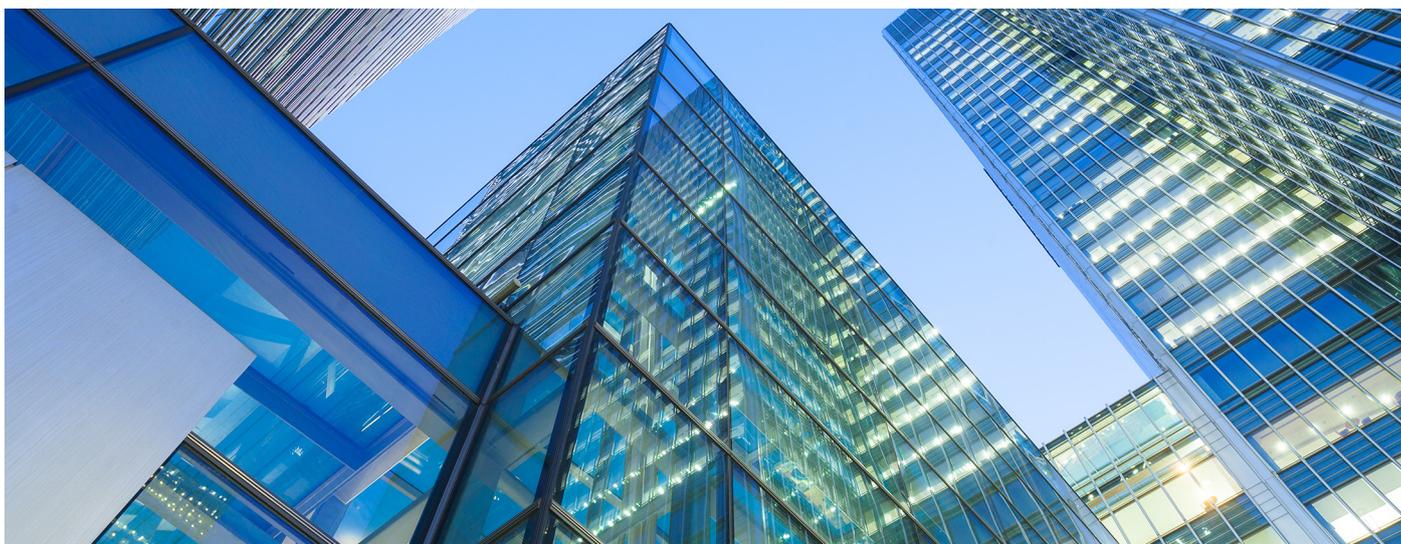
We are already starting to see a widespread realisation that in the future the workplace will be permanently changed; it will be smaller and will represent a collaborative and team meeting environment as opposed to 5-day a week and 9 to 5 working.

Economic ramifications

The legacy of the COVID-19 pandemic is likely to manifest itself by a recession of significant magnitude. Economic performance statistics already emerging show a major contraction in the global economy.

Many commercial businesses in the leisure, tourism, transport and hospitality industries are unlikely to survive the lockdown and transitional phases.





Much of the hospitality industry will not reopen for the foreseeable future as social distancing measures will last for months to come. The same is likely to apply to cinemas, theatres, bars and clubs. Hence, one can expect that there will be a very sharp economic recession. Initial indicators suggest it may be at least two to three years before the global economy starts to properly recover.

In the short to medium term, **it is likely that there will be a significant and rapid rise in unemployment** and increasing business failures particularly in the most affected sectors. Conserving cash will be a priority.

As 2020 began, the office market had been steadily rising for a sustained period of almost 10 years with record levels of take up and historically low vacancy rates and available stock. However, given the uptake in working from home and the evolving view of this practice, the office market will be immune to these economic pressures.

The requirement for many businesses to preserve cash will undoubtedly mean **occupiers of office premises will be anxious to reduce their cost base** and limit exposure on major moves. It is likely to accelerate changes in the workplace which help to achieve this.

Economic performance statistics already emerging show a major contraction in the global economy.

Whilst there may not be a huge supply pipeline of new developments currently under construction, the expectation is that there will be an increasing supply of currently occupied stock, which will become available as a result of leases ending and not being renewed or by business failures. We can also expect **current tenants seeking to reduce costs offering surplus stock to the market** to reduce their cost base and they will be motivated to undercut landlords.

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On the demand side, as we have previously mentioned, we have already seen a significant shift as companies adapt to working from home. Initial indications suggest that a significant proportion who have lease terminations and/or break options in the next two years are now seriously **considering reducing their requirement by an average of around 30%.**



Given the changes in supply and demand, the balance of power, which has historically been held by landlords, will rapidly fall to tenants. Therefore, **we expect to see reducing demand and increasing supply in the office market.** We expect this to be a long term, potentially permanent, change as businesses have acclimatised to working from home.

A notable trend that has emerged is that some tenants are unwilling to commit to long-term leases unless they have break clauses. This is a logical step, given the difficulty of forecasting future business needs. Short leases mean that commitments are limited and ensure, in a changing environment, that long leases of unwanted space will not cause further issues.

Office occupiers are also likely to be seeking short-term leases as we expect that market rents are likely to decrease, and new lease incentives are set to increase, therefore allowing either a move or a renegotiation of an existing lease after a limited period.

Spring 4 commented that they **expect some serviced office providers to fail**, partly because many of the start-ups who occupy their centres will be financially challenged and forgo their serviced offices because they no longer consider them essential.

Others will see the short-term contracts as being an easy win to reduce costs. Additionally, densities of occupation are usually high with small closely packed workstations which makes social distancing almost impossible, further contributing to a fall in demand.

In summary corporates should be very careful to limit their lease obligations on what looks to be a falling market to come. Long leases with upward only rent reviews will not allow tenants to take advantage of a falling market.