OFFICES

Facebook, headquartered in Menlo Park, San Francisco, will allow many of its workers to work permanently from home

Nine-to-five no more

After a mass experiment in home working, the office is likely to change in a post-pandemic world. Vanessa Drucker reports

Should companies retain enough space to keep 200 workers constantly in their offices, if they can hire premises by the day or the month? Will business people be willing to travel for eight hours on an airplane for a three-hour meeting, when they could use video conferencing instead? How will remote work function if only a part of a workforce is practising it?

These and other questions must be resolved in a post-pandemic environment. The future demand for office space is uncertain, and will depend on new work patterns and requirements. Remote operations will probably be organised according to differing functions, too, from accounting and sales, to marketing and HR. High-knowledge-value parts of the economy might eventually need to interact, while high-street bank call centres have demonstrated the capability of performing from home.

Between 2005 and 2015, about 5% of employees were regularly operating from home, according to a 2019 Harvard University study. "Even pre-COVID, occupancy was less than you might think, according to statistics on actual usage," says Harry Badham, UK head of development at AXA Investment Managers-Real Assets. Typically, about 10% of a given company might be at meetings or on holiday, with a low likelihood of all workers clocking in together.

Over the coming years, a higher proportion of employees will be operating from home, reducing demand for space. That conduct accelerates an ongoing, rather than revolutionary, trend. "We don't see it as black and white," says Zachary Gauge, European real estate analyst at UBS Asset Management. "The vast majority [of employees] will still want or need to go in semi-regularly." While companies figure out how to occupy less space, "it can meanwhile provide an easy win for reducing costs, rather than reducing headcount", Gauge adds.

On 21 May, Facebook announced that more than half its staff could be working from home over the next decade. The firm's internal surveys indicate that 20% of employees favour working at home, whereas 60% would prefer to combine remote working with being in the office.

Other large firms – Morgan Stanley, Barclays and Twitter – have reported that remote work does not appear to diminish productivity. Danny Ismail, senior analyst at Green Street Advisors, describes these harbingers as "canaries in the coalmine", rather than outliers. "Remote hiring and activity give a negative signal for overall office demand."

The City of London has never been led by demand, most of which derives from lease expiries. Supply has been the dominant driver, with a constant correlation between undersupply and rents. "Since 2010, we've seen an undersupply of new stock, which influenced our decisions for 22 Bishopsgate," says Badham, referencing his firm's new tower, the tallest in the City of London. That project, greenlighted in the wake of the 2016 Brexit vote, includes a refectory, cycle park, gym, and wellbeing retreat.

Badham recalls telling prospective tenants: "We are the only landlord that wants to lease you less space to make you more efficient." The reasoning is that, as leases expire in an older building, tenants look to move into new space, prompted by strategies for attracting and retaining high-quality staff. It is harder to adapt lower-grade buildings. Newer structures, which have more inherent flexibility in their design, can accommodate updated mechanical systems and wellness features, which combine with location to create demand from a nucleus of skilled workers who can choose where they want to live, work, and play.

In Atlanta, Georgia, Hines and Invesco Real Estate recently leased their two-building Atlantic Yards office development to Microsoft. Occupancy for the 523,000sqft is targeted for summer 2021. Those premises also feature top-of-the-line amenities, like an expansive courtyard, rooftop gardens, private balconies and open-air terraces for entertaining clients.

David Steinbach, Hines' global CIO, notes that the lease was recently brought to fruition after two years of preparation, despite these challenging times. "To the best of my knowledge, it's the largest one yet signed in the US since the outbreak of COVID-19, he says. "Landlords find it easier to integrate wellness on a blank canvas. New buildings already have the latest technology, which older buildings lack or need to retrofit."