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Is there a “new normal” for offices?

The economic baseline

- In our base case, we expect a U-shaped recovery to follow the deep, yet short recession between March and May 2020
- In the Eurozone, pre-crisis GDP levels are forecasted to be reached not before 2022
- Certain sectors remain disrupted until the end of the pandemic
- One of the COVID-19 legacies will be structurally higher unemployment rates

Working from home: a worldwide experiment

- This mass enforced experiment of home working has clearly shown that it is possible to maintain or improve output without physically being in the office. This provides a visible example of the structural changes that have been ongoing for some time.
- Difficulties in fostering team spirit and internal collaboration became apparent as well; reducing the potential for new business ideas to emerge from spontaneous staff meetings in the kitchen or by the photocopier; and greater obstacles in connecting with clients.
- Certain tasks are better suited to the office and vice versa. Humans are social beings and the office fulfils a variety of social needs that home working does not.
- Surveys show that the home office has led to an increase of workload but also to a shift of the working time to hours that suit employees best.

What about office as real estate sector?

- The lockdowns have met the office sector not as immediately as other sectors but lasting or even accelerating structural change and economic impact is expected.
- We anticipate the demand for space to follow the economic U-shaped path too: low take up in 2020, with a recovery thereafter. Corporates are likely to remain cautious, deferring expansion plans or downsizing existing space.

- The structural change towards more home office is expected to slow the recovery additionally.
- Meanwhile, limited supply of office space will support prime office rents in most of Europe in the short term.
- Insolvencies tend to peak with a lag of several quarters after a recession. Coupled with running contracts only expiring over the next years, more space might become available with a time lag.

Location, location, location... yet again

- We expect the home office experiment to lead us to a middle ground between remote working and office-based working.
- Office workers are likely to demand highly specialized, amenity-rich facilities in an easily accessible location for the reduced number of days they spend in the office.
- This will re-enforce demand for central office markets that are highly accessible by public transport.
- Occupiers will express demand for better specified, more technologically advanced facilities. But the floorspace demand will remain stable on average – less tables will be compensated by more space for encounters.
- Thus, even in good locations, landlords need to accommodate tenants’ needs in 2020 and after.
- Secondary locations with more “work only” environments will see more difficulties to be let and will therefore be faced with impacts on rents and prices.
- More pronounced performance divergence between stronger and weaker assets and locations is the likely result of the above trends.

Investment conclusion

- The pandemic led to a rapid move towards more flexible working but working from home will not become the new normal and physical offices will still be needed.
- Quantitative demand for office space may gradually decrease in years ahead, while growing qualitative needs require high flexibility in supply.

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