

REAL ESTATE REPORT

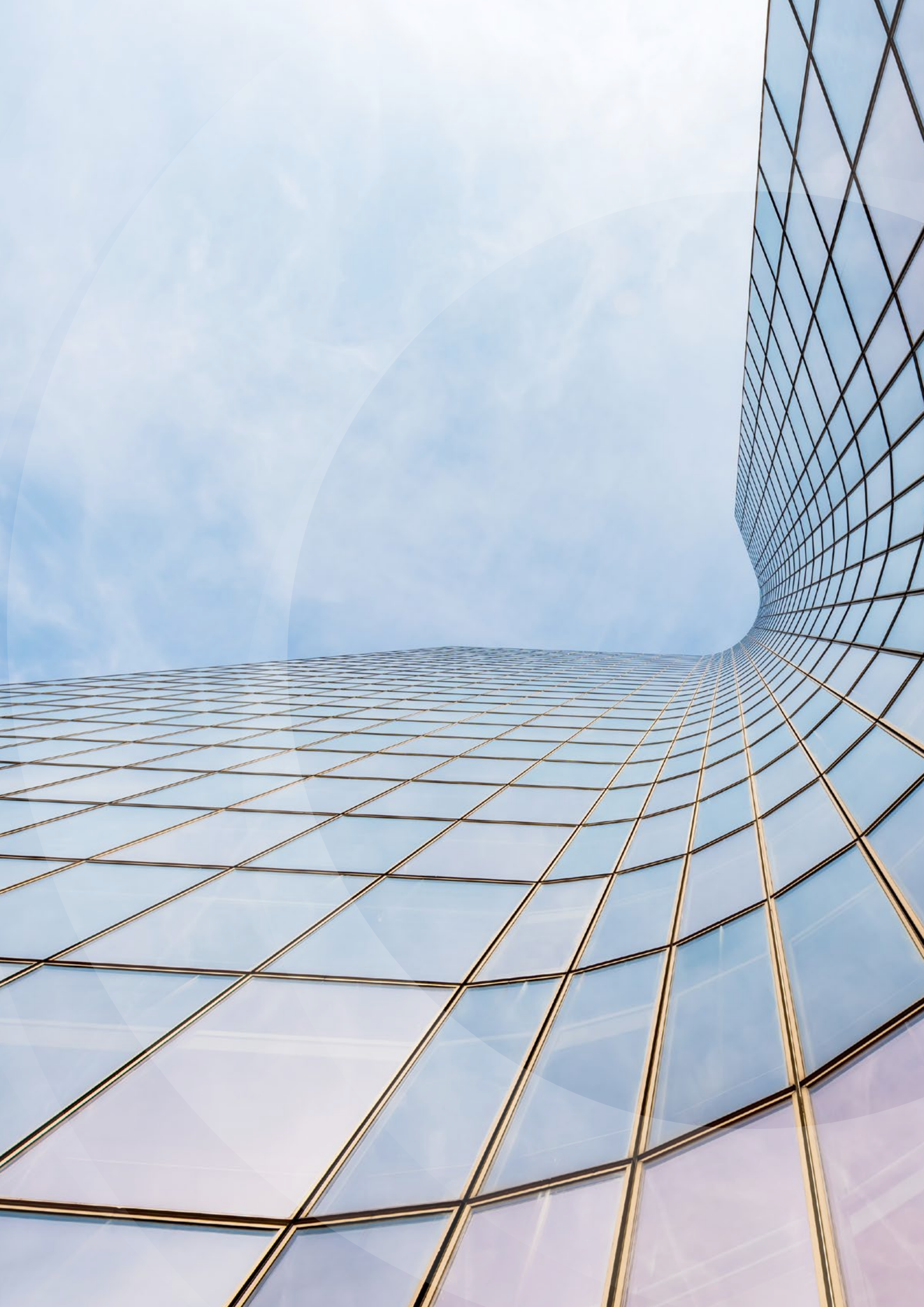


A MORE FLEXIBLE FUTURE

REDEFINING THE ROLE
OF THE OFFICE

SPRING 2021







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INTRODUCTION

The role of the office has been quietly evolving for some years now. Headlines from the past 12 months might have created the false impression that a light bulb has suddenly been illuminated in the heads of CEOs and CFOs about the benefits of flexible working, but that is not the case.

From hot-desking in large corporate environments to increased use of remote technology and the rise of collaborative work spaces, organisations have been adapting to changing working patterns for some time.

Certainly, the pandemic has accelerated the pace of change, literally forcing companies and their employees out of their offices and into their homes during successive lockdowns.

At first, a polarised narrative on remote working vs offices took hold, but this has been replaced by a more nuanced conversation about the purpose of offices and how they can support companies in achieving their goals and individuals in developing that elusive “work-life” balance.

We commissioned comprehensive research among almost 500 senior decision-makers at companies with at least 20,000 sq. ft. of space in a metropolitan location to better understand their perspective and how that might influence their future needs.

Specifically, we sought to answer the following questions:

- Do they have the flexibility to move and, if so, would they choose to?
- What would they be seeking from new premises and has the role of the office changed?
- Are they looking for a new location and, if so, where are they headed?
- How much time do they expect employees to spend in the office?
- What changes are they making right now to ‘future proof’ their working environment?

From investors and landlords to occupiers and the significant population of office workers, this report is for you. It provides a detailed picture of the views, needs and future plans of office occupiers in key UK locations. What emerges is a greater need for flexibility, with increased scrutiny of how the office supports the endeavours of businesses as a whole.

We are pleased to have been able to work closely with the British Property Federation to produce this report. Ion Fletcher, Policy Director at the BPF, shares his thoughts on the findings in the conclusion of this report (pg.12).

We hope you find this report useful and would welcome your feedback.

DAN GWILLIAM

Partner

+44 (0)20 7759 6659
+44 (0)7780 705 550
dan.gwilliam@gowlingwlg.com



FELICITY LINDSAY

Partner

+44 (0)20 7759 6458
+44 (0)7713 877 465
felicity.lindsay@gowlingwlg.com



RESEARCH METHODOLOGY

The research was carried out by Yolo Communications. All surveys were conducted during February and March 2021.

The sample comprised 497 senior executives responsible for making property decisions at companies with office space exceeding 20,000 sq. ft.

All research conducted adheres to the UK Market Research Society (MRS) code of conduct (2019).

Yolo Communications is registered with the Information Commissioner's Office and complies with GDPR/DPA 2018.

Office size	Number of respondents
20,001 – 30,000 sq. ft.	185
30,001 – 40,000 sq. ft.	168
40,001 – 50,000 sq. ft.	79
Over 50,000 sq. ft.	65

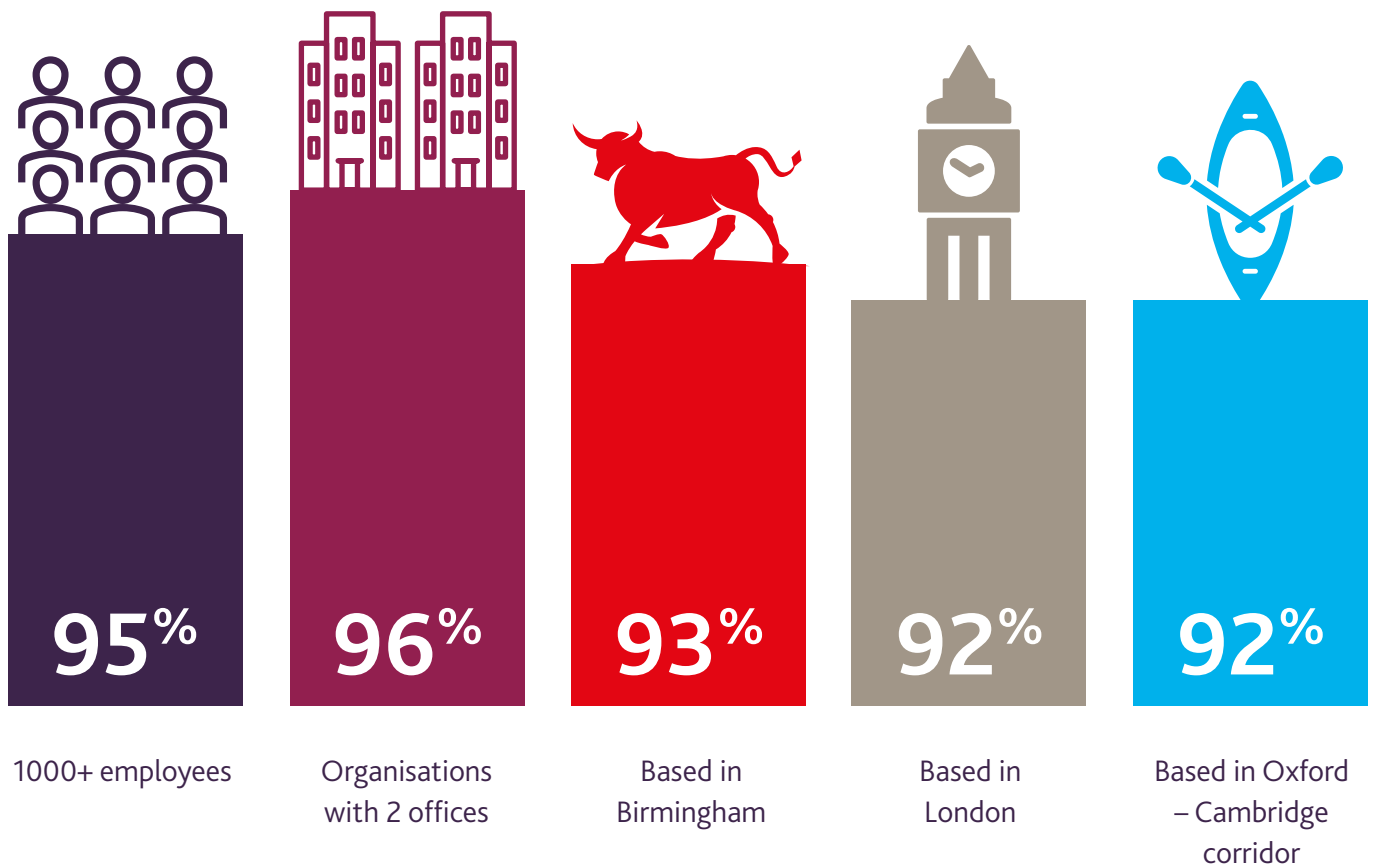
HOW MOBILE IS THE MARKET?

The majority of office occupiers (89%) have the flexibility to move in the next three years, either because their lease expires or because a break clause comes into effect.

It is higher still (95%) for those organisations with more than 1,000 employees. However, it is important to bear in mind that this flexibility to move ranges between one and 36 months – for landlords this is significant, because in many instances it provides a window of opportunity to better understand what these occupiers are looking for from their office accommodation before they are eligible to make a move.

Some occupiers are more motivated to move than others, with one third (32%) considering paying to surrender their current lease or contract. Others are looking for creative ways to maximise the value of their current space, with 65% either assigning or subletting space to other businesses to reduce costs, and one in five (21%) reconfiguring their existing space. However, for some, such measures may not be possible under their current contractual arrangements and it may prompt them to seek out more flexible arrangements.

THE MOST MOBILE



EXISTING OFFICES – FIT FOR PURPOSE?

Whether or not occupiers are looking to move will depend on the extent to which their existing premises meet their current and long-term needs.

Almost half (46%) of occupiers are either actively looking for new office space or intend to move when their lease allows. A further 20% would like to move, but are committed to a long-term lease or contract. This shows a significant level of mobility in the market.

One third (31%) said they were happy with their existing premises, while 3% said they would be moving to remote working and would not renew their lease.

When asked about the drivers to move, the responses revealed a broad range of needs. It seems office occupiers have different perspectives on the type of environment in which their organisation can thrive. Again, this underlines the importance of offering flexibility in prime office accommodation.

TOP 5 DRIVERS FOR MOVING OFFICES



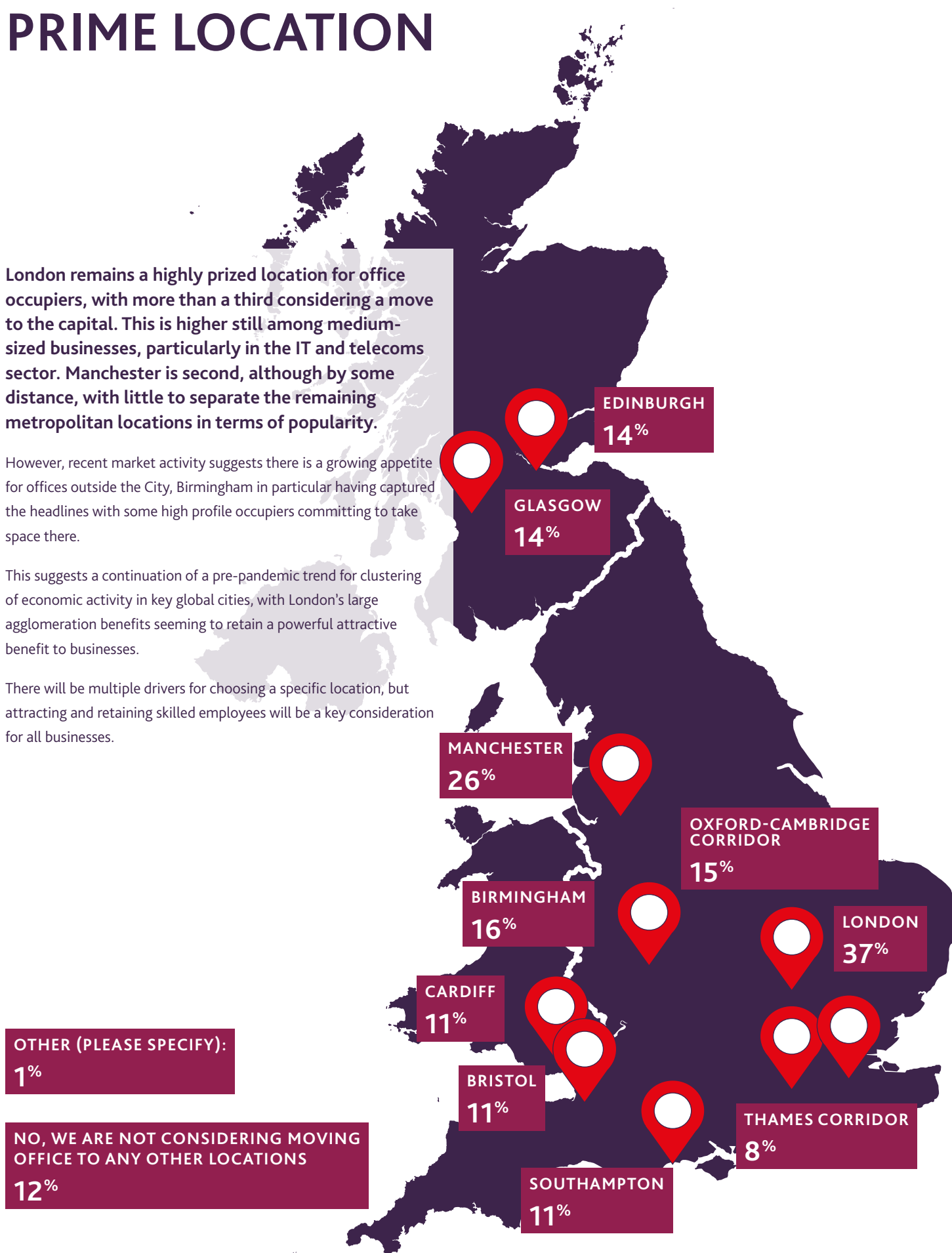
PRIME LOCATION

London remains a highly prized location for office occupiers, with more than a third considering a move to the capital. This is higher still among medium-sized businesses, particularly in the IT and telecoms sector. Manchester is second, although by some distance, with little to separate the remaining metropolitan locations in terms of popularity.

However, recent market activity suggests there is a growing appetite for offices outside the City, Birmingham in particular having captured the headlines with some high profile occupiers committing to take space there.

This suggests a continuation of a pre-pandemic trend for clustering of economic activity in key global cities, with London's large agglomeration benefits seeming to retain a powerful attractive benefit to businesses.

There will be multiple drivers for choosing a specific location, but attracting and retaining skilled employees will be a key consideration for all businesses.



THE RISE OF HOME WORKING

Undoubtedly, there has been a permanent shift towards increased remote working. Just over a third (38%) said they will offer greater flexibility to their people, having seen how effective it has been during 2020, while 35% said they had always offered flexible working and would continue to do so.

One in five (19%) said that all staff would return to the office as usual, once the 'work from home' order is lifted. Overall, the findings suggest that most organisations favour a hybrid model where employees can enjoy the benefits of working in a communal office environment and from home.

There is less agreement on the proportion of time that will be spent in the office or at home, with half of respondents (49%) expecting staff to work at home more. A further 42% expect to spend more of their time working in the office than at home. However, the remaining 9% said they simply do not know yet.



49%

We will be working from home more that we will be in the office



42%

We will be in the office more than we will be working from home



9%

Do not know

It remains to be seen how office occupancy levels will be impacted by the evolving COVID-19 situation. If things move in an increasingly positive direction, it would be reasonable to expect that people will want to spend some of their time in a communal office environment. What's more, if the level of risk around COVID-19 recedes, will other considerations come to the fore among employers? For example, multiple reports, including Omdia's Future of Work survey and PwC's most recent Global CEO survey, reveal an increasing concern around cyber security amid the growth in remote working. Many office-

based businesses are handling large quantities of data – which is often sensitive in nature – and, as the immediate health risk subsides, employers may once again re-examine the split between home and office working. Additionally, the reliance on domestic IT equipment and broadband signal is not sufficiently reliable for businesses to function in the longer term.

This only serves to underline the need for flexibility in office accommodation in the immediate term.

OFFICE REQUIREMENTS

For those considering an office move, what are they hoping to gain?



City-centre location was top of the list in terms of the search criteria for a new office, particularly among the largest occupiers



Tech requirements came second, with businesses seeking out access to faster broadband



Parking was third, but occupiers are looking to future proof with access to electric charging points

THE APPEAL OF THE SERVICED OFFICE

Around one in six (17%) said that flexibility was important due to fluctuating occupation levels following COVID-19 and increased remote working. This is borne out in other aspects of the research, with most occupiers acknowledging the benefits of serviced offices - 84% are either considering a move or are already using this type of accommodation. Almost one third (30%) said serviced offices would

help them reduce cost and scale up or down as required. However, 9% were reluctant to share space with other companies.

Occupiers are also looking to their landlords to support them with their evolving needs, which will require much greater flexibility than ever before. Specifically, they are hoping landlords can help in five areas:



45%

More adaptable open space



37%

Flexible tenancies



33%

More in-house amenities



33%

A greater emphasis on sustainability



24%

A willingness to work more closely with occupiers to better understand their needs



THE ROLE OF THE OFFICE

The overwhelming majority of occupiers (82%) agree there will always be a business need for an office to facilitate collaboration and maximise the performance of individuals and teams.

25%

To access specialist equipment that would not be possible to install in a home-working environment

40%

To provide a physical meeting space for clients and colleagues

20%

For maintaining a strong team culture

27%

To aid productivity

31%

For the mental health and wellbeing of our staff

21%

To facilitate cross-selling

When asked specifically about how the office supports their organisation, occupiers identified a wide range of benefits. Simply having a communal space where colleagues and clients can meet together face-to-face ranks highly. Respondents also underlined the active role an office plays in supporting staff not only with their learning and development, but also their mental health and wellbeing.

Recent research from the Office for National Statistics and YouGov's recent 'Working on Wellbeing' report reveal the toll of the past 12 months on workers' mental health. It is therefore unsurprising that office occupiers acknowledge the benefits an office can bring to boost morale and ensure staff feel connected and supported.

13%

To store tech equipment, literature, confidential materials and office equipment etc.

40%

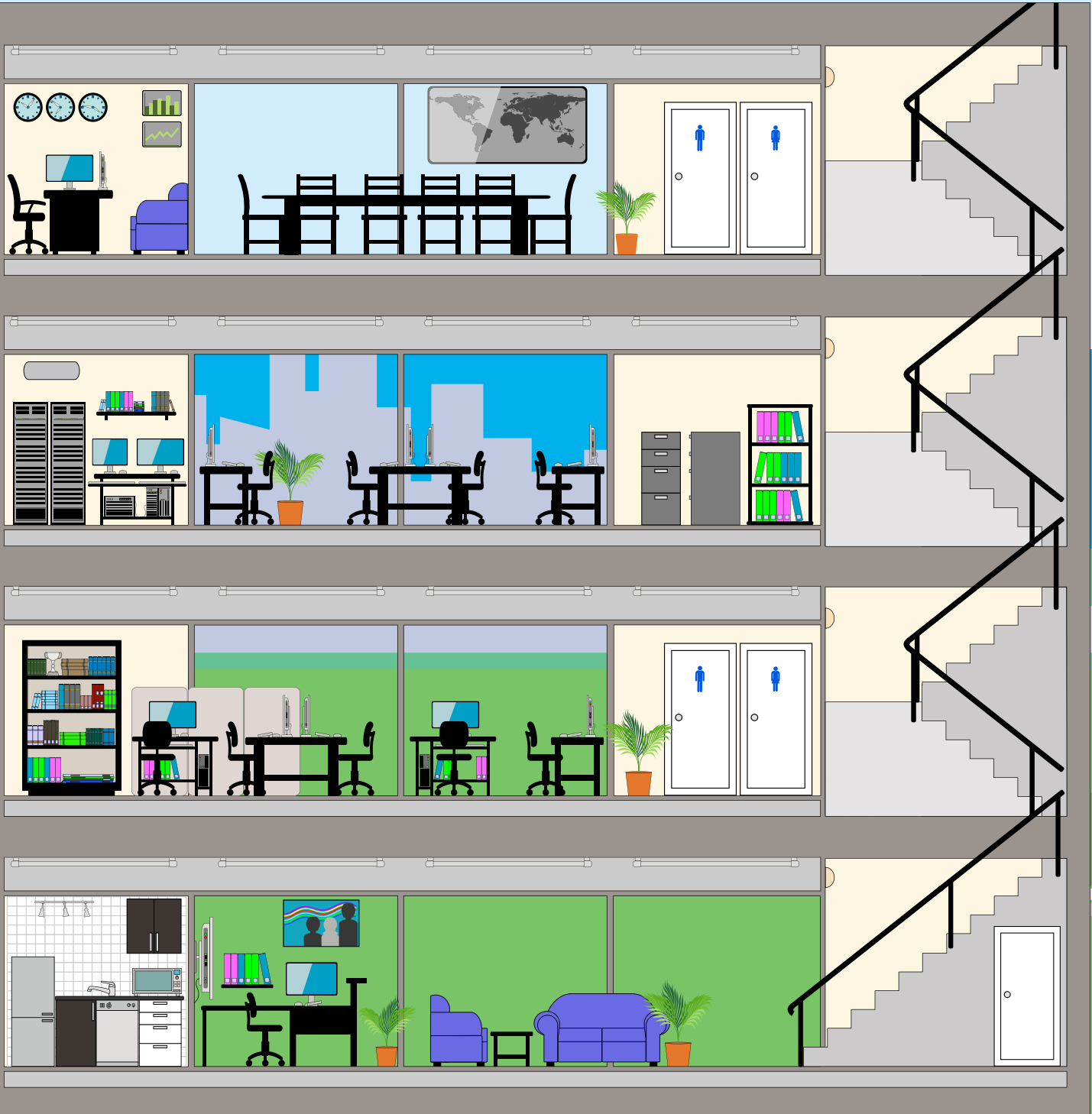
To support learning and development of our staff

31%

To aid collaboration between colleagues and inspire creativity

29%

To provide practical on-site support to staff e.g., IT / HR





FUTURE-PROOFING

All occupiers are focussed on what their long-term office requirements will be, with 99% either already adapting their offices to be fit for the future or making plans to do so.

Perhaps unsurprisingly, technology tops the list by a long way – with smart tech to monitor and optimise how the office is used at number one (72%). Perhaps this indicates a transitional period among occupiers affording landlords an opportunity to better understand their needs by gathering the relevant data?

As we adjust to the continued presence of COVID-19, many occupiers are factoring this into their plans, with 40% investing in contact and trace technology to best manage future outbreaks.

WHAT CHANGES HAVE OCCUPIERS ALREADY MADE OR DO THEY PLAN TO MAKE?

72%

Using the data from smart technology to monitor and optimise how the office is used

40%

Contact and trace technology / Covid security to manage future outbreaks

31%

Investment into reconfigurations to better suit our needs

22%

Outdoor space

22%

Increased facilities (leisure and sports) for employees

17%

Focus on sustainability

1%

We are not making any changes

MAXIMISING OFFICE ASSETS

Based on the results of our survey, it seems fair to say that the way we use and think about offices could in the next few years undergo, if not a revolution, then at least a fairly rapid evolution.

THE OFFICE IS STILL VERY MUCH ALIVE

Amid the turmoil of the pandemic, the inherent need for people to be able to gather together in a communal space has been keenly felt. Being unable to do so has been one of the most difficult adjustments that we have had to make in so many aspects of life during the past year or so.

Despite the adoption of increased remote working, the respondents to this research have indicated that it does not replace the need for an office environment and that indeed such an environment is crucial to facilitate new business and employee learning and development.

A MOBILE MARKET

That said, after so much change, occupiers will be – and are – considering their options. How offices are used has evolved hugely over the decades in line with the working style of the day – from typing pools to chill-out zones and everything in between.

As businesses and organisations get to grips with what the future of office work looks like, they are in the process of making serious decisions about the future and the type of environment they need to cultivate in order to grow and prosper.

A surprisingly large proportion of these are in a position to implement such decisions within the next three years, suggesting that when change comes, it could come relatively quickly. Investors, and their

lenders and valuers, will want to start thinking about what this means for office portfolios.

TUNING INTO EVOLVING OCCUPIER NEEDS

For office occupiers this is a particularly challenging time, as they try to determine what is in the best interests of their organisations now and in the longer term. It is difficult to make long-term decisions at the moment and flexibility will be attractive. It's no surprise to see such interest in serviced office accommodation, which could provide a more flexible solution in the short to medium term.

Investors should take heart from this report, particularly the finding that there will always be a need for offices. But things look set to change and that will bring both challenges and opportunities. More flexible lease terms may reduce security of income, but they have the potential to increase returns as occupiers will generally pay a premium for them.

ION FLETCHER

Director of Policy (finance),
British Property Federation





NEW COMMERCIAL REALITIES

For the office market, this is a watershed moment. Consequently, it is important for all stakeholders in the market to think about what might be on the horizon and how this will shape immediate and future plans, as well as investment decisions. We believe there are four key areas of focus:

FLEXIBILITY

At this point in time, occupiers are sending a clear message to landlords that they need flexibility in every aspect of their office accommodation – from their leasing arrangements to the way the space is used and configured. As businesses adapt to a changed operating environment, the emergence of a growing demand for 'plug and play' space – at least as an interim measure – is unsurprising.

Having been 'out of office', in many instances, for more than a year, businesses are demanding more from their accommodation, with a greater need for enhanced fit-out packages to aid efficiency and provide a safer, more comfortable and productive working environment for their employees.

Investors who are alive to these changing needs are reviewing the quality of their portfolios. They will also be following with great interest the Government's review of commercial landlord and tenant legislation, due to be launched before the end of 2021, and how it might reshape current market dynamics.

SUSTAINABILITY

With ambitious Government targets to reduce the UK's emissions by at least 68% by 2030, there is even greater focus on the sustainability of business accommodation. For those entering into longer-term leases, the target date is less than nine years away and businesses making decisions today will want to future-proof the occupation of space.

A more pressing requirement is the MEES Regulations, which will inevitably bring closer scrutiny to the energy efficiency of office assets and greater adoption of 'green clauses' in leasing arrangements.

In selecting office accommodation, occupiers will undoubtedly be increasingly driven by their Environmental, Social and Corporate Governance (ESG) agenda. Investors and landlords with a sound strategic approach in this area are set to reap the rewards as businesses become increasingly sophisticated in their approach to ESG.

INNOVATION

The pace of change in office accommodation has been accelerated by the pandemic. With some element of remote working here to stay for most organisations, occupiers will want to be confident that they have the right digital infrastructure in place to aid connectivity and data security.

The way offices are used is clearly changing, with some predicting a greater emphasis on collaborative working, rather than each employee having an individual workspace. Landlords who engage with occupiers to identify and predict their requirements, and deliver them effectively, will gain from an evolving market.

SUPPLY VS DEMAND

Feedback from the research reveals the pull of a city-centre location, with the key UK cities remaining highly attractive to occupiers – and indeed investors. However, there is a shortage of Grade A space that fulfils the current requirements for high spec, flexible accommodation. Meanwhile, demand may be weakened in the short term for those buildings that do not meet occupiers' evolving needs.

The office is still very much alive. Those who are willing and able to quickly adapt and take advantage of the shifting market conditions are likely to build a more robust, long-term strategy for the benefit of their future business.

ABOUT US

GOWLING WLG

Our experience is extensive and includes representing UK and overseas institutional investors, asset managers, developers, banks, public bodies and corporations in their HQ relocation projects, office pre-lets, investments, disposals, developments and general corporate real estate. We work in partnership with our clients to ensure we meet their objectives and have advised on millions of square feet of office space across the full real estate life cycle.

TECH-DRIVEN SOLUTIONS

Our team also offers clients innovative solutions to everyday legal issues that may affect their office portfolios. We are one of the only law firms in Europe to have acquired our own artificial intelligence software company, Avail AI. Avail AI allows us to provide bespoke solutions for our clients by bringing together technology with cutting-edge legal thinking to help solve clients' business issues in an innovative way.

SERVICED AND FLEXIBLE OFFICE SPACE

The increasing demand for serviced or flexible office space is one of the most exciting changes currently taking place in global real estate, and we can offer expert advice in relation to this. We have a long history of acting for clients on their serviced and flexible office portfolios and with institutions, expanding their offering of flexible occupation solutions.

SUSTAINABILITY AT THE HEART OF OUR APPROACH

We work with clients on meeting their environmental, social and governance targets and auditing programme. We have a wealth of experience advising clients on the regulation of their office projects, their compliance with environmental regulations and reporting standards and in enhancing their portfolios to make them exemplars in a world in which sustainability is a key commercial driver.

We understand that the office environment is changing, and we can work with you to extract maximum value from your space, working alongside tenants and occupiers. Looking towards the future, landlords who can meet the connectivity and wellbeing requirements of their customers will thrive. Introducing new technology to ensure needs are met for both sides will be key. Gowling WLG has the experience and expertise to help you to achieve your goals.

<https://gowlingwlg.com/en/>

THE BRITISH PROPERTY FEDERATION

The British Property Federation is the voice of the real estate industry in the UK. Our membership reflects the diverse nature of our industry – owners, developers, funders, agents and advisers.

We work with our members to support a diverse, successful and sustainable real estate industry recognised for the contribution it makes to society. Our membership is industry wide, so we provide unparalleled opportunities for networking and sharing good practice, and we can provide Government and regulators with an authoritative perspective on the issues facing real estate and how we can support communities across the country.

We deliver our mission by working collaboratively with national and local government and other partners; by promoting knowledge, innovation and best practice within the industry; and by showcasing our members' achievements so that our diverse sector is better understood.

<https://bpf.org.uk/>

DAN GWILLIAM

Partner

+44 (0)20 7759 6659

+44 (0)7780 705 550

dan.gwilliam@gowlingwlg.com



FELICITY LINDSAY

Partner

+44 (0)20 7759 6458

+44 (0)7713 877 465

felicity.lindsay@gowlingwlg.com



ION FLETCHER

Director of Policy (finance),
British Property Federation



Gowling WLG, Official Legal Advisers -
Birmingham 2022 Commonwealth Games.

GOWLING WLG (UK) LLP

T +44 (0)370 903 1000

gowlingwlg.com

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