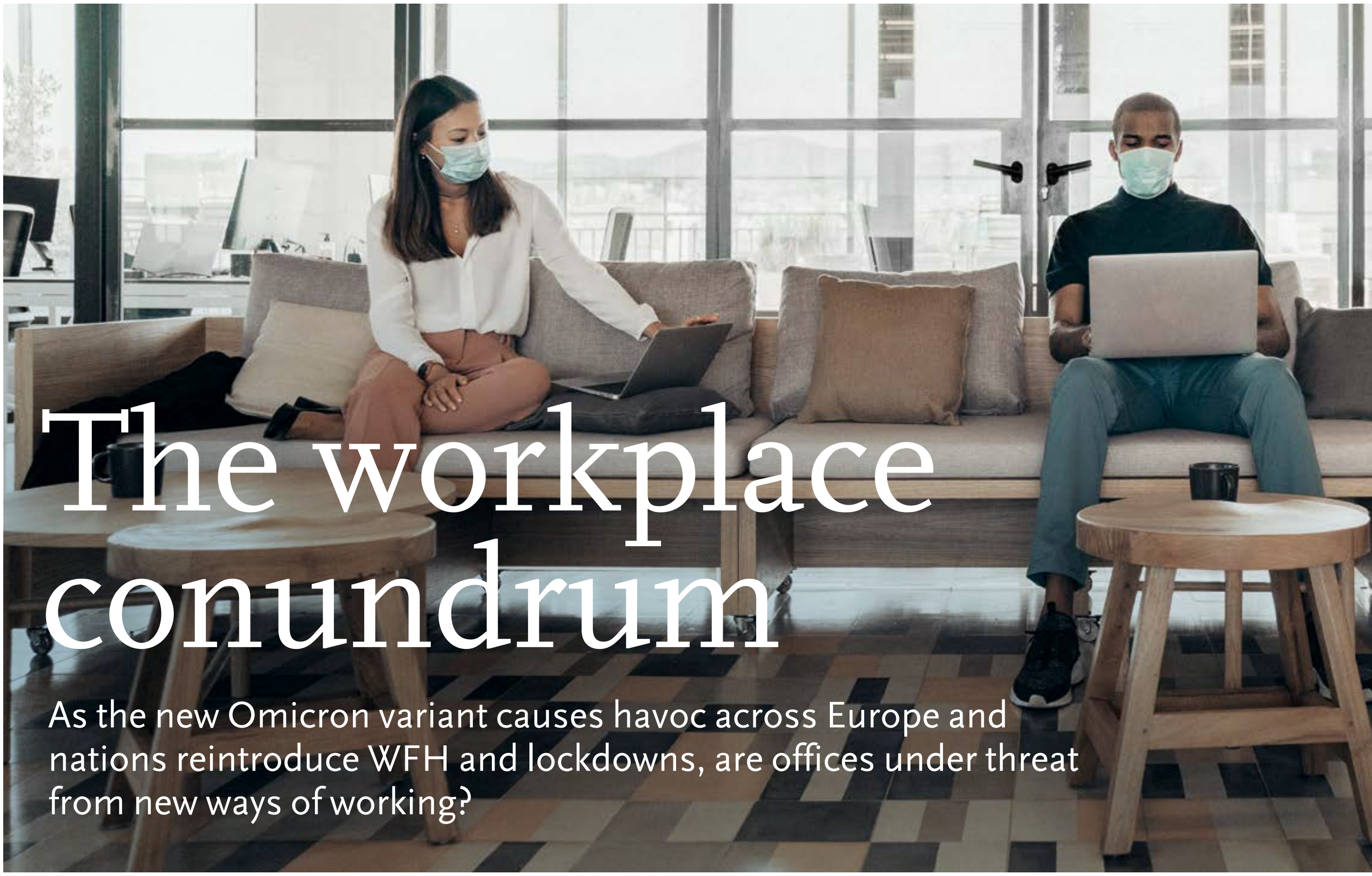


The workplace conundrum

As the new Omicron variant causes havoc across Europe and nations reintroduce WFH and lockdowns, are offices under threat from new ways of working?

BY **MARIANNE KORTEWEG**

'Working from home is not a new normal. It's an aberration that we're going to correct as quickly as possible.'

So said David Solomon, CEO of investment banking giant Goldman Sachs, during a virtual financial services conference in February of this year.

This month, such a stance was looking increasingly at odds with reality as the so-called Omicron variant of Covid-19 saw fresh working from home (WFH) orders issued by many governments across Europe, and most recently, England.

The volatile situation comes after months of a trend which saw workers returning to the office. By the summer, around half of Goldman Sachs' employees were reportedly back in the office on a regular basis in New York and Hong Kong, while about a third of the 6,000 staff at its European headquarters in London had returned. And by September, the London rate had risen to around 45% and the US bank was calling for a return to 'full occupancy', in line with 'government and medical advice'.

Across mainland Europe, a similar picture of gradual return has been seen amongst big businesses as coronavirus restrictions were rolled back – although 'full occupancy' is far from the reality or the goal. Since mid-November, when many countries reintroduced restrictions or were thrust back into lockdown to deal with a fourth Covid wave, most workplace return plans have been put on hold.

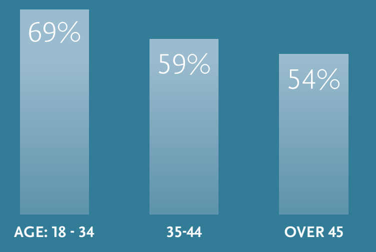
THE 50:50 APPROACH

Despite all this volatility, what is clear from all the initiatives coming out of company boardrooms, is that post-pandemic working patterns are set to change radically. The 9-5, five-days-a-week office routine, already under pressure before Covid, will be a thing of the past. Employers are shifting en masse towards 'hybrid' or 'flexible' working models that allow staff to work two to three days from home and a similar number in the office. Office workspaces will change as a result, as will the way employees interact with one another.

'The enforced working from home has forced management structures to change and made people reconsider how they interact with their staff,' says John Mulqueen, head of offices EMEA at CBRE Investment Management and responsible for a €9.5 bn office portfolio across the region. 'Prior to the pandemic, management was typically suspicious of having people out of the office too much, as being able to see people felt like a better way of managing them.' Now, he says, following an extended period of remote working, there is 'more of a general acceptance of more agile working practices'.

Dutch financial services giant ING is amongst those big businesses which was trialling new working practices in its home market before it was stopped dead in its tracks by new government-imposed coronavirus restrictions. 'We started working

Willingness to return – the generation gap



69% of 18-34-year-olds want to be either in the office fulltime, or have a hybrid approach that is mostly office-based. This drops to 59% of those aged 35-44 and 54% for those over 45.

SOURCE: UNISPACE

> 'Occupiers are looking for workplaces that are better than home, to "encourage" their people in, rather than to "force" them in'

in hybrid mode in the Netherlands on 11 October but have had to stop the pilot due to the latest government guidance,' says a spokesman. Ultimately, he adds, the aim is for staff to work in the office and from home on a roughly 50:50 basis. 'But nothing is set in stone,' he stresses, adding that the pilot scheme will resume once the Covid situation stabilises. The bank employs more than 15,000 people in the Netherlands and 57,000 worldwide.

Insurer Aegon, which employs 3,600 people in the Netherlands and over 22,000 worldwide, is likewise advocating a hybrid model across its European operations. Up until the latest coronavirus restrictions, the firm was encouraging its Dutch-based employees to take a 50:50 home working/in-office approach, providing financial assistance with setting up an ergonomic workspace at home and a fixed monthly allowance to cover internet costs. 'Our preference is that employees work from home for an average of 50%. However, if they feel they are more effective in the office, they are welcome to come in,' says a spokesperson. The firm uses digital and cloud tooling 'to make documents and collaboration accessible for all employees', whether working from home or in the office. In the UK, accountancy group KPMG reportedly told its auditors in early December that they will be expected in the office or at client sites four days a week in future after enjoying considerable flexibility to work remotely – even after Covid-19 restrictions were relaxed earlier this year. Senior auditors are said to have expressed concern that remote working could damage audit quality and limit learning opportunities for young auditors.

WORK IN PROGRESS

The transition to the hybrid model is clearly a work in progress, with employers trying out different approaches to see what suits their business best. 'I actually think the most challenging period is coming now,' says Mulqueen. 'We had the period when everyone was working from home. And obviously we know what it's like when everyone's working from the office. The bit that's difficult to manage is the hybrid model, because you already hear that there's a different atmosphere to being in the room and not being in the room when part of the meeting is going on in-person and part is remote. I think that's one of the biggest challenges and biggest opportunities, to try to reduce the friction between those two groups.'

Catherine Mann, a policymaker with the Bank of England, recently noted that being seen in person is also an important way for people to build careers and that working remotely makes visibility more difficult. 'Physical presence does matter,' she said during a virtual meeting about women working in finance. 'We are not at the point where we can really have a "water-cooler conversation" in a virtual setting.'

The success of the hybrid model will also depend on factors like business size, sector type and corporate culture, says Mulqueen. 'But there's clearly an opportunity for em-

What do employees want from their office?

Improvements employees would prioritise

25% improve the physical office

23% create more private spaces

22% add more amenities

22% improve the layout

21% more outdoor space

Almost all (95%) employees would make improvements to their office

SOURCE: UNISPACE

ployers to recognise that setting their staff up to work from home in an efficient way can be beneficial to them as a business.'

BRAINSTORM AND SOCIALISE

What is also clear is that the purpose of the physical office is set to change. Rather than housing rows of desks in an open-plan area, the central office hub will in future function as a meeting place, a 'clubhouse' where workers go primarily to connect, brainstorm and collaborate. It will be a place where they find inspiration, 'serendipity', and above all, socialise with peers.

For occupiers and landlords, this new paradigm will in many cases require a repurposing of office space. Says Aegon: 'The old approach of sharing and occupancy no longer makes sense. Aegon's offices will be redesigned in such a way that we come to the office mainly to stay connected with the purpose of our company and to co-operate, to meet, to learn and socialise with colleagues and teams. Individual work can still be done at the office, but will primarily be done from home.'

The moves to update the office also tie in with the expectations of many employees, who after 20 months of working largely from home have had time to reassess what it means for them. A recent survey of 3,000 office workers across Europe carried out by workspace specialist Unispace found that nearly all (95%) wanted changes to their office space, with adjustments including access to both quiet and breakout zones, more amenities and more outdoor space.

The report, entitled 'The Reluctant Returner', also found that nearly two-thirds of office workers were reluctant to return to the office post-pandemic, with the commute, lack of work-life balance and an ineffective workspace, the main drivers hindering workplace returns.

> 'There's a different dynamic to being in the room and not being in the room when part of the meeting is going on in-person and part is remote'

Despite this reluctance, there was a general consensus that a hybrid approach is the way forward, with 69% of employees expecting to be mainly office-based in the near future. The data also indicated that younger generations are keener to return, with 69% of 18 to 34-year-olds wanting either a complete return or a hybrid approach that is mainly in the office. This, says Unispace, indicates a desire to not only learn from peers and accelerate careers, but also to benefit from the social and physical elements the office environment affords them.

TEMPTING STAFF BACK

Lawrence Mohiuddine, CEO EMEA at Unispace, says the survey shows employers clearly have to up their game and offer employees more than their homes provide in order to tempt them back. 'While the global pandemic has undoubtedly changed the way we work, it has also changed how employees want to experience the workplace.

'Those who have been able to work productively in a remote environment over the past year must see the value in returning to the office. Collaboration with peers is certainly a driver for some returnees; however, our study has shown that people want more than what they can currently access at home – whether that's free lunch options or better amenities.'

A much-heard argument in favour of the need for top-notch work environments is the 'war for talent' – particularly in an economic upswing where fast-growth businesses are on the hiring trail. Says CBRE IM's Mulqueen: 'The war for talent is in full flight. There is still a shortage of high-quality, qualified people and businesses want to employ them, and therefore they're pulling on different levers. They're offering them flexibility in terms of when they come into the office, high quality offices when they come in, they're improving their situation when they're at home – in every possible facet they're looking for some effective way to be the employer of choice.' He quips: 'Some people are now saying: we're no longer working from home, we're living at work.'

For businesses too, there are clear benefits. Mohiuddine puts it this way: 'The organisations that proactively look to create the most bespoke, purpose-driven and compelling working environments, will be the most competitive at not only attracting top talent, but maintaining a motivated workforce.'

DOWNSIZING TREND

What impact will the new working practices have on real estate footprints? Reports of occupiers planning to downsize their office space post-pandemic have hit the headlines in recent months.

In Germany, banks are understood to be cutting back on space as a rising number of staff work from home. Deutsche Bank is said to be giving up around 100,000 m^2 of space in Frankfurt in response to the home-working trend; HSBC is reportedly getting rid of a number of separate offices in Düsseldorf in favour of a single, smaller one; and BNP Paribas' unit in Frankfurt is also said to be cutting the amount of desk space to accommodate fewer staff.

In Sweden, telecommunications company

'We're seeing lots of instances where occupiers are asking for a one- or two-year extension to their lease where a break is coming up now'

Ericsson has announced it is cutting desk space as it expects half of its 102,000 employees to work remotely after the pandemic. The company said it will redesign its 400 offices around the world over the next five years to reflect the new hybrid work reality. Under the plans, desk space will be cut from 60% to 20% to create more room for social and co-working areas.

In the Netherlands, Aegon expects to reduce its office space by around 30% over the next three years. 'We expect to need fewer traditional workspaces, like a desk and a chair,' the firm says. 'After all, these places are only needed if we spend entire days working at a desk.' To enable employees to make more efficient use of the existing office space, the firm is developing a new digital reservation system with occupancy sensors to book and measure the use of working desks, cockpits, meeting rooms and creative areas. 'The office will be a place to meet with each other and for collaboration,' explains Aegon.

LEASE EXTENSIONS

Mulqueen of CBRE IM, whose EMEA office portfolio spans 1 million m² across 13 countries, says that with the exception of banks, there are few signs of occupiers reducing their office footprint in a meaningful way. 'I think there's a lot of speculation and lots of discussion around reducing floorspace, but we're not seeing any real evidence of that in a significant way.'

Where possible, decisions on footprint are being deferred, he observes. 'We're seeing lots of instances where people are asking for a one- or two-year extension to their lease where a break is coming up now. So requests along the lines of: can we have a bit more

Does WFH save occupiers money?

Despite almost all European office employees working from home (WFH) last year, empty workplaces did not lead to a meaningful reduction in companies' occupier costs.

Research by Colliers for its Occupier Cost Index (OCI), based on data collected from 3,990 buildings in 29 countries, reveals that the average costs per FTE (Full-Time Equivalent) fell by only 2% in 2020, and amounted to €9,468.

Office costs – including rents, depreciation, catering, reception, security, ICT and property management – fell in Norway (-7%), Sweden (-5%), France (-3%) and the UK (-1%), but rose in Switzerland (2%), already the most expensive country (see chart below with selected countries).

Although office services were modified to reflect the low occupancy rate, some existing contracts, such as for a company restaurant, could not be altered.

Said Denise Hoogendoorn, head of facilities management consultancy in the Netherlands for Colliers: 'The working environment was adapted to the new situation through minor alterations, but larger investments into building design and the working environment were postponed until the utilisation of the office environment was better understood post pandemic.'

She noted that in many cases, only variable costs such as meeting services were discontinued. 'But this outlay was partly replaced by the higher costs incurred for the establishment of home workplaces or extra cleaning of the office. This demonstrates the inflexibility of some facility management contracts.'

Nicholas Marsh, head of enterprise facilities management advisory for occupier services in EMEA at Colliers, added: 'Whilst we all recognised the opportunity to rationalise property portfolios to reflect new hybrid working and lower occupancy levels, the reality is that existing lease structures prevent short-term portfolio adjustments. This is highlighted by only a 1% decrease in occupancy costs per full time employee in the UK. Looking forward, property strategies will leverage the value of reduced space, flex space and co-working environments – all of which will be reflected in our forthcoming OCI data.'

European Occupier Cost Index 2021 (€)

SOURCE: COLLIERS

	SPACE & INFRASTRUCTURE	PEOPLE & ORGANISATION	ICT	MANAGEMENT	TOTAL	TREND
Europe	6,078	1,005	1,969	416	9,468	-2%
Austria	5,459	1,233	2,391	559	9,643	1%
Ireland	6,610	1,143	2,243	445	10,441	-5%
Italy	7,299	1,023	1,994	399	10,714	-4%
Finland	6,868	1,219	2,392	595	11,073	-3%
Germany	7,271	1,221	2,364	590	11,446	2%
Belgium	6,923	1,326	2,548	724	11,520	-4%
Denmark	7,527	1,504	2,901	811	12,742	-3%
United Kingdom	10,769	1,061	2,098	379	14,307	-1%
France	10,875	1,234	2,382	499	14,990	-3%
Sweden	11,698	1,304	2,550	679	16,231	-5%
Norway	11,208	1,575	3,047	815	16,645	-7%
Switzerland	14,274	1,293	2,592	555	18,713	2%

time to think please?'

He adds: 'In our view there is going to be a potential reduction of office space but it will not be very significant in terms of the actual footprint that is taken.'

'Banks will reduce their footprint, they have been doing it for some time and will use this as a good moment to review their ways of working,' he says. But many other businesses, such as knowledge-based industries or creative clusters, are seeking 'more and better space'.

Far more significant than a potential reduction of office space, according to Mulqueen,

> 'The rotation rate in offices will increase because a lot of occupiers are going to say: this building just doesn't cut it anymore'

is the quality of the space being sought. 'Occupiers are looking for workplaces that are better than home, to "encourage" their people in, rather than to "force" them in. That's a really important point.'

He sees two trends emerging from this: occupiers in sub-standard premises which are in growth mode and seeking to attract staff will either refit and upgrade their space, or leave and move to better space. 'I think the rotation rate in offices is going to increase because a lot of occupiers are going to say: this building just doesn't cut it anymore and I'm going to leave.'

MARKET POLARISATION

As a result, the 'bifurcation' in the quality of office space will deepen, he believes, something that is already being reflected in occupier and investor demand. Across Europe, the hunt is on for amenity-rich, inspiring and sustainable offices, particularly in supply-constrained markets.

'This bifurcation is real. If your space is low quality and you're in a sector and location like a financial district that's looking to reduce footprint then you are clearly at a disadvantage. The areas that are more interesting are the ones that maybe have either a life sciences bias or a creative industry where we're seeing quite a lot of growth and which are recruiting more but also allocating more space per head to their people.'

Recent research on the London office market by property consultancy Gerald Eve supports this polarisation trend. Its findings on take-up in Q3 reveal further evidence of a two-track market, with demand intensifying for best-in-class space and softening for secondary properties. Occupier take-up increased 30% to 2.8 million ft² (260,000 m²) in the quarter, driven by large commitments by major London occupiers. The firm said this growing activity suggests businesses 'have a better understanding of the implications of hybrid working policies and are seeking out higher quality space that better meets their post-pandemic needs'.

So, are occupiers all rushing to cut their footprint to fit flexible working models? Not yet. But one thing is clear: the utilisation of existing and new office space is set to change irrevocably. Says Mulqueen: 'People who are coming back to the office or moving to a new office in a year's time will see that. When they walk into that space, they'll think: this is very different to the space of the past.' ■

Sci-Fi offices are already here

Technology will play a major role in facilitating hybrid working post-Covid, according to Richard Pickering, chief strategy officer for the UK at Cushman & Wakefield.

Speaking during a virtual C&W event in November on the future of offices, he said: 'Very soon, hybrid working will become hybrid reality. That will impact heavily on how we work.'

At present, he noted, 'hybrid working means dialling people in for Teams calls from meeting rooms, there's no serendipity, it's not a human-centric solution'.

However, he said, 'we're already starting to see the emergence of virtual workspaces which enable you to interact with both office and home-based colleagues in a much more ergonomic way that promotes serendipity and collaboration'.

Pickering sketched new settings in which staff working remotely can 'pop into' the office and find colleagues through the use of 'digital twins' of floor plates. 'And, using VR you could actually walk around the office from a remote location and bump into real people. Or, using augmented reality you could take a stroll around your actual office with a virtual colleague.'

'This sounds extraordinary but none of it is science fiction,' he said. 'The technology already exists, and I'm convinced that this will be the future mode of clerical work. But our offices need to be tooled up to deliver this, which means: excellent digital connectivity and IoT embedded by design.'