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EG's head of workplace and offices research, Graham Shone, takes a deep dive into how the coronavirus pandemic will change national working patterns and the knock-on impact of those changes on not just the office market but the wider real estate ecosystem. Drawing on data from EG's Radius Data Exchange and other sources, many of the discussion points reflect changes that are likely to take place as a result of this uniquely accelerative event

What is the reality for offices?

The office sector is likely to be the area of commercial real estate which is most affected by both the immediate and longer-lasting shockwaves caused by the Covid-19 pandemic.

While it has exacerbated long-standing structural issues in the retail sector, and caused some concerns around the future of hospitality and leisure, the very nature of office-based work is being unilaterally questioned.

What this means for the office market is that an acceleration of consolidatory moves by companies (planned and unplanned) is likely to take place – especially off the back of a severe economic shock.

Operational costs will be reviewed during the recession and immediate recovery period. Even if office space is not a huge drag on the bottom line, present and future circumstances leave it susceptible to be slimmed down off the back of better enabled remote working.

This does not, however, mean the "death of the office".

A consolidated core office space supplemented by increased provision for home-working and flexible additional occupation spread across different geographies should be the triumvirate approach to workplace location taken by the majority of office-centric companies moving forward.

Allied to these three pillars, employees ought to be given as much licence as possible to determine for themselves where they feel most productive, and the segmentation of locations for that productivity should be malleable over time as life circumstances change. Therefore the necessity for some slack to be built into companies' physical space provision will be of critical importance to ensuring that businesses can adequately supply the spaces required for their workforce to optimise their output.

That slack may take the form of "overspill space" in their core offering – which initially may be seldom occupied in its entirety as remote working retains novelty value – or a rolling flexible arrangement in decentralised locations closer to employees' homes.

The critical long-term aspect within this to consider is that as the initial shock factor of this pandemic begins to subside, companies may need to legislate for the possibility of more people wishing to come into the office more regularly than they had planned for.

This multi-faceted approach will better enable companies to maximise their productivity and enhance their ability to retain and attract talent.

The much-publicised missive from Twitter on its approach to this issue included language which was instructive as to what we might expect going forward.

Back in May it said: "The past few months have proven we can make [remote working] work. So if our employees are in a role and situation that enables them to work from home and they want to continue to do so forever, we will make that happen."

This was – pointedly – not a mandated instruction to their workforce but a signal of giving their workers the agency to decide what working pattern best suits them in perpetuity.

Shaken to the core?

Major town and city centre markets with high office density are likely to be most acutely impacted in the short-to-medium term by the shifts in working patterns.

Those prominent markets house the most expensive business space across the country and represent the biggest "bang for buck" saving for companies considering large-scale consolidation. They also account for a large proportion of office leasing activity and stock relative to their respective land area meaning any movement in the quantum or regularity of office space requirements will have an outsized impact.

Figures from Radius Data Exchange reveal the extent to which those 13 major markets dominate national leasing activity, with 49.8% of all square footage let from 2015 to 2019 across Great Britain being in the 12 major regional office markets and core central London.

There are myriad reasons for city-centre appeal to both developers and occupiers, but infrastructure and proximity have always played an important role in underpinning the attractiveness of these areas. Modern requirements have, of course, evolved beyond these fundamental tenets, with sustainability and digital connectivity now also attracting rental premiums.

Environmental factors and digital connectivity are unlikely to decrease in importance over the foreseeable future, so those markets with good levels of high-grade core provision – or a healthy pipeline of new-build space – will be better insulated from the worst impacts of the immediate shifts in working patterns.

The overall quantum of core provision required per company will be reduced in comparison to similar transactions struck pre-Covid.

However, this is not necessarily a phenomenon that is alien to those operating in key office leasing markets.

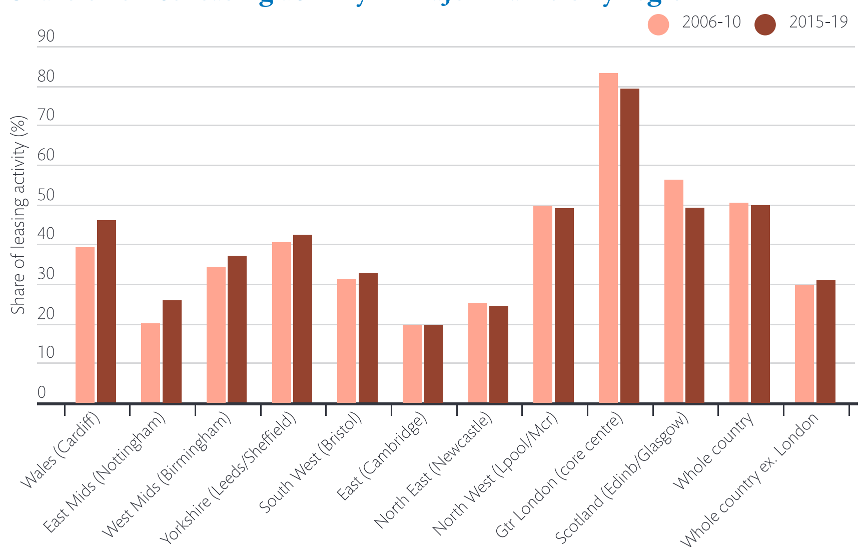
Take London as an example. The behaviour of most companies acquiring new space in the capital is to vacate more space than they take in new letting deals.

According to Radius Data Exchange figures, this net consolidation of office provision since March 2016 has not meant that the London office market has stalled or suffered with swathes of vacant space returned to the market. Before the virus struck, London was approaching a record volume of new office space under construction with a healthy pipeline of space coming through underpinned by strong preletting levels and robust rental performance.

Similarly, in other key UK cities, new-build provision has helped to maintain upward pressure on headline rental tone as wider consolidations were taking place. The appetite from companies for that quality core space will remain relatively abundant but on a reduced footprint-per-company scale that might accelerate the repurposing of redundant stock and necessitate some rental corrections.

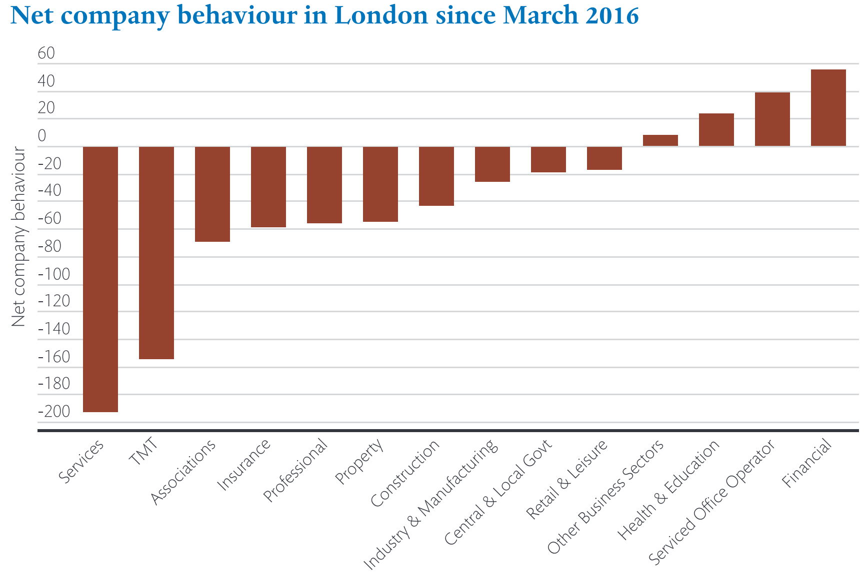
Analysis of office hereditaments plotted against gross value added by local authority, shows that the areas with a highly concentrated volume of office stock are by far the biggest net contributors to GDP.

Share of office leasing activity in major markets by region



Souce: Radius Data Exchange

Net company behaviour in London since March 2016



Number of expanding companies less number of consolidating companies by sector. Souce: Radius Data Exchange

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The top decile for quantum of office stock by local authorities contributed almost 35% of GVA in 2018, whereas the lowest decile for office space accounted for just 2.5% – underlining the critical role that office-based businesses have in supporting the economy and how important their enterprise will be in bolstering the national recovery.

It could be that this level of productivity is "shared" between the core office location and the supplementary working hubs; or it may be boosted if employee-driven demands for flexible working to enhance productivity come to fruition. If either of those scenarios occur there will be wider gains for the country to be distributed more evenly in a geographical sense.

It may even lead to further real estate opportunities in retail, leisure or residential sectors across those new geographies.

The enduring appeal of offices

Beyond the purpose of providing a place where everyone in an organisation can work together there is, of course, a socially ritualistic element underpinning the growth of the office as the nation's workplace.

Over the last few months there has been a great deal of consideration from workers as to how their current situation might change once we begin to craft the "new normal" and how best to segment the working week between home-working and the office.

Commuting is often an unwelcome burden in terms of cost and convenience, particularly to and from those busier built-up city centres that house the majority of the country's productivity. It does, however, allow workers a physical and temporal separation between home and professional life. The power of distance between where we work and where we recreate or enjoy family life should not be underestimated.

Collaboration and cohesion of working teams is easier done in person, no matter what the technological advancements allow us to do on an individual basis at home.

For many businesses, the toughest thing to quantify in the post-pandemic "new normal" is the value placed on qualitative things such as spontaneous interactions and learning through osmosis against the sheer data-driven calculation of looking at a balance sheet and understanding how much could be saved by eschewing office space altogether.

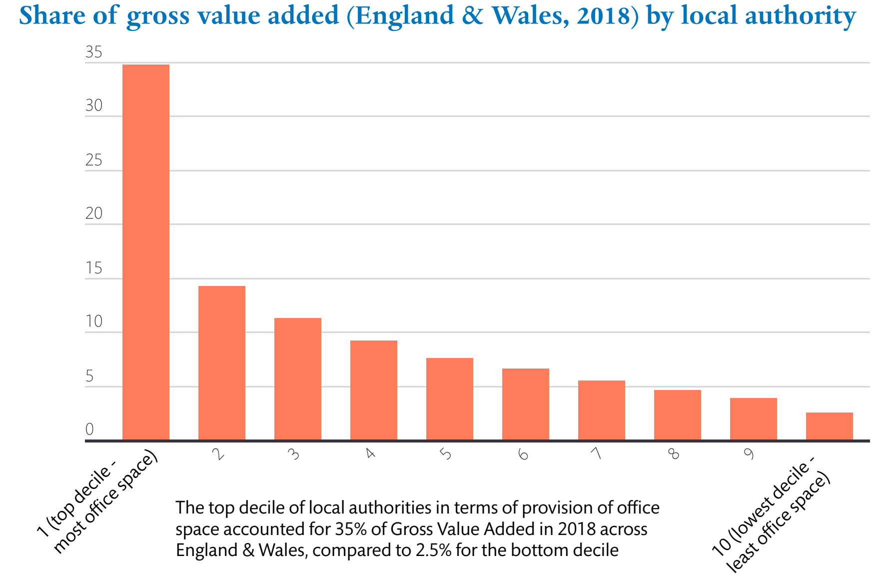
Much will depend on employee feedback about what exactly they want to do as they adapt their working patterns and how office-based companies think their flexibility on working arrangements will help or hinder their ability to attract and retain talent.

For those newly entering the workforce as graduates it might mean a natural shrinking of social circles and that the collegiate atmosphere is suppressed as a result of splits in team occupation of office space.

This might lead to enhanced relationships with neighbours or family instead and reduce the necessity for people to move away from home towns or villages to find employment. If workers do not feel they will be able to naturally form new friendships and relationships through their place of work in a post-Covid world, it may also reduce the movement of people between towns and cities.

All of these sociological aspects will be important to consider. The nature of how people interact with their environment underpins much of what the commercial real estate world is built on and as that environment becomes naturally altered owing to decisions around the workplace, the industry will need to understand more fully what the challenges are in providing appropriate infrastructure for a post-Covid working world.

Share of gross value added (England & Wales, 2018) by local authority



Souce: EG Analysis of VOA & ONS Regional Gross Value Added (balanced) 2018.

MAUREEN MCLEAN/SHUTTERSTOCK

How working from home could be the high street's saviour

When considering the entirety of the real estate ecosystem, something which requires discussion is the extent to which office workers enable adjacent leisure and retail spaces to maintain and increase their profitability.

Some research into the symbiotic relationship between these elements has been done already. Centre for Cities' 2019 report, City Centres: Past Present and Future, outlines how local service businesses such as retailers, hairdressers and restaurants have an acute reliance on the ability of the wider urban economy to attract and retain highly-skilled "exporter" businesses (ie, those which serve the needs of a client base beyond the boundaries of the local area – and that are primarily situated in office buildings).

Those cities with a greater volume of office-based knowledge/exporter businesses can reasonably be expected to have a relatively healthy high street.

Savills' What Workers Want report from 2019 indicated that nearby retail and leisure amenities play a big role in underpinning the appeal of city-centre working for those employees surveyed, with 58% of the respondents indicating that they would most like to spend the majority of their working time in a city or town centre.

The report states that "the provision of local amenities, good access to public transport networks and the opportunity to cluster with similar businesses have driven this demand".

The reverse of this is also true. Areas with a relatively high concentration of office workers have a distinct appeal to retailers, restaurants, bars and other leisure outlets which would benefit from a captive customer base of white collar workers who are, by necessity, close to their businesses for around 40 hours each week.

But what happens when a significant proportion of those workers choose to alter where they are for those 40 hours? Where are the areas which might notably gain and lose from that scenario?

The table on the following page shows median retail availability rates by square footage in areas with a high proportion of employment being conducted in office premises (line 1); compared to those with the lowest share of the workforce being housed in offices (line 10).*

This data shows that nowhere has been immune from the struggles of the retail sector over the last few years. Even those local authorities with a relatively high proportion of white-collar employment, strong deprivation index scores, and upper-bound levels of disposable income

Concentration of where office employees work [Retail availability rate x deprivation x productivity]

OFFICE WORKER POPULATION DECILE [1 = LOCAL AUTHORITIES WITH HIGHEST % SHARE OF OFFICE BASED WORKFORCE]	MEDIAN RETAIL INDICATIVE AVAILABILITY RATE (BY SQ FT)	MEDIAN DEPRIVATION SCORE [HIGHER SCORE = MORE DEPRIVED]	MOST FREQUENT CLASSIFICATION TYPE WITHIN DECILE [URBAN / RURAL]	MEDIAN DISPOSABLE INCOME PER CAPITA (RESIDENTS)	PRODUCTIVITY BY GROSS VALUE ADDED [£m, 2018]
1 [City of London / North Warks]	5.4%	14.000	Urban w/ Major Conurbation	£26,745	£372,148
2	7.4%	12.457	Urban w/ Major Conurbation	£25,471	£199,862
3	6.5%	16.420	Urban with City and Town	£22,119	£211,238
4	6.2%	17.709	Urban w/ Major Conurbation	£20,857	£203,401
5	6.1%	22.806	Urban with City and Town	£18,885	£144,842
6	6.6%	20.120	Urban / Major Conurbation	£19,331	£141,238
7	7.9%	19.672	Mainly Rural	£18,734	£124,536
8	8.2%	21.929	Urban with City and Town	£18,203	£97,083
9	7.1%	21.890	Urban with City and Town	£18,808	£81,056
10 [High Peak / Kendal]	6.1%	20.742	Urban with City and Town	£18,828	£55,260

still suffer from swathes of empty retail and leisure space.

However, those local authorities with the highest proportion of office-based employment are the ones with the lowest median availability rate for retail and leisure (5.4%) and there is a broad trend moving down the list (with some anomalies) which indicates that office employees are more likely to help maintain retail occupation.

Some of that may come by virtue of bigger national chains which, when undergoing wholesale physical restructures, elect to retain their large stores in more areas with a significant concentration of office workers, and the associated higher disposable income which comes with them.

Retail availability rates in local authorities with a high concentration of office-based workers are somewhat insulated by the daytime patronage of those employees. Any significant shift in working patterns may well mean a downturn in retail and leisure fortunes across those types of council regions.

"Traditional high streets and shopping centres in commuter areas or other less densely populated urban settlements may see a boost from an increased employee presence during a revised working week"

Displaced demand

This may be "displaced" demand and we will begin to see more office workers patronising businesses closer to their homes as opposed to underneath their office buildings during the day. Traditional high streets and shopping centres in commuter areas or other less densely populated urban settlements may see an organic boost from an increased employee presence throughout a revised "working week".

This next table shows the same data as the table above, but the deciles are altered to show the local authority areas in which office-based workers live, as opposed to where they work.

An immediate impression from this dataset is that the trend on deprivation and median disposable income is much stronger than that seen in the first table, which indicates that council areas housing a lot of office workers are already relatively prosperous areas.

If the pattern shifts from five days a week commuting back and forth from an office location elsewhere and instead they spend an increased amount of time (and money) locally, then things might start to move in a favourable way for those top deciles for residents with "office-based" jobs and in the opposite direction for those authorities that would traditionally house a great many office workers who have commuted in from other areas.

Winners and losers

The table on the right shows the areas that potentially stand to gain and lose from a retail perspective if office workers on the whole are going to permanently split their working time between home and the "real" office.

This entire analysis feeds broadly into what can be defined as localism within retail – ie, prioritising neighbourhood businesses for shopping requirements in whatever form the "neighbourhood"

Concentration of where office employees live

OFFICE WORKER POPULATION DECILE [1 = LOCAL AUTHORITIES WITH HIGHEST % SHARE OF OFFICE BASED WORKFORCE]	MEDIAN RETAIL INDICATIVE AVAILABILITY RATE (BY SQ FT)	MEDIAN DEPRIVATION SCORE [HIGHER SCORE = MORE DEPRIVED]	MOST FREQUENT CLASSIFICATION TYPE WITHIN DECILE [URBAN / RURAL]	MEDIAN DISPOSABLE INCOME PER CAPITA (RESIDENTS)	PRODUCTIVITY BY GROSS VALUE ADDED [£m, 2018]
1 [Winchester / Rushcliffe]	5.0%	11.303	Urban w/ Major Conurbation	£29,510	£371,687
2	7.0%	14.347	Urban w/ Major Conurbation	£24,146	£201,965
3	6.2%	13.199	Urban w/ Significant Rural	£23,447	£140,020
4	6.7%	15.660	Urban with City and Town	£22,516	£167,489
5	5.5%	17.089	Urban w/ Major Conurbation	£19,710	£181,852
6	6.5%	18.934	Urban w/ Major Conurbation	£19,551	£137,977
7	7.9%	22.806	Urban with City and Town	£17,662	£115,753
8	6.0%	21.650	Urban with City and Town	£18,414	£100,227
9	6.1%	26.126	Urban with City and Town	£17,420	£114,426
10 [Sandwell / Bassetlaw]	9.3%	29.841	Urban with City and Town	£16,704	£99,268

Possible 'winners and losers' in respect of retail performance as result of working pattern shifts

Winner / Loser?	Local Authority	Indicative Retail availability rate (SQ FT)	Deprivation Index Score	Resident disposable income per capita (2018)	Share of Jobs in the area based in an office (Decile)	Share of resident population that works in an office (Decile)	Region
Winner	South Northants	19.7%	7.6834	£25,053.00	28.3% (7)	72.6% (1)	East Midlands
Winner	St Albans	20.5%	8.3354	£34,482.00	52.9% (1)	76.7% (1)	South East
Winner	Solihull	26.5%	17.7545	£24,146.00	37.2% (4)	65.2% (2)	West Midlands
Winner	Ribble Valley	23.4%	10.2953	£24,966.00	25.2% (8)	69.0% (2)	North West
Winner	Tewkesbury	32.0%	12.0981	£22,531.00	22.3% (9)	62.2% (3)	South West
Loser	Slough	1.4%	23.0155	£18,831.00	44.3% (2)	50.4% (8)	South East
Loser	Gloucester	9.5%	22.0986	£18,967.00	40.1% (3)	50.9% (8)	South West
Loser	Chorley	1.7%	16.8620	£19,429.00	40.8% (3)	52.0% (7)	North West
Loser	Rotherham	7.9%	29.3475	£16,917.00	29.9% (6)	51.5% (7)	Yorkshire
Loser	Great Yarmouth	4.0%	32.3572	£15,955.00	38.8% (3)	39.4% (10)	South West

Winners: Given relative strength in deprivation index and disposable income, the fact that these areas may see increased dwell-time from their white-collar office workers should elicit noticeable improvements in retail and leisure occupation.

Losers: Robust retail occupation in areas such as these is influenced heavily by the fact that employment within the local authority is skewed towards office spaces, whereas the resident population with those types of jobs is relatively low by national averages. Figures on deprivation and disposable income per capita suggest that if those office workers don't commute into these areas with the same regularity, they will struggle to maintain those strong levels of retail and leisure occupation.

might take – and, of course, relates to where people live rather than where they work.

The experience the country has had in terms of needing to rely more acutely on local retailers for all types of goods during the pandemic should also not be underestimated. This significant lived experience has added to the weight of importance attached to supporting local businesses. Growing public awareness over fashion and food "miles" will substantiate the popularity of localism either consciously or subconsciously potentially causing further issues for those areas which rely on the incoming office commuters to underpin their consumer performance.

As such, certain towns and cities may find themselves increasingly having to rely on increased tourism or enhanced growth in a centralised residential population to better insulate their retail and leisure businesses from any negative effects born out of flexible working.

** NB. Availability rates should not be mistaken for "vacancy rates". Units may stand empty without any desire to actively push the space onto the market, and therefore filter through to Radius – so the figures herein are based only on the square footage within those spaces which are currently the subject of active marketing campaigns. The calculation of availability rate is done by totalling the amount of space currently being actively marketed divided by the total stock of retail and leisure space within the local authority area.*

Source for all tables: Radius Data Exchange & EG Analysis of: Valuation Office Agency Hereditament data by postcode, NOMIS Labour Market Surveys, ONS Deprivation Index 2019, ONS Disposable Income per head 2018, ONS Gross Value Added (Local Authority) 2018.

SHIFTING WORKING PATTERNS **RESIDENTIAL**

The expanding commuter belt

How residential demand and pricing could change as a result of shifting working patterns

With the home increasingly having to double as an office for many of the nation's workers during lockdown, it is impossible to think of a "new normal" in which the residential sector is not profoundly impacted by shifts in working patterns.

The relationship between where we live and where we work is often defined by the commute – specifically, what we are willing to trade in terms of time and money to improve our living situation relative to the necessity of "presence" in the office.

Before the widespread and enforced adoption of home working, an individual may have only been happy to have a one-hour commute in and out of work on a daily basis. This "rule" would undoubtedly confine the geography in which they would look for a place to live. However, in a more flexible environment where that individual works in a main office only three out of five days, could they be more open to a two-hour commute?

Any such shift in thinking should lead to a surge in interest for less urban areas from city-centre households that have not only done the "commute maths", but that have also gained a greater appreciation of green space throughout lockdown.

This may be acutely applicable for younger workers who are likely to form a significant cohort of first-time buyers in the coming years and who are far more likely to have lived through lockdown in less-than-desirable conditions. A recent study by the Resolution Foundation called *Lockdown Living* found that people aged 16-24 are more than one-and-a-half times as likely to have no garden, or to live in a derelict or congested neighbourhood compared to those in older age brackets.

The experience of living in those types of conditions through a uniquely straining period will have resonant impacts on that age cohort as they

JIRI ROTREKL FROM PIXABAY

progress their careers and eventually come to make decisions on where they choose to live permanently.

When it comes to buying homes, data on purchase prices since 2007 shows that the biggest spikes have come in local authorities which are described as being "urban with a major conurbation" – essentially, major towns and cities.

Demand further afield

While one would not expect the "new normal" under altered working patterns to elicit a wholesale rejection of urban living and an associated fall in values in those areas, the anticipated movement towards flexible working means that one critical facet underpinning property prices – proximity to office space – will be much less of a factor.

Some suburban housing markets that rely more heavily on providing those "historically acceptable" commute times into central locations are likely to suffer from demand slumps in the medium term – particularly those without other insulating factors to retain their appeal; such as significant supply of green space or being in the catchment area of high-quality schools.

Meanwhile, extraneous locations with large amounts of green space that are able to provide a "newly acceptable" commute time into central office hubs are more likely to see accelerated residential demand – especially if their housing stock is relatively affordable for office workers priced out of city-centre purchases.

Rental markets will, of course, be slightly different. For many renters, the "buzz" of living in a town or city location is a significant enough part of the appeal not to shift their behaviour even in light of recent circumstances.

What will be interesting to see is whether any increase in central urban living in affordable private rented accommodation can give enough of a natural boost to footfall and consumer spend within local authorities to supplant that daytime patronage they are likely to lose owing to the absence of office workers.

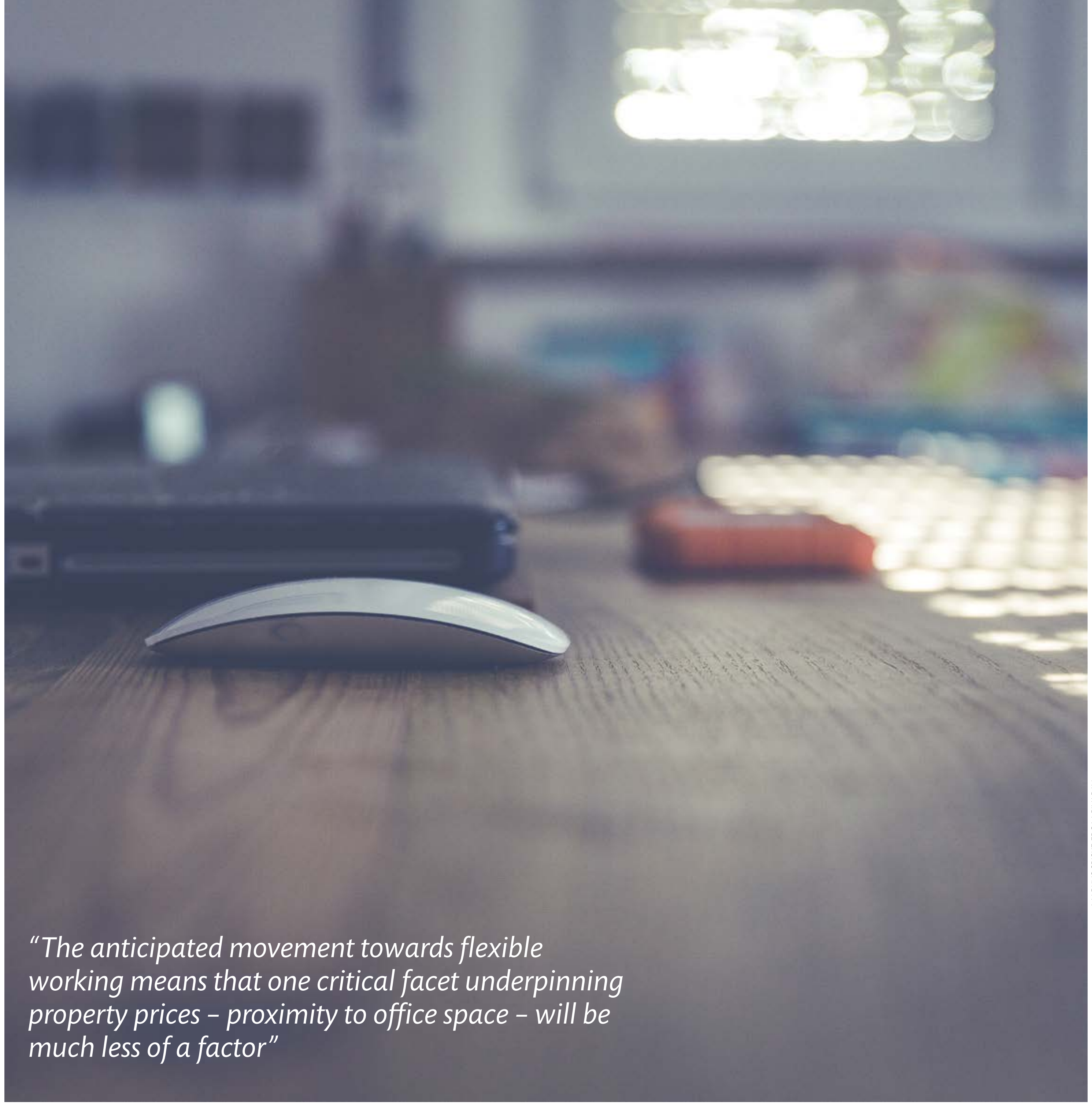
Understanding altered mindsets

The critical aspect for the commercial real estate industry as a whole is an understanding of how this pandemic has altered the ways in which human beings interact with their physical environment, and what those alterations in mindset and activity will do to the property ecosystem.

We await fuller data on how exactly office-dwelling corporate bodies have responded to the forced changes to working practices brought about by coronavirus. Principally, the triumvirate approach outlined in part one of this series (consolidated core office space; increased provision for home-working; and flexible additional occupation spread across different geographies) ought to satisfactorily achieve broad-brush corporate goals pertaining to both productivity and talent retention/acquisition.

Office-based firms should use a combination of direct employee engagement, productivity analyses and intuition to ascertain the workspace segmentation which best suits their overall requirements. Corporates should build in as much malleability as practicable to account for future shifts in working patterns; and think about satellite offices or flex memberships in areas where their workforces live.

The intrinsic requirement for well-connected, centrally-located office premises will still be present during and after these shifts so, for real estate players in the office sector, the chief consideration around these shifts is geographical.

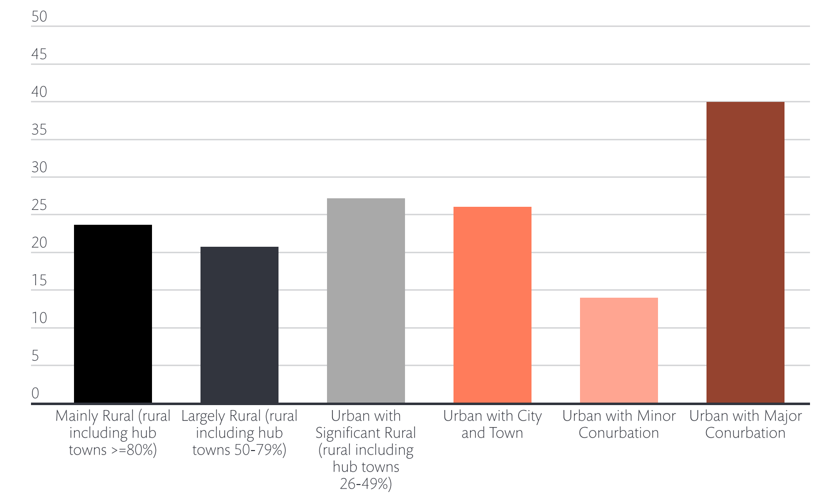


"The anticipated movement towards flexible working means that one critical facet underpinning property prices – proximity to office space – will be much less of a factor"

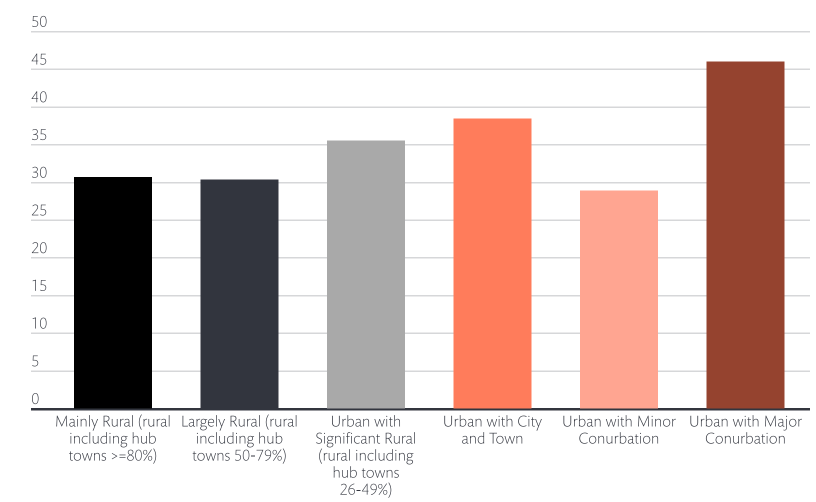
MARKUS SPISKE FROM PIXABAY

House price movement by local authority type

% CHANGE 2007 TO 2019



% CHANGE 2011 TO 2019



"Urban with major conurbation" is the location type which has seen the biggest price increase since before the last recession and since the start of the recovery - smaller conurbations have lagged behind the rest of the country during these specific time periods. Rural communities have performed reasonably well - mainly by virtue of their appeal to wealthier individuals seeking property in those quieter places for retirement. Unlikely to see a significant movement there over the longer term - but the orange & pink bars in these charts may see a shift as a result of movements away from highly dense environments to extraneous places which have reasonable connections to centralised office hubs when required.

Source: EG Analysis of ONS House Price Index

Heed the 'hub-and-spoke' approach

Careful attention will need to be paid to how that "hub-and-spoke" approach to working plays out within certain regions dominated by key cities – and how those areas with an existing high volume of white-collar residents evolve into secondary office hubs that can better support local retail and leisure businesses.

The likelihood is that those "spokes" will grow longer as workers expand search radiuses for home purchasing under revised acceptable commuting times. Effectively this means an expansion of commuter belts to more affordable – and potentially more rural – areas at the expense of less desirable suburban locations which often rely on their proximity to central business districts to maintain house prices.

Town centres and high streets can be reborn and revitalised in those areas that will enjoy either an immediate or deferred increase in the daytime presence of "office workers". They can be further supported by public and private investment providing a genuinely curated retail and leisure offer that is in keeping with the characteristics of the area, which will tap into the growing popularity of localism.

The future of real estate is changed, with the shift in working patterns the catalyst needed to bring about the evolution of the sector as a whole.

@GShoneEG graham.shone@egi.co.uk