

As we progress cautiously through ‘phase unlock’ and month five of working from home, tenants and London office landlords are contemplating the future of office space. In this week’s Testing Time webinar I was joined by James Meikle, international partner and head of occupier representation at **Cushman and Wakefield**, Paul Richardson, investment manager at **CEG** and Karen French, partner in our Real Estate department, to discuss what office space will look like in a post COVID-19 world.

Will Businesses Return to The Office?

To enable a workforce to safely return to the office, employers must adhere to government guidelines and create COVID-19 secure workplaces by introducing measures such as staggering working hours, posting social distancing signs, keeping lifts half empty and scrapping hot-desking. More importantly with many employees in danger of forgetting what their desk looks like, employers will need to make sure employees actually want to return to the office in preference to working from home.

An office is more than just a desk and the pandemic has not caused the death of the office, James confirmed. Pre-pandemic, the older generation, who tend to generally be the decision makers in companies, were mostly against working from home perhaps partly due to a lack of trust of their employees. The younger generation on the other hand, tended to be keen advocates of remote working. That dynamic has now flipped to an extent, James confirmed. The older generation of business leaders, with no childcare issues, no commute and often more space, have made the most out of lockdown and are now more likely to consider remote working and flexible hours for both themselves and their staff. Conversely, many younger and less experienced employees many of whom live in small flat shares or with childcare challenges are yearning for the office and greater social interaction. This new found love for flexibility will inevitably balance with culture – for employers the office environment is part of a business culture of learning and training that provides employees with a sense of belonging and working from home means many are missing out.

Although many businesses sustained levels of productivity throughout lockdown, the universal view from occupiers is that maintaining physical proximity to colleagues is an important element of instilling a culture of sustained productivity, collaboration and entrepreneurial spirit. James pointed to the examples of Facebook and Google, two companies that have invested a fortune on office space to drive collaboration and a better working environment for their employees.

However, as many companies struggle with profitability in these coming months, finance departments will begin to look at this new flexibility as an opportunity to save. London office rent is not cheap and, with evidence showing employees’ being as productive at home as they are in the office, reduction in the footprint of office space will undoubtedly be an easy option to cut costs.

James raised concerns with this perspective emphasising that although it is possible to reduce office space, the reality is that firms must still have an environment fit for all employees at peak times. Densification will be shunned by employees who will not accept being crammed into less space in the new ‘social distance’ era. Space reduction will therefore not be as significant as most people think, James confirmed. This view is reflected in predictions of rent reductions in central London. James predicts that 2020 will only see a 7% reduction and that will stay flat throughout 2021 before we see a U shape recovery. Although James’ emphasises that there is not much of an evidential basis to base this figure on due to the lack of recent transactions, low levels of supply will insulate the rental market in central London to some extent.

How Will Businesses Return to The Office?

As businesses move out of survival mode, they will be looking strategically to build flexibility into the cost base that will change the utilisation of office space. Businesses will begin to look at real estate not as a necessary cost burden but as an opportunity to drive competitive advantage for their business. Businesses will shrink real estate square footage to allow for more money to be spent on better space in better buildings that promote sustainability, wellbeing, hygiene and technology, in Paul’s opinion. Clearly these themes were beginning to grow in prevalence in the office world but the pandemic has accelerated their importance.

In particular, the availability of technology and smart technology in buildings will become increasingly significant as employers attempt to provide visibility in terms of what is happening regarding the running of buildings to ensure employees have the confidence and desire to return to work.

For example, the use of fresh air flow technology will increase to reduce the amount of recycled air circulating buildings, occupational awareness technology will be introduced so that employees and employers alike can understand how many people are located in specific spaces and temperature checking systems will be installed at many office entrances. Ultimately these changes will drive better utilisation of space and a demand for better quality buildings, James added.

Clearly these new demands will impact the design of new buildings. Employers will need to ensure the minimisation of touch points, increase access to stair ways to reduce the use of potentially crowded lifts and add more cycle storage for those wishing to avoid public transport. New builds will need to be future proofed so that they carefully balance the immediate concerns with long term views of how offices should look. Paul explained the concept of more flexible leases where occupiers take a core space, which they commit to longer term to maximise incentives and fit out, as well as landlord delivered spaces in which tenants can expand or contract within. For example, business lounge spaces, access to communal terrace areas and meeting rooms available to book will form part of the package. This flexibility will provide people with different areas and different ways of working within the business.

Future of Landlord and Tenant Relations

Office landlords and tenants will need an arrangement that will work for both parties going forward. Karen emphasised the importance of inward investment and real estate investment to our economy. Clearly landlords and investors need to know that they have solid leases in place with strong covenants and good rent forecasts. This will need to be balanced with the tenant's desire for greater flexibility.

Paul confirmed that flexible landlord offerings will be preferred by most tenants and there is evidence that tenants are willing to pay for flexibility that suits their business needs. For effective negotiation to take place, both parties will need to come to the table knowing what it is they need, Karen confirmed. Tenants in particular, need to accurately demand what precisely they require. This will involve looking carefully at their own business model and staff. Lawyers can draft pretty much anything as required – breaks, the right to take additional space, the right to reduce the number of floors the occupier is taking and so on. This is always against the backdrop of what is acceptable for the landlord however, and landlords may look to the traditional strong covenant tenant versus a more fluid occupier who is perhaps otherwise willing to pay more rent.

As a final thought, social distancing will challenge companies as they work out how their employees can safely return to work. Greater work place flexibility will become part and parcel of all businesses as clearly we will not stay away from the office forever. For businesses and employees to grow and prosper, a common space in which employees can collaborate will remain a core necessity for the foreseeable future.

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