



THE FUTURE OF WORK – IS THE OFFICE BUILDING OBSOLETE?

Tim Stocks, Founder & Managing Director, James Stocks & Co.

Webinar

Monday, 26 April 2021, 10:00 BST

A Word From Today's Chairman



Professor Michael Mainelli

Executive Chairman

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Today's Agenda



- 10:00 – 10:05 Chairman's Introduction
- 10:05 – 10:30 Keynote Address – Tim Stocks
- 10:30 – 10:45 Questions & Answers

Today's Speaker



Tim Stocks

Founder & Managing Director

James Stocks & Co.



The Future Of Work – Is The Office Building Obsolete?

April 26th, 2021



James Stocks & Co

“From the beginning nature has assigned to every type of creature the tendency to preserve itself and in man it drives a desire to meet together and congregate”

Cicero
“On Duties”

Introduction - Definitions

The challenging aspect of this discussion is **agreeing on the meaning of the word “obsolete”**.

We define “obsolete” as:

- **an investment class;** and
- **a place of work.**



We consider the future of the office building against each test.

When Do You Consider The Pandemic To Be Over?

When **Governments say so.**

When **70% of the world population is vaccinated.**

When **all over 30's in the UK are vaccinated.**

When **everyone ignores Covid restrictions.**

There have been plagues before.

“After the Black Death”, a report by the University of South Carolina concluded:

- Society experienced **improved living conditions**.
- **Improvements** in the **overall health** of the population.
- **Improvements** in **real wages**.
- **Falls in prices of food, goods and housing**.
- **Reduced the gap between rich and poor** with the less well-off questioning how society worked for them.
- Theatres open, **people live together in town and cities**.
- **Why won't we see these trend again?**

Do You Intend To Return To The Office?

Work from home only.

One day a week working from home.

Two days a week working from home.

Three days a week working from home.

Four days a week working from home.

Is the Office Building Obsolete – Survey Says...

Highlights

- Before the pandemic, five per cent of Americans worked from home. By spring 2020, the number was sixty per cent.
- Post pandemic, in the US, one research paper concludes that workers would like to work from home fifty per cent of the time.
- Employers in the US are planning for workers to work from home one day a week.

Aggregate Demand

According to Goldman Sachs Research, a potential post Covid evolution will see a four-time increase in share of employees working remotely (from 5% to 20%) and a 15pp decrease in average office attendance (from 83% to 68%). However, sqm per employee is set to increase 25% (from 10sqm to 12.5sqm).

The forecast is that aggregate demand for office space could decrease marginally, but at the same time tenants will be more attentive to the quality of the leased spaces.

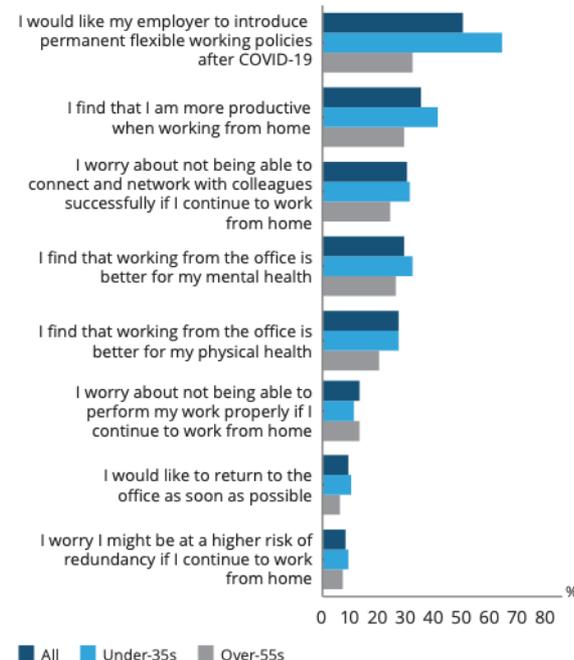
Employee Survey

When compared to other European countries, **UK employees are the least willing to return to the office, with 72% saying they will work remotely more often in the future**, according to Deloitte Voice of the Workforce.

According to the Deloitte Consumer Tracker, **younger generations feel that not being able to connect and network is detrimental to their career growth and development**, while the office provides a better mental health environment.

The Deloitte Consumer Tracker found that **office-based workers would like to work from home for half of their working week**. The emerging ‘blended’ approach includes a truly agile working model that embraces working from home, a satellite office on the outskirts of a city and a central hub used for face-to-face collaboration.

Similarly, according to the Slack latest survey, the majority of knowledge workers surveyed (72%) would prefer a mix of remote and office work, a hybrid approach.



Is the Office Building Obsolete – Market Says...

Different Solutions

As populations get vaccinated, and many countries prepare for a return to normality, **companies** that have been forced into remote-work arrangements for the past year **now face a complicated decision**. Should they let workers **stay at home, bring everyone back to the office** or **find a solution in between?**

It may be hard to know exactly what set-up an individual employer may choose, but **understanding why opinions are so diverse** and why some sectors are more keen to have employees back in house **may help landlords prepare for the upcoming future**.

Return to The Office

Goldman Sachs CEO David Solomon said that remote working is an aberration that they are going to correct as quickly as possible.

Chief Executive of **Barclays** Jes Staley voiced similar sentiments describing remote working as a short-term measure that was not sustainable.

Head of Asset and Wealth Management for **JPMorgan Chase & Co** Mary Erdoes is concerned over the long-term impact of remote working mentioning the possible lack of energy people get from being around peers.

Maybe

Tech giant **Facebook** and insurance company **Aviva**, are opting for a “hybrid” model, offering greater flexibility and independence for workers while maintaining certain structures.

Dell CEO Michael Dell supports remote working, seeing this hybrid / “work from anywhere situation” as a solution for the future.

PwC UK is rolling out a flexible working policy that will allow its 22,000 UK staff to split their time about half and half between their home and office after the pandemic.

Fully Virtual

Dropbox went “virtual first” in 2020, pointing to the benefits of non-linear workdays and employee experience.

The pharmaceutical company **Novartis** announced a shift from “manager-approved” remote work to “manager-informed” remote work, allowing employees to choose how, when and where to work.

Twitter CEO Jack Dorsey said all employees (except those in jobs requiring a physical presence, such as maintaining servers) would be allowed to work from home forever.

Is the Office Building Obsolete – Experience Says...



New Zealand: 27 per cent continue to work from home.



South Korea: only a small percentage drop-off in workers in the office compared with pre-pandemic levels.



Australia: on March 9, Dell's six Australia offices entered their third and final phase of reopening. Meanwhile, about 41,000 Dell employees in the U.S. remain fully remote, at “phase 0”.

Australia has been at the vanguard of the world-wide effort to reopen offices. Its **strict early lockdown, intensive contact-tracing and aggressive quarantine protocols** have helped keep daily new cases very low for months. **Offices of multinational firms** like Adobe, Facebook, and Dell **started to reopen as early as June 2020.**

In any case, a Roy Morgan poll commissioned by the City of Melbourne found **75% of city workers were reluctant to go back into the office**, underlining how flexibility is still going to be a key battleground issue between employers and staff.

Tech consulting firm Slalom **organised various social gatherings**, restrictions permitting, to give people the chance **to bridge the gap between virtual and face-to-face.** They also plan to have a **‘soft return’ to the office**, without the pressure of hitting the ground running on day one.

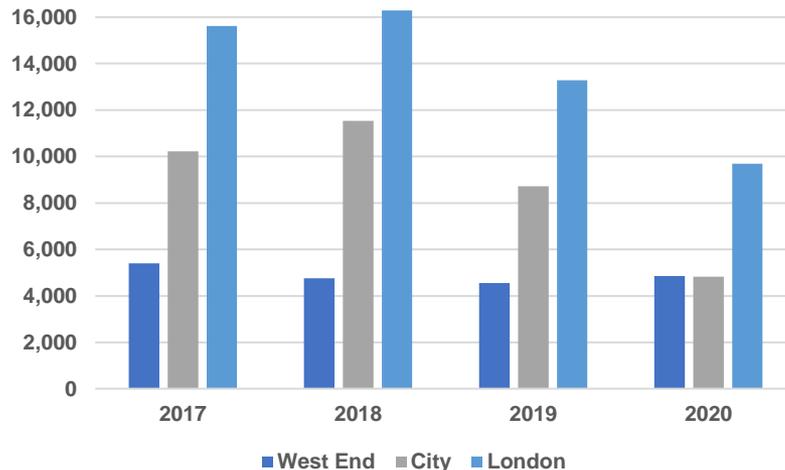
Another example is given by software company **SAP ANZ.** The firm said **they will not force employees to return to the office** if they don't want to and that the **most important thing is to make employees feel safe in returning to the office.** Its most recent survey reports that 76 per cent plan to return to the office two days per week.

Real Estate in 2020 – Investment In Offices Not “Obsolete”

Key Takeaways

- Office markets entered the current crisis in good health and on a vacancy level roughly 200 bps lower than before the global financial crisis.
- A return of pricing certainty triggered a **strong finish to 2020 with £4.3 billion transacted across London in Q4**. The West End, in particular, benefitted with activity finally starting to crystalize.
- **Vacancy rates have risen sharply across the wider London office market, and are expected to reach 10% in Q2 2021. London vacancy rate was at 7.5% in December 2020**, above the 20 year average (7.2%).
- There is still little evidence of downward pressure on rents at this stage. Colliers International expects to see **modest declines in prime rents and greater falls in average rental levels across London in 2021**.

London Office Investment Volumes: 2017- 2020



- Annual investments volume for 2020 totalled **£9.7bn**.
- The annual **investment activity totalled £6.4bn in 2020**, compared to £8.2bn in 2019.
- **Strong activity in Q4 (£3.3 bn) more than doubled** the £3.1bn of **total cross-border volumes in Q1-Q3**, whilst constraints on deal execution for overseas buyers were acute in 2020.

Real Estate in 2021

Market Sentiment

- **Shorter lease lengths and earlier break options are likely to become more prevalent.** This will have consequences for both the rental outlook and development prospects from 2021.
- More start-up businesses requiring **flexible lease terms and space.**
- Yields are holding firm but with the possibility of hardening in the first half of 2021 for prime assets and long secure income, as the **weight of overseas money responds to the value available in London markets.**
- According to Savills Research, **North America, the UK and Asia currently look more appealing** to investors than Europe.
- According to a recent Savills survey, **45% of surveyed investors expect higher real estate investments over the next 12 months** compared to the previous 12.

Traditional property strategies are likely to require a rethink. Lease flexibility is set to become increasingly favoured by tenants even though it may negatively impact on valuations and risk ratings.

If You Are Reluctant To Return To The Office, What Steps Would Encourage Your Return?

Low density commute.

New technology to ensure Covid security in the office.

More personal space in the office.

Not having to attend client meetings.

No central office but **working from out-of-town hubs.**

Drivers of Demand for Office Space

- **Start-ups/businesses** requiring space.
- **Increased productivity** expands the labour pool. **Technology does not reduce the demand for labour.**
- **Covid secure.**
- Tenants wanting **to lease smaller floor plates.**
- **More space** per employee.
- **Attract and retain talent.**

Consequences of New Demand

- **Increased asset management costs** – improved infrastructure requires capex.
- **More leases**, more management cost.
- **Flexible lease arrangements** – breaks, shorter terms.
- **Reduced investment yields?**
- **Lower quality rental** counter-parties / consider financing impact? **Lower LTVs?**

Is The Office Building Obsolete

As an investment class – **No BUT**

- Returns may be **impaired**.
- Trade-off between **investment security** and **cash yield**.

As a work space – **No BUT**

- Design of new and refurbished space is important to attract and retain talent.
- People like to work **“together”** in one place.

Robert Prost – a world leader in office design – said that **“not all organisations are intelligent and progressive. Lots are run by crass people who can take the same kind of equipment and create hell holes. They make little bitty cubicles and stuff people in them.”**



James Stocks & Co

Aldgate Tower, 2 Lemn Street
London E1 8QN

Contact:

t.stocks@jamesstocks.com

James Stocks & Co

Registered address Aldgate Tower, 2 Lemn Street, London E1 8QN

Telephone +44 (0)20 3815 3290

Email info@jamesstocks.com Website www.jamesstocks.com

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Forthcoming Events

- Tue, 27 Apr (15:00-15:45) The Role of Employee Share Schemes In Achieving The UN Sustainable Development Goals
- Wed, 28 Apr (12:00-12:45) Is Data The New Money? Ocean Protocol And Data As A New Asset Class
- Thu, 29 Apr (09:00-10:00) Launch Of Global Green Finance Index 7, Guernsey
- Fri, 30 Apr (15:00-15:45) Navigating The New Physical And Digital Workplace In The Age Of Pandemics

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