

The impact of the Covid pandemic on the office market, with reference to the city of Norwich

Supplementary note to: *Review of Office Accommodation in Norwich* (July 2020)

It is now 14 months since the first Covid pandemic lockdown measures in March 2020. Since that time, the 'office economy' has been largely functioning with people working from home. This has been perhaps the largest ever closure of normal business in peacetime. In the early stages there was widespread speculation about the hollowing out of city centres and the collapse of office work as we know it. A year later, and there is emerging a more sober assessment and consensus around the future office market. A switch from 'revolution' to 'evolution'. This brief note summarises my thoughts on the current debate about the impact of Covid on the office market, with reference to Norwich.

Working from home

One thing that the Covid pandemic has demonstrated above all else is that people can work from home on a scale, and in ways, not envisaged by the mainstream before. There is no evidence of companies that have disappeared as a result of not being able to access their offices for normal work; and even very large finance houses, accountants, lawyers and so on have managed a form of business as usual throughout the period. Indeed, some are reporting increases in productivity.

The key questions are around the degree to which this will happen and what impact it will have on companies' physical footprints. For example, one of the mainstream predictions is that many companies will move to 'hybrid working', whereby people will spend an average of three days in the office and two days elsewhere. The logic of this suggests that companies will need only 60% of the space they previously occupied.

There seems to be little doubt that, post-pandemic, WFH (and its variant working from anywhere) will be more prevalent than before the pandemic. However, agile working and flexible working had been on the increase before the pandemic and, in some senses, it has simply acted as an accelerant to this established trend. The specific achievement of Covid has been to break, permanently, the management by presenteeism model; organisations will no longer be able to insist that everyone is in the office together, nine-to-five.

Impact on footprints

The impact on physical footprints is less clear. Many observers are suggesting a reduction in demand by anything between 20% and 40%. But it is clear that a more nuanced response is required. For example, while occupancy densities have risen from c15 sq m per desk to c9 sq m per desk over the past twenty years, and while many organisations have introduced at least an element of hot desking, these trends

will need to be reversed in the search for healthier work environments. Furthermore, there will be additional net demand for space allocated to socialising, collaborating, meeting and so on.

A report from KPMG in April 2021 showed that between August 2020 and March 2021, the number of global companies intending to cut back on office space had fallen from 69% to 17%. Indeed, announcements from major employers have been very mixed. For example, Facebook, HSBC, Microsoft, Nationwide, Société Générale, Twitter have all announced long-term and widespread WFH strategies. By contrast Amazon, Goldman Sachs, Google, JP Morgan and Morgan Stanley are all encouraging staff to return.

Evolution of the office economy

Office work and office occupation have been undergoing rapid change for the past two decades in response largely to digital technology; but also in response to wider pressures including: cost efficiency, sustainability, health and wellbeing, personal choice over workstyles and competition for skilled staff. As stated in our report for Norwich City Council (*A review of office accommodation in Norwich, July 2020*), changes in the economy and society are bringing about major changes in the demand for offices. Economic, business, technological and social pressures are pushing on the 'knowledge economy', bringing about change in the amount of space required; the nature of buildings; workplace design and workplace management. As firms adopt more agile, networked approaches, offices will become 'less generic' and less single purpose, and will work harder to provide choice and flexibility.

Larger, hierarchical, task-driven corporate islands had begun to change and build networks of organisations, individuals and specialists, each bound together by a common sense of purpose and shared interest. Business ecosystems will involve large and small companies working together, with contingent workers and specialists across extensive and collaborative relationships. Networks will be the defining feature of the office economy, underlining the need for the CBD to offer more than office blocks.

City centres

In the post-pandemic era, city centres will need to work harder to provide places that people want to visit and enjoy, as well as work. They will need to become safer and cleaner, and provide experiential, amenity-rich and public transport oriented places.

In an era when job mobility has never been higher (nor, perhaps, job security, lower), and when small businesses, contract workers, contingent workers and specialists all rely on rapid and frictionless transfer between contracts, city centres provide broad, deep and accessible job markets. In Norwich, Aviva has announced that it will be moving its staff back into the city centre from peripheral business parks, reflecting a trend that had been evident in some cities before the pandemic. City centres provide services, lifestyle, leisure and networking opportunities that business parks simply cannot match.

Office demand

Much has been written about this, including the 'end of the office' narrative and observations suggesting long-term changes to behaviour around commuting, working patterns, office layouts and so on. In reality many of the changes being discussed have been a feature of the direction of travel in real estate over the past two decades. But the office has a key social function, not to mention areas such as training, mentoring, leadership, corporate ethos and so on. These needs have not disappeared. While the pandemic is likely to have a negative impact overall, it is difficult to foresee a structural change in the quantum of demand for offices in Norwich city as a direct result of COVID-19.

Large, corporate occupiers and SMEs procure and occupy space in subtly different ways. Norwich does not have a large base of large office employers, who are the most likely to institute footprint reductions as a result of the pandemic. Instead, Norwich has a more diverse base of smaller occupiers who, because of their sheer size, have fewer opportunities to save space through WFH; and for whom the 'business park option' is much less attractive than for larger firms.

Flexible workspace

Long-term, inflexible and capital intensive real estate has been yielding to a commodity model for several years, in the form of the flexible space market; space is turned on and off as required by customers, while receiving value adding service from a provider. This aspect of the office market is likely to be in the ascendancy post-pandemic. It is also an aspect of how property owners manage their risk in the post-pandemic market, by leasing space longer term to intermediary service providers.

The office workplace

The changes described in this paper add up to a re-definition of the role, or purpose of the workplace. Its previous role was as a relatively static backdrop to process-dominated work, with a rigid, hierarchical workforce. Undifferentiated workers were managed within a one-size-fits-all approach in which cost minimisation was paramount.

The emerging role of the office is to provide a dynamic, experiential, healthy, lower density, welcoming and functional environment; one that focuses on connectivity, collaboration, socialising and learning. It will help define and express the values of the employer. There is also likely to be more focus on how air circulation is handled. Specifically air will need to be drawn up (away from staff) and out of the building, with much less recirculation. Not all buildings will be amenable to this, but many town centre offices with natural ventilation, in a city such as Norwich, will be very attractive to smaller occupiers in particular.

Physical concentration and mass transit connections (which are increasingly sustainable) will endure as a model for urban development. One of the oft-cited

benefits of WFH is the avoidance of lengthy and expensive commutes. But this is not really a feature of the Norwich market, with a more compact urban morphology.

Overview

The pandemic is likely to be used by property owners to justify conversion of offices to residential on the grounds that office demand is in decline. But the best that can be said about this position is that it is unproven, driven by transient land values rather than well-established understanding of urban geography, and the city's valuable strategic stock of space should not be gambled on a hunch.

I believe that the impact of the pandemic on demand for office space will be less than is generally referred to in the media. This applies to cities generally, and to Norwich in particular. There will be an impact, there will be more WFH and office workplaces will evolve to suit changing preferences. But the headline quantum of demand is unlikely to fall precipitously. It is because of this generally positive outlook for offices in Norwich that I continue to believe there remains a requirement for an Article 4 Direction in the city centre to protect office uses from conversion to residential use.

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