

REIMAGINING THE OFFICE BEYOND COVID-19

As we enter a new post COVID-19 period with vaccines providing a positive outlook, it is time to reimagine the office. Many occupiers are now reconsidering long term real estate strategies with optimisation of the portfolio and safety as key elements. In order to be successful, companies need to integrate a focus on liveable office spaces and sustainable solutions.

Key questions of real estate strategies

While the pandemic has underlined the need to establish healthy and safe office solutions it has also fueled an almost revolutionary uptake of remote working¹. Many occupiers have reconsidered their long-term real estate strategies through 2020. The drive to cut operational costs and shift towards digital work processes look to be the dominant forces playing out across a range of countries in North Europe and US². At the same time, building operators and occupants have been looking toward more permanent health and safety measures.

Entering 2021, many companies will now be looking to reinvent business models and operations in order to reap the benefits of a wider spread use of digital work, lower costs and increased flexibility. This means reorganising workflows and reskilling the workforce.

However, in order to succeed in the longer run, companies need to consider the effect of office space on talent attraction and retention as well as brand value and coming green regulation. The talented workforce will be coming back to the office, but not the office they left behind. Liveability and sustainability are dominant trends of the reimagined office.

Further reading

This is the first in a series of white papers on the challenges facing office owners and operators in the wake of Covid-19. Practical solutions to make offices safe, attractive, and fit for the future are also explored.

Download the white papers at c.ramboll.com/offices.

¹ Brennan M. (2019): "U.S. Workers Discovering affinity for remote working", GALLUP.

² Boland B et al. (2020): "Reimagining the office and work life after COVID-19". McKinsey & Company.

The need for cost reduction and flexibility

Reports suggest that through new technologies, managers are effectively able to oversee their employees while working from home³ and employees can strike a better work life-balance though reduced commuting⁴. Analysis from the first wave of COVID-19 has shown that up to 40 percent of knowledge workers reported being more productive working from home and in many instances even preferred to work from home⁵. Even though the second wave of COVID-19 in the fall of 2020 suggests a less productive response to working from home, COVID-19 has led to a step change in digitised work.

This trend will drive changes in the demand for office space in the coming years. Consequently, companies in Europe and US will be looking to redistribute work between offices and home as well as new types of office solutions, leading to a reduction in demand for office square meters in the short term. A shift towards smaller offices is reported by some to lead to savings of up to 30 percent by occupiers on their fixed capacity cost⁶.

This will most likely be accompanied by a trend towards companies restructuring their office portfolio from owning the fixed asset to more flexible solutions such as leasing, flex leasing, flex space and shorter-term rental⁷.

Ensuring health and safety

Just as cost reduction and flexibility will be a key component of coming real estate strategies, so will an increased focus on providing healthy and safe work environments. A healthy workplace also makes for a productive workplace. For instance, studies have shown that 57 percent of all sick leave was attributable to poor ventilation⁸ and illness related costs to productivity is huge⁹.

What is liveability in offices?

Liveability in offices refers to the user experience of tenants. It includes the indoor environment (e.g. climate and lighting) and amenities (e.g. canteen, gym, daycare facilities) – all the attributes that influence employee satisfaction and make a workplace attractive and healthy.

³ Kshirsager A. et al. (2020): "Adapting workplace learning in the time of coronavirus", McKinsey & Company

⁴ Sanganrandeniya Y. et al. (2020): "Flexible Working and Work-life Balance", Department of Human Resource Management – University of Kelaniya.

⁵ Boland B et al. 2020. "Reimagining the office and work life after COVID-19". McKinsey & Company.

⁶ Ibid.

⁷ Van Doorn L. & Raufast V. (2020): "Future of work", EY/Urban Land Institute.

⁸ Milton DK, Glencross PM, Walters MD. Risk of sick leave associated with outdoor air supply rate, humidification, and occupant complaints. *Indoor Air*. 2000 Dec;10(4):212-21.

⁹ The Integrated Benefits Institute estimates the costs of illness-related productivity loss by US businesses at \$530 billion per year. According to the CBRE report, *Wellness in the Workplace: Unlocking Future Performance*, in the United Kingdom alone, 10.4 million working days are lost every year due to stress. Additionally, an estimated \$227 billion is lost each year to employee absenteeism or "presenteeism" (when workers are in the office yet are unproductive due to health-related challenges).

Providing healthy and safe workspaces has several dimensions. In the building itself, optimising the flow of people, providing adequate ventilation, smart solutions and contactless office spaces will be questions of increased focus in the short to medium term. However, the chosen solutions will vary between geographies depending on investment opportunities, working environment regulations and the sentiment towards technological solutions to flow and workspace management. Flow analysis technology, which facilitates smooth movement of people inside buildings is already underway in many buildings in urban areas in Asia¹⁰. Ramboll provides a dedicated toolkit for this purpose. However, for many owners, the existing parameters of the building, as well as the occupier's willingness to pay and the general attitude towards tech solutions, will limit options.

A new toolkit for a new normal

Ramboll's "New toolkit for a new normal" provides integrated solutions to health and safety based on User Journey Mapping, People Flow Simulations and Computational Analysis as a basis for providing solutions to people flow, pinch points and manpower management.

In Europe in particular, the COVID-19 response is not yet as technologically focused as the Asian response. Continental (especially North) European working environment regulations are stricter than elsewhere leading to less dense office spaces and thereby less risk of viral infection¹¹. In addition, the business case for implementing technological solutions is simply not as compelling in the typical five storey European office building as it is in more modern Asian high rise where costs per square meter is lower. And finally, cultural acceptance plays an important role, at least in terms of surveillance-based systems.

Liveability, learning and culture as a driver of growth

In the longer run, cost reduction will not suffice. Companies need to reinvent business models and operations – and in doing so also reimagine the role of the office¹². For the high performing young professionals working long hours in particular, the office space is an extension of their lives and therefore also needs to facilitate human interaction, learning and emotional needs as well as physical and practical needs.

The nature of the office will change as the nature of the processes performed at the office changes.

Some offices will serve as a place to supercharge collaboration, innovation and learning, while other workspaces will serve different purposes. Analysis from the US indicates that young people positively recognize the reconfiguration of offices into a more open space office that create creativity and different experiences¹³.

¹⁰ Hoshino T. et al. (2018): "Optimizing Simulation of Movement in building by using people flow analysis technology", Hitachi Review vol 67 No.4.

¹¹ Aerts K. et al. (2020): "Working from home has become the face of the "new normal", but what does this mean for European employers and the obligations they have to their employees?", JD Supra.

¹² Petersen M. (2020): "Structural changes in the office market after COVID-19", Cooliers International; Boland B et al. 2020. "Reimagining the office and work life after COVID-19". McKinsey & Company.; Doorn L. & Raufast V. (2020): "Future of work", EY/Urban Land Institute.

¹³ Cwiklinski P. (2018): "Activating Your Assets and the Future of Space Management"; OfficeSpace.

Many argue that office portfolios will be redistributed differently between the HQ, satellite or project offices, home and working on the go¹⁴. Hybrid workplace models are being developed, for instance the so called the hub and club model. Implementing a hub and club model also entails a need to provide incentives for the hybrid workforce to go to the HQ serving as a club. This will be accompanied by a change in the design of office functions and locations. HQ-offices will need to be more attractive in the future, for instance, by providing new experiences, services, better meals and a generally more attractive “feel” than today. Alongside this, companies will likely have decentralized offices located closer to the home of employees.

The change of office space will also mean changing the interior design of the office. Office space is predominantly designed for functionality and efficiency, rather than diversity, homeliness or liveability. The human factor is forgotten. The consequence is alienating, uniform spaces of concrete, glass and steel. The trend is leaning towards creating more liveable office spaces. Office space that is attractive to the employees that companies want to recruit and attractive enough for employees to endure commuting that is in some cases a substantial part of the daily routine.

Liveable office space also offers a productivity gain that could compensate for investment and maintenance costs. Different studies based on cases from European countries suggest that control of temperature, indoor air quality, ventilation, noise, and light affects the productivity of the employers¹⁵. Ineffective control of the factors could lead to a higher amount of sick days, a bad working environment, and stress¹⁶. A better control of indoor climate pays off.

A personalised service is expected by the talented workforce

Companies are forced to compete fiercely for the most talented workforce. New generations are putting increasing demands on the physical environment of their work life. This is not only to do with the physical amenities, but also the office-based services. For instance, a wider and individualised variety of meals (served throughout the day), physical training and a generally healthy lifestyle are all items on the wish list of young upward moving professionals. If you get to choose between industries as an employable person, why not chose an industry that matches the needs of your personal life as well as your work life ambitions? Young people ask themselves: Is the company ethical? Do I get to work in projects in an innovative and collaborative environment? What type of resources do I get access to? How will I get rewarded? How is the standard of my lunch? Can I get a vegetarian meal? Do I have access to a meal at all times of the day? Do I get access to a shower when I arrive on a bike in the morning?

The hub and club model

The hub and club model aim to provide flexible working conditions for employees.

Club: The HQ of the organisation; focus on the core business; internal focus; facilitating knowledge sharing and collaboration

Hub: Regional office for short-term usage; focus on task performance; shared with other external organizations; easy access.

¹⁴ Smit S. et al. (2020): “The future of work in Europe”, McKinsey Global Institute.

¹⁵ Wargocki P. et al (2007): “Indoor climate and Productivity in Offices”, REHVA; Roelofsen P. (2002): “The impact of office environments on employee performance: The design of the workplace as a strategy for productivity enhancement”, Journal of Facilities Management.

¹⁶ Kapalo P. (2020): “Influence of Indoor Climate on Employees in Office Buildings-A Case Study”, MDPI Sustainability 12(14):5569; Edem MJ. et al (2017): “Impact of Workplace Environment on health Workers”, Occup Med Health Aff 2017, Vol 5(2): 261.

Employees have an increasing focus on food and health. An interest which is shared by insurance companies that have an interest in preventing lifestyle diseases. A well-equipped and well-situated gym is mandatory. Services like a personal trainer, physiotherapist and dietician is increasingly thought to be part of the package. A more individualised variety of food that serves multiple lifestyles is also part of this trend.

The sustainable choice is the favoured choice

While the increased demand for liveability and personalised services is not new the growing awareness of climate change and the need sustainable solutions is. This trend is driven in part by ethical standards of employees – and thereby considerations of talent attraction and retention as well as by future prospects of tightened building regulations.

The sustainable office has multiple dimensions. In terms of building design, it is a question of choosing adaptive reuse of existing building stock over new build. Within the building itself, it is a question of reducing energy consumption, for instance, by limiting heating and cooling and nurturing a climate considerate behaviour by reducing, reusing and recycling as much as possible.