



PRESENT



A COVID-19 Virtual Ideation Experience

Team Topic and Number: Team #13

Challenge: Develop key forecasts and recommendations for corporate real estate professionals as they address how the pandemic will impact space utilization and metrics going forward.

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Input your submission below. Please remember that you have 1500 words to share your insights. (Team 13 – 1485 words)

In the initial weeks of the COVID-19 pandemic spread, there was concern and uncertainty about how to manage the short, medium and long-term suitability of the commercial workplace and whether economics might accelerate an abandonment of current design trends and space utilisation.

Global social distancing and lockdown initiatives to fight COVID-19 have allowed for an expedited remote working experiment on a grand scale. This has allowed for the coming together of local and global thinkers to debate and plan the return to work in the short term. They are also contemplating what the workplace of the future may look like. There is growing consensus that this experiment has proved the ability for whole teams, companies and industries to work from home; however it has also

reinforced the benefits of the modern workplace and the social benefits these spaces bring to staff, customers and community.

The research underlying the ideas within this document has been obtained through surveys, reviews of the extensive literature on the subject, conversations, observations, and debates.

With what we know now there are likely three phases to how the COVID-19 pandemic is being viewed. Each has an impact on the CRE industry both as occupiers and as landlords, as companies continue planning return-to-work scenarios;

- Phase 1 Before a vaccine is found – the current environment (Government intervention and heavy regulation). Short term outlook.
- Phase 2 An interim phase locally where the virus is eradicated (which may occur in NZ for example) but borders are still closed (tbc). Short to medium-term outlook. Likely to be in recession.
- Phase 3 After a vaccine is found – back to BAU in a new world. Medium to longer-term outlook. Recession still in progress.

Each phase has its own unique impacts. For businesses at a holistic level the focus is cashflow, P&L, and business continuity. At a more micro level the focus is employees, wellbeing, productivity and collaboration. The Corporate Real Estate industry has varying levels of impact on space utilisation in each phase. This will impact the current and future workspace use. Interestingly, this unprecedented pandemic has forced us to work, occupy and use space differently, forming new habits. It has proven that preconceived ideas associated with working from home (WFH) and productivity are incorrect. Anecdotally, several businesses are seeing this pandemic as an opportunity to accelerate their property strategies or to use the WFH adaption to recalibrate the portfolio: Out of every disaster is an opportunity.

1. Phase 1 – Impact on CRE

There are a range of factors that will influence employees' return to the workplace including journeys to and from the office, how to safely manage offices upon return and whether they have continuing family/home commitments, and managing their return home to keep their families safe. Age was a key factor raised during research. It has been proven that older people are more susceptible to the virus. This could influence return to work for younger generations with a lower risk profile.

Interesting facts influencing behavior:

- People on the whole have enjoyed WFH which has introduced a new level of agility to the workforce
- There is a desire to return to the office at some stage, dependent on what this looks like and how safety is managed
- A hybrid of office and WFH is a likely outcome of the pandemic
- Who should return to the office first – age/family commitments at home/travel considerations?

Businesses with essential services (e.g. banks) continued to operate from office environments in a carefully managed way throughout the pandemic, implementing physical distancing and safety measures to ensure all employee safety. Businesses working 100% from home during this phase can take the lessons learned and implement into their return to work strategy.

CRE metrics in Phase 1

Industry leaders were asked to outline how they will manage returning to the office. Note the information below assumes that businesses are still viable during this phase. The high-level responses were as follows

- In the first few weeks at higher alert levels the majority of employees will continue to WFH
- Assumption is that approximately 20% to 30% of the team continue to work from home permanently. For some companies this was already occurring
- Initial re-entry staggered (slow build up to 40%) to ensure all issues are carefully managed
- Work teams are split into two, with each team operating on a week in-week at home rotation. This results in approximately 35% to 40% of the team in the office at a time. Every second desk is occupied. Careful management of physical distancing and appropriate cleaning between shifts are critical. Note all touch points cleaned daily: lifts, desks, toilets, shared kitchen areas, etc
- Spread of people in existing office space – no change to total square-metres/occupancy, but significantly lower numbers of people utilising the space
- Where possible, contact tracing in place (app, desk and room booking or simple email system)
- Management of visitors to site is extremely important.

2. Phase 2 & 3 – Impact on CRE

There is likely to be a second wave of cost cutting/redundancies as the recession settles in which could reduce overall office space requirements. Recent articles from the USA¹ indicates large banks and companies have seen they can operate with no footprint. As a result, they expect to need much less real estate in the future. Office space will be impacted as new strategies take shape to deal with business continuity in a recessionary environment.

CRE metrics in phase 2 & 3

- Continued assumption that a minimum of 20% of people work from home on a staggered basis e.g. one day a week rotated around the office = reduced office space requirement for some businesses. This may become more likely if companies offer greater flexibility
- Resumption of normal business operation with focus on costs, reduced footprint and delivering profit, together with retention of key employees
- Optionality for CRE actioned e.g. more WFH or anywhere-but-the-office to reduce footprint, hub and spoke (using smaller satellite spaces for local workers vs expensive city office space), multiple uses for sites with different business functions at different times of the day
- Reduction in space occupied resulting in subleasing of excess space (in NZ this is likely to be telecommunications or tourism related businesses), where fit-out costs to sublease don't outweigh savings, and there is a willing demand for such space
- Designs more focused on collaborative/shared spaces than the traditional desk. Contactless design where possible. Focused work can be undertaken from home
- Companies starting to consider support for that dispersed workforce, WFH or anywhere-but-the-office. They will consider how can they offer home working solutions which meets required HSE, as concerns on the Health and Wellbeing of appropriate work-settings kick in for the new normal.

¹ <https://www.cnbc.com/2020/05/01/major-companies-talking-about-permanent-work-from-home-positions.html?&qsearchterm=real%20estate>

<https://www.bloomberg.com/news/articles/2020-04-29/barclays-investment-bankers-might-be-headed-to-local-branches>

After people, the second largest overhead for businesses is rent and property outgoings. With the likelihood of a recession as an outcome of lockdown a natural focus will be on cost cutting and opportunities to rationalise the property spend. Future trends for CRE to watch and consider in planning in respect to cost and leasing might include the following:

1. Properties that support and enable a continuation of current fit-out design trends including a Human Centric and sustainable focus will likely prove the best support for businesses' economic productivity. This as a result of best addressing staff H&S, flexibility of space to adjust during crisis, etc.
2. Success and survival of CRE occupiers and their landlords will hinge on growing mutually beneficial relationships based on trust/communication/collaboration.
3. Premises strategy might include:
 - a. Core+flex leases; offering business the ability to balance space requirements as they learn the best balance of working remotely
 - b. Decentralization of campus to a model of satellite offices to better cater for the locality of the workforce, while maintaining social connections.
 - c. Encouraging highly productive WFH employees to continue visiting the office as a collaborative/social space as necessary.
4. Lease durations: as businesses cycle through existing leases there may be a readjustment of leasing to a model that supports shorter/more flexibility of duration; and or more optioneering.
5. Rebalancing of the future city scape and how a modern metropolis might change as result of new demand for a Work/Live environment allowing people to work from home, or hybrid workspaces (e.g. co-working hubs), corporate campus HQs with hub and spoke connection centres offering the direct colleague collaboration still required for business innovation, and WFH/anywhere-but-the-office for focused work
6. Further jumps forward in technology and always online devices will required to continue to support this – the new normal.

To quote Plato "necessity is the mother of invention". COVID-19 has created opportunities for businesses to work differently. This is a catalyst to consider how adjustments to workstyles, space utilisation and the property strategy can be made. Key property metrics will continue to exist, however the focus will likely shift to making human centric social/collaborative and flexible options available to employees while keeping them safe, maintaining and growing productivity, and providing ongoing employment in the tough times ahead.