



RESEARCH

**RESEARCH
INSIGHTS**

COVID-19 & TELEWORKING

HOW MAY THE GLOBAL PANDEMIC AFFECT THE OFFICE MARKET?

The outbreak of the pandemic has imposed a mass telecommuting experiment by companies on their employees everywhere around the world. Over the short term, office markets are on hold and prompting rethinking about how the future office will work. The office building will continue to occupy an important place in supporting companies and their resources in their quest for enhanced performance and well-being.

THE PANDEMIC IS A SIGNIFICANT BOOST TO TELEWORKING

March 2020 saw almost all countries imposing strong sanitary measures on their population, including lockdowns that have led to the **NEED FOR QUICK ADJUSTMENTS** by companies in the organization of work. Teleworking accelerated significantly during the lockdown to ensure continuity in economic activity, even in countries where it was uncommon such as in Asia. **TELEWORKING (A.K.A. TELECOMMUTING OR REMOTE WORK) IS THE PRACTICE OF WORKING WITHOUT A FIXED LOCATION.** Usually this is outside the office and often (but not necessarily) from home.

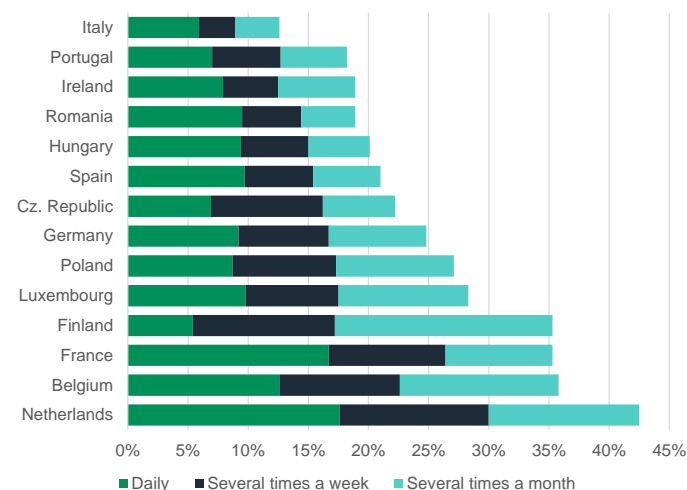
95% of French companies implemented remote work for their eligible employees during the lockdown

62% of American workers were working from home at the beginning of April vs. 30% one month earlier

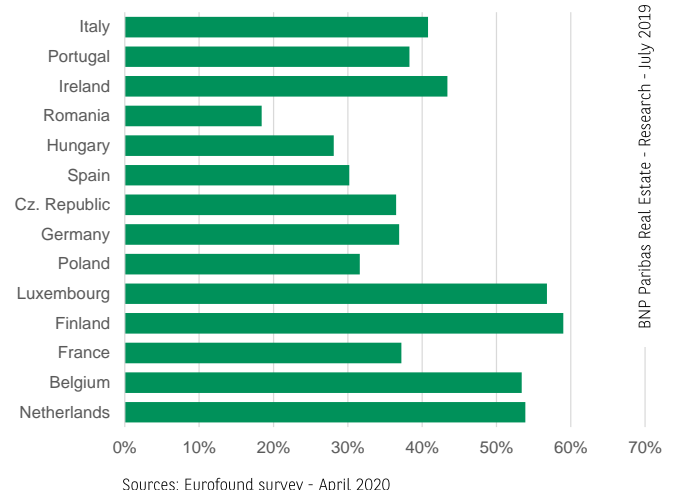
56% of Japanese companies made telecommuting possible in June vs. 18% in March

Sources: ANDRH, Gallup, Japanese Government

How frequently did you work from home before the outbreak of the COVID-19?



Started to work from home as a result of the situation



Sources: Eurofound survey - April 2020

BNP Paribas Real Estate - Research - July 2019

The pandemic will probably boost the share of employees working remotely in the long run as the pandemic proved companies can operate effectively with remote work.

Before the outbreak of the pandemic, working from home was an uneven phenomenon across Europe. Generally speaking, teleworking was more common in Northern countries, for instance in the Netherlands where more than 40% of the workforce teleworking at least once per month. The different countries' management culture, the share of the tertiary sector in the economy and the quality of the technological infrastructures were the main reasons for this diversity.

TELEWORKING REQUIRES ADJUSTMENTS TO BECOME THE 'NEW NORMAL'

Teleworking proved possible to quickly and effectively implement as an emergency solution in a situation requiring an immediate reaction. **THE ADVANTAGES OF TELEWORKING ARE EVIDENT:** employee satisfaction due to reduced time and expense on commuting, companies get access to a potentially wider workforce pool and a rise in productivity for complex tasks due to fewer disruptions.

As a result, a number of companies have announced the extension of their telecommuting program even after the end of the pandemic, leading some to think that the future of the traditional office work (and consequently the office market) is doomed. **HOWEVER, THE DEVELOPMENT OF TELEWORKING SHOULD NOT LEAD TO BINARY THINKING.** It is highly unlikely that a 100% telecommuting work organization will become the norm for all companies. Indeed, even though both businesses and employees were often satisfied with remote work, it is a process requiring company and employee adaptation due to technical, security and management constraints:

- **Technical and data security** adjustments
- **Adjustments in the organisation of work:** all employees will not be able to work remotely on the same day
- **Companies stress** the potential reduction in innovation through reduced interaction between employees
- **Employees often miss the contact with coworkers**, sometimes leading to feelings of isolation. There are also a different set of difficulties to balance personal and professional lives

It is noteworthy that **NOT ALL COMPANIES ARE TELEWORK ENTHUSIASTS.** Some of them have decided to end or to lighten their telecommuting program in the past or have announced that they will as soon as the pandemic situation improves.



MOREOVER, DIGITIZED JOBS ARE THE MOST COMPATIBLE WITH TELEWORKING.

It is indeed the ability to deal with information flows that determines how companies can use distance workers effectively. Indeed, **THE JOBS THAT ARE THE MOST COMPATIBLE WITH REMOTE WORK FOCUS ON INFORMATION AND ARE DIGITAL IN NATURE.** Remote work may gain in importance in economies where digital technology has already reshaped business organisation. Some tasks such as writing, reporting, calculating or analysing data seem to be totally compatible with remote working. Some others are only partially compatible with this kind of work organisation. This is specially the case with jobs that require a lot of interaction between people.

Even though teleworking has unarguable benefits, it cannot suddenly become the only model, as it requires substantial adjustment to organisations. It should remain the prerogative of certain types of jobs, only in the companies that will be able to adapt to the requirements of this type of work flow.

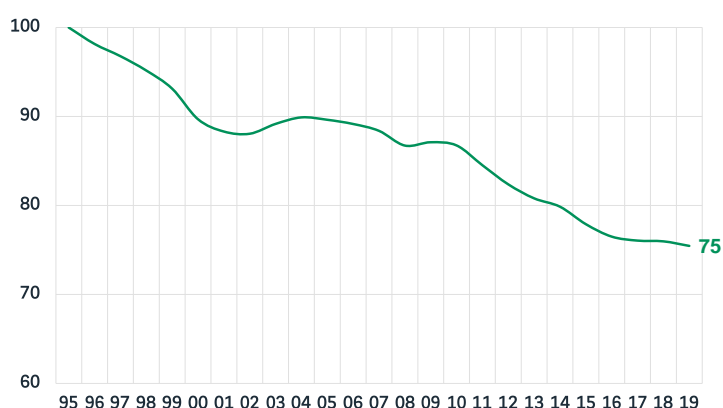
TOWARD A HYBRID WORK ORGANISATION

The aftermaths of the crisis will create different strategies among companies. Some companies may revert to previous work patterns. For instance, **THE PAST EXPERIENCE OF SOME US BUSINESSES TESTING TELECOMMUTING LED THEM TO REDUCE OR EVEN ELIMINATE IT COMPLETELY.** Other may choose to switch to a nearly 100% telecommuting for part of their workforce but this should remain a marginal option.

We expect that a vast majority of businesses will opt for a partial but increased share of telecommuting in the work organization of their staff, up to 2 days per week for a part of their workforce, but will keep offices for employees not eligible to teleworking and as places of interaction.

Our main scenario is that teleworking will remain limited to a certain number of days per week, with differences depending on the types of jobs and company organisation. The main impact of the COVID pandemic is however likely to be felt in office space organisation.

DE-DENSIFICATION, OFFICE OPTIMIZATION AND TRANSFORMATION



Source: PMA - June 2020, *London, Amsterdam, Paris, Milan, Hong-Kong, Sydney, Singapore, Chicago, New York City, San Francisco

Density has waxed and waned across the history of offices. In the 1930s, the principles of Taylorism were applied to office spaces, with a rigid office layout accommodating a very high density of workers. **THE MIDDLE OF THE 20TH CENTURY SAW THE DEVELOPMENT OF OPEN PLAN OFFICE LAYOUT DESIGNS THAT BROKE UP INTENSE DENSITY BY CREATING GROUPS USING OFFICE FURNITURE AND SMALL OFFICES.**

However, all major cities in the world have been experiencing the phenomenon of office densification since the end of the 20th century. This is largely a result of rising property costs forcing need on companies to do more with less. **OFFICE DENSIFICATION HAS BEEN ONE OF THE MAIN REASONS FOR "LOST OFFICE DEMAND".** Less space was needed and consequently companies tend to rent smaller premises.

EVEN THOUGH IT IS STILL TOO EARLY TO CALL THE END ON SOCIAL DISTANCING, DENSE OFFICES ARE CONTRADICTORY TO SOCIAL DISTANCING MEASURES that have been implemented everywhere around the world. One of the pandemic responses by companies wishing to keep offices open is a "de-densified" office, with **MORE SPACE/FLOOR GRANTED PER WORKER IN ORDER TO ENSURE A SUFFICIENT DISTANCE BETWEEN PEOPLE.**

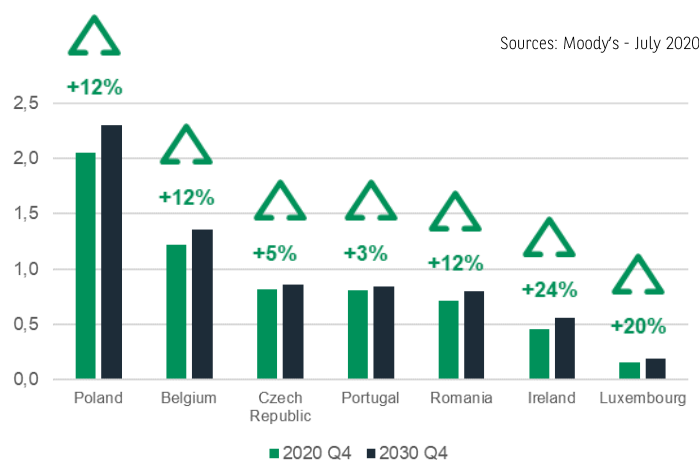
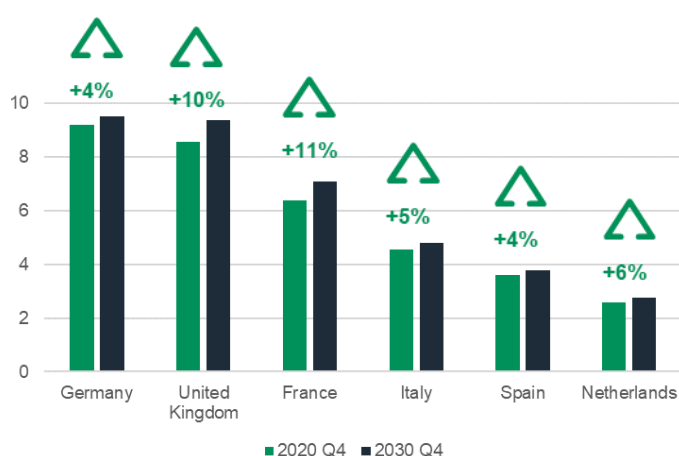
However, assuming that more distance is maintained in offices and that teleworking will gain in importance, it is conceivable that a certain portion of desks will be replaced by social spaces, such as larger meeting rooms for physical or online meetings. As a consequence, office space will have to be transformed. Teleworking will lead to fewer employees in the office at the same time, creating more empty space that can be transformed for new purposes.

Time will be necessary for both occupiers and landlords to adapt their premises. Such transformation will also require rethinking of business processes and culture.

The rise in importance of teleworking raises the question whether office space will shrink. However, de-densification and the probable future changes in space organisation due to social distance may leave the quantum unaltered or even increase the space/floor per worker.

THE GROWTH IN OFFICE EMPLOYMENT WILL FUEL THE MARKET

Expected evolution (2020-2030) of the office employment (million jobs)



Sources: Moody's - July 2020

Office employment is expected to grow significantly in Europe in the next ten years. On average, the number of office jobs among the 13 countries listed above should increase by 10%.

Companies will need offices to accommodate this additional workforce, even if teleworking gains in importance, which should generate take-up and have a positive impact on the occupied stock.

OTHER POSSIBLE IMPACTS ON THE OFFICE MARKETS



PARTIAL RELOCATIONS

Companies keep their strategic functions in the most central districts (CBDs, main business hubs...) in smaller premises. As remote working is possible, they open « secondary » offices in cheaper locations (for instance Inner Rims) close to public transportation hubs and closer to their employees' home.

Advantages: savings on rents in the most expensive areas, possibility to keep some offices open in the case of a future localized lockdown, shorter commuting time for the employees.

Drawbacks: lack of communication between the different functions of the companies if they are split in several location, financial cost to implement this new organisation.



USE OF FLEX SPACE

Instead of renting new space, or if companies decide to reduce their office space, flex space such as coworking offices can be used to accommodate some of their employees

Advantages: flexibility of coworking space with no lease commitment. Employees can enjoy a nice work environment, located in central business districts.

Drawbacks: high cost for companies as the rental of desks in coworking space is usually expensive. Businesses will also have to provide the workers with electronic devices such as laptops and mobile phones to ensure that they can work in third places. Possible data security issues. Also difficult to control social distancing.



Companies will have to restore their balance sheet in the wake of the pandemic.

As a consequence, partial relocations and the use of flex space seem unlikely as both these solutions will generate costs and should remain outlier alternative solutions.

FINAL THOUGHTS

Economic rebound should stabilise the conventional office market seeing it return to past patterns quickly. With restoration of losses, subsequent economic expansion will see employment grow over the next 10 years. With job growth will come the need for accommodation.

Companies will assess the impacts of the teleworking experiment over the next few years. **WE ANTICIPATE FOUR THINGS EMERGING:**

- The pandemic will probably boost the share of employees working from home in the long run, as the crisis has proven the feasibility and capability of teleworking in many companies
- Although remote working has advantages, there are also drawbacks for both companies and employees, which will prevent it from becoming the norm
- Consequently, a hybrid organisation of work, mixing physical and remote working may emerge
- The de-densification of office space, their transformation and optimization may lead to a new class of offices in the long-term

The COVID-19 crisis may lead to transformations in the organisation of work, outcomes reflected in the structure of European office markets that will provide what the occupier needs. New offices will seek to deliver an optimal blend of both types of working with technology as the bridge. Most companies will take time to decide whether or not they will move to new offices and to determine their real estate strategy. Consequently, the actual impact of the pandemic on the market may not be witnessed in a near future, but on a longer time frame.

6 BUSINESS LINES in Europe

A 360° vision

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