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PERSPECTIVE

The Evolving Workplace: Where To Next In A Post-Pandemic World?

A discussion of the impacts on organizations and the offices they use.

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In a "work from anywhere" world, why go into the office? This question is traditionally the domain of workplace strategy practitioners, however, it has come into sharp focus for many more people through the events of 2020. As a return to office-based work becomes more widely contemplated, it is timely to consider the answer to this question in terms of wide-ranging post-COVID-19 impacts.

This article will consider the structural shifts in work patterns that have emerged through 2020 and 2021 in North America, and its impacts on organizations, workplaces and real estate. The office is here to stay, but so is flexible and hybrid working – this trend pre-dates the COVID-19 pandemic but has been accelerated by it.

Employee-centricity is driving workplace strategy – the discipline has become more sophisticated as it benefits from big data insights and is increasingly focused on proactively managing the employee experience. Management skills that leverage emotional intelligence are being recognized as critical for hybrid or virtual teams, to maintain the social cohesion of a distributed workplace. Corporate real estate strategies are adjusting with a range of offerings from remote-centric to office-centric. For organizations adopting hybrid models, the in-office experience is focused on supporting team interactions, collaboration, innovation and the office as a social environment. Progressive landlords can demonstrate a future focus, and recognize employee-centric thinking, by investing in smart, healthy and amenity-rich buildings. In real estate markets where COVID-19 induced vacancies may continue to be problematic, this could become an important differentiator for landlords.

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THE EVOLUTION OF WORKPLACE THINKING

The discipline of workplace strategy came into the mainstream of office planning in the mid-2000s. Workplace strategy, as defined by Anika Savage in 2005, is "the dynamic alignment of an organization's work patterns with the work environment to enable peak performance and reduce costs".[1]

By 2005, several key concepts had emerged in the discipline of workplace strategy to address the changing workforce and patterns of work: the "Dilbert cube" office landscape of the latter part of the last century was being replaced by diverse activity settings (e.g. spaces for collaboration, for concentration, and for socialization) in a drive to improve knowledge sharing, innovation, productivity, financial and other business results; the rise of the distributed team as the definition of the workplace was expanded to include a variety of remote settings other than the office (e.g. home, satellite facilities, hotels etc.); and design and functioning of the workplace was being linked to retention and attraction of talent in a competitive workforce. In summary, the physical aspects of the office (space and place) were being explicitly linked to the social aspects (culture, human networks and behaviour) and emerging supporting technology (enabling digital information, connectivity, mobility).[2]

Early initiatives and experiments with remote working were narrowly focused on cost savings of office space, with IBM's signature strategy of drastically reducing their office footprint with a focus on cost reduction. By 2009, approximately 40% of IBM's workforce was working remotely, and the company reportedly had reduced space by 78 M SF.[3] However, the impact on teaming and corporate culture became evident over time, and the policy was selectively reversed for some groups to improve innovation and collaboration. In a similar vein, a decision by Yahoo in 2013 ended its work-at-home policy and asked employees to return to the office, with the communication announcement citing the need to improve collaboration.[4]

Research into how people use their offices has become more sophisticated in recent years, placing workplace strategists in a better position to understand the dynamics behind work patterns and office use. IoT sensor data on occupancy patterns, combined with other enterprise data sources (such as collaboration software usage) can provide rich material for big data analysis. This, combined with other analytical techniques (such as the discipline of ethnography and network analytics), allow workplace researchers to drive a deeper understanding of how workplaces are used, and to identify design needs.[5, 6]

There is also increasing recognition that the quality of workplace experience, much like customer experience, is something that can be measured, and therefore managed for improvement. The Leesman Index was established in 2010 as a survey-based benchmarking tool allowing organizations to measure the effectiveness of their workplace.[7] In 2018, Leesman recognized the measurement of workplace experience more specifically by benchmarking physical, service and virtual attributes shaping employees' opinions of their workplace.

A MASSIVE-SCALE WORK FROM HOME EXPERIMENT UNFOLDS

In March 2020, office employees around the world were sent home to work, and the world began a forced work from home experiment on an unprecedented scale. While changes in the philosophy of office use have been evident for a while, the COVID-19 epidemic acted as a catalyst for some organizations to experiment with flexible and hybrid working, and an accelerator of an already established pattern for others.

Experience in transitioning to work from home was varied. Progressive companies had, prior to COVID, adopted flexible working and prepared for the contingency of a remote workforce. Through a combination of business resilience planning and progressive workplace and technology strategies, these organizations were able to make the switch effortlessly overnight – employees were equipped with smartphones and laptops, good connectivity and secure virtual collaboration tools, digital information on the cloud, and employees were fully trained on the software they needed to use. However, many companies were caught scrambling. Examples included organizations with minimal business resilience planning, and organizations that had not made adequate investments in technology, cybersecurity and digital information. Another category of organization that had difficulty switching to remote work were those who historically had discouraged remote working, due to a poor culture of employee empowerment and low levels of leadership trust in employee accountability when out of the office.

Preliminary results from a European survey on employee experience working from home through the early COVID lockdowns show the benefits most often cited by employees were a home atmosphere, savings of commute time, more efficiency (e.g. less meetings, more focused work), and control over the working day. The most common disadvantages cited included isolation, poor home working conditions (e.g. inappropriate physical conditions, household distractions), productivity losses (hard to focus, not knowing what to do), and loss of important tools (physical equipment, data and documents, and some tasks that cannot be done from home).[8]

Leesman provides a more nuanced view of home working through this period as their methodology delves into the employee's activities as well as details of their home work setting – their December 2020 research report found that employees with a dedicated home working setting reported a better home work experience, and employees with an activity role profile that required more individual work had a better home experience compared to those with a more collaborative role profile who had a better experience in the office.[9] Leesman also reports that the quality of the office workplace that the employee regularly used pre-COVID is a strong predictor of their desire to work remotely after COVID-19.

HOW MUCH OF THIS CHANGE IS PERMANENT?

Research of full labour force statistics done in the early stage of the pandemic indicated that 37% of U.S. jobs can be done remotely.[10] Actual statistics on remote work are harder to discern, but Global Workplace Analytics has estimated that in 2018, 3.6% of the U.S. employee workforce worked from home half-time or more.[11] Studies on full remote working capacity of the Canadian economy show similar (38.9%) potential to the U.S., however, historically 13% of Canadian jobs were full or partially remote in 2018. Statistics Canada estimated that in March 2020 the Canadian economy transitioned almost overnight to full remote working capacity (39.1% of jobs).[12] The North American economy therefore has large capacity for remote working which has historically been under-utilized, but begs the question: how much of the pandemic-related change to remote working is permanent?

A few months into the pandemic, employees wanted more flexibility for remote work. Surveys conducted by PwC in June 2020 showed that 83% of office workers want to work from home at least one day a week in the U.S., and similar results in Canada (80%).[13, 14] A global survey in mid-2020 cited 76% of employees wanted to work at home at lease once a week, with the preferred frequency of 2 days per week.[15]

These highs moderated somewhat by early 2021, but there is still a strong preference for some remote work. A Gallup survey of January 2021 reported that 23% of U.S. workers (expressed as a percent of the total workforce) would prefer to maintain a remote work arrangement, always or sometimes.[16] A Leger North American survey identifies, of people who have been working from home during the pandemic, 78% would like to continue some form of remote work, fully or partially.[17]

PwC's March 2021 Workforce Pulse Survey concludes that 22% of employees are considering a move more than 50 miles away from their office location, on top of 12% that have already made that move, either temporarily or permanently.[18] This impacts workplace and location strategies for employers, and has spillover impacts into housing markets as more people choose places to live based on affordability and quality of life criteria.

The view from the C-suite is empathetic. A PwC Pulse Survey in March 2021 indicated that 56% of human resource leaders surveyed are making remote work a permanent option for roles that allow it.[19] In a KPMG CEO Pulse Survey of March 2021, 24% of CEOs are saying that their business models have changed forever because of the pandemic.[20] According to KPMG, the sweet spot model for remote work seems to be 2 to 3 days a week, favoured by 30% of global CEOS, with

21% looking at a predominantly remote model. 17% of CEOs are considering downsizing footprint, down from 69% in August 2020, suggesting that either some downsizing has already occurred, and / or there has been some moderation of thinking.

While the initial enthusiasm for remote work may have been reduced somewhat, both employee and leadership responses indicate that a more permanent change to office space use is on the horizon. Global Workplace Analytics estimates that 25%-30% of the workforce will be working from home multiple days a week by the end of 2021.[21]

WHERE TO NEXT?

The period since March 2020 has crystalized the questions of why people need to go into the office and what this change means for employees, their managers and for teams. What are the impacts on corporate real estate and workplace programs? How might this impact the future demand for office space? The impacts will be discussed from the narrow perspective (employees and teams) to the broader impacts on workplace programs, and the demand for office space.

IMPACTS ON EMPLOYEES, TEAMS AND LEADERSHIP

Kniffen et al. provide a review of the impacts of COVID-19 on the workplace from an organizational psychology perspective, and discuss work-from-home arrangements, virtual teaming and leadership impacts.[22] From the perspective of the employee, the success or failure of remote working is a factor of multiple things: personality traits, personal home circumstance, clarity of job roles and work goals, reliance on peers and collaboration, team communication flows, leadership charisma, organizational norms and culture. Isolation and lack of boundary between work and home are risks, and non-task interactions to encourage bonding between employees become important. Leadership skills are critical, and Kniffen et al. note that "more authoritarian or bossy leaders may face different challenges in motivating their workers in virtual environments than more participative and empathic team leaders, and thus have different training and development needs."[23]

How do managers and leaders figure out the solution that is right for their teams and employees? To maintain cohesion and trust, teams can and should develop "rules of the road" tailored their specific team dynamics, employee task and management oversight needs. As examples, hybrid teams might agree on specific days to be in the office to ensure face-to-face time, curate face-to-face and social events around regular team meetings, or introduce a "buddy" system to onboard and integrate new team members into teams that are partially virtual. A recently published guide by Gallup provides a helpful synopsis of the employee, task and team factors that should be considered in structuring remote work arrangements.[24]

Not every task is suited to remote working, and there are clearly times when some tasks are best performed in an office environment. When is it best to meet face-to-face? A conference presentation at Worktech2020 by Dr. Fiona Kerr, who researches the neuroscience of human connection, pointed to several valuable results of human interaction: highly connected workplaces demonstrate an increased alignment of values, increased collaboration, increased creativity, and it is easier to make more complex decisions and engage in strategic thinking.[25] In team formation, face-to-face communication increases levels of trust, and trust is an enabler of team functionality. Face-to-face interaction is also important in the new employee onboarding process. Dr. Kerr's observations are grounded in neuroscience, but substantiate the intuition of many – that despite the proliferation of virtual collaboration technology, offices are not obsolete, although use patterns will change.

IMPACTS ON CORPORATE REAL ESTATE AND WORKPLACE PROGRAMS

Many large corporate real estate organizations, ranging from financial services to the technology sector through to the public sector, have incorporated flexible work programs into their occupancy and accommodation planning since the mid-2000's. While success and results vary, these programs were generally intended to deliver space and cost savings, increase utilization of space, and improve workplace experience by providing employees with access to a diverse range of space types and amenities. Benefits to employees include avoiding the time and cost of long commutes, more flexibility in addressing work-life balance, and more empowerment over how to get work objectives accomplished.

In this author's experience as a practitioner, prior to the pandemic, leadership culture factors (empowerment and trust of employees when working remotely) and change management challenges (associated with non-territorial or free-address space, and perceived "loss" of a dedicated workstation), were the most common reasons for organizations not to adopt flexible working. One of the positive outcomes of 2020 lockdowns has been that organizations who had previously resisted, had no choice but to work remotely for some time. As a result, some are now more open to the positive aspects of flexible working for their employee base.

The trend amongst larger occupiers of declining space per employee for office space was well underway prior to the pandemic and is poised to continue. CBRE's 2020 Global Occupier Sentiment Survey showed that 87% of corporate real estate occupiers could see either a modest or significant decrease in their portfolios over the next 3 to 5 years.[26] The top three portfolio strategies under consideration include remote work (68%), consolidation strategies (61%) and use of co-working space (such as WeWork spaces) for portfolio flexibility (56%). Co-working spaces are being seen in a new light – 82% of occupiers indicated that the presence of co-working space would be a desirable attribute as they select buildings to lease.

In addition to driving portfolio efficiency, the design of offices is changing. Increasingly, offices are social hubs to draw people in: if face-to-face engagement, teaming and collaboration are driving the need to be in the office, offices need to provide range of diverse collaboration spaces, ubiquitous and user-friendly technology, high-quality in-office services, and amenities with an emphasis on wellness.

Corporate real estate groups for global companies are responding with a range of strategies – ranging from office-centric (with some remote) to mostly remote, and some hybrid options offering employees a range of choices in between. There is no single "right" solution or strategy, and corporate occupiers large and small need to determine what is needed for their business, market and culture.

Tech companies like Twitter and Shopify have all announced programs permitting permanent remote work.[27, 28] Slack announced a shift from their office-centric culture to a more distributed model offering employees the option of permanent remote work.[29] OpenText announced a decision in May 2020 not to re-open 50% of their worldwide offices impacting approximately 15% of their workforce in mostly smaller locations who will shift to remote work.[30] Lloyds Banking Group has announced a 20% cut to its office footprint within 3 years, and HSBC has announced a 40% cut to its footprint.[31] At the other end of the spectrum, BlackRock announced in November 2020 that the office would continue to be the primary workplace.[32] CEOs for Goldman Sachs and JP Morgan have expressed similar desires for continuing an office-based work culture.[33]

TRENDS IN OFFICE BUILDING DESIGN

In the last quarter-century, technological advances have significantly changed the design of offices and office buildings. Two trends that rise in importance in the context under discussion are intelligent buildings and healthy buildings.

Intelligent buildings are a complex subject in their own right, however, one of the characteristics is the proliferation of IoT sensors that allow for improved environmental management, as well as a rich source of data on building occupancy patterns. Workplace apps, initially introduced for employee convenience to reserve meeting rooms and hotelling space, are now also being used to add health and safety features that are important for landlords and employers trying to manage a post-pandemic orderly return to the office. Examples of pertinent functionality include monitoring social distancing and occupancy levels, assisting with workplace contact tracing, and providing contactless key card access to space and elevators.

Building on LEED and environmental performance, the WELL building standard was launched in 2014 to recognize the impact of the built environment on human health and wellness, and the first WELL office pilot project was completed in that year.[34] The WELL standard aims to create a built environment that improves the performance of building occupants with a focus on the quality of the indoor environment and occupant comfort, and also addresses factors such as nutrition, fitness and the human mind. A recent additional certification, the WELL Health-Safety Rating for Facilities Operations and Management, is aimed at addressing operational policies, and emergency plans in the post-COVID environment. Fitwel offers a similar certification for both buildings and facility operations.[35]

Both healthy and intelligent buildings rise in importance in a post-pandemic world, and therefore introduce potential obsolescence factors for older and unrenovated office inventory.

IMPACTS ON DEMAND FOR OFFICE SPACE

Office occupancy rates plummeted in March 2020 and have remained stubbornly low. Kastle Systems has been publishing a weekly occupancy report based on access control system data for over 2,600 buildings in 138 U.S. cities.[36] From an average of 96% in March 2020, occupancy fell to around 14% in April 2020. By the Fall of 2020 occupancy had inched up to around 25%, and as of June 2021 sits at 34%.

The short-term economic impact of the pandemic was seen rapidly in 2020 as office vacancy rates rose due to a spike in sub-leased space available. Sub-leasing is a typical signal of a contractionary business environment as companies take immediate steps to mitigate risk and improve cash flows. By Q3 of 2020, CBRE reported the largest quarterly negative net absorption since 2001 for the U.S. Office market, exceeding the contractions seen after the 2008 Global Financial Crisis. At that time, vacancy rates across the U.S. Metro stood at 14%, the highest level since 2014.[37] By Q4, CBRE reported overall office vacancy in the U.S. of 15%, with a sublease availability of 3.4%, the highest level since 2004.[38]

Vacancy rates aggregate several impacts, including economic contraction or expansion, changes in supply, as well as the impact of changing occupier demand patterns.

Focusing in on this last item, the drive by large occupiers to optimize their space, how quickly are these impacts seen? While the impacts of sub-leasing activity can be seen quickly, the decline in planning standard in fact takes a long period of time to impact total office inventory for several reasons: the new planning standard would be applied to either new office construction, or to buildings where significant renovations have occurred to the base building to accommodate additional density. From a tenant's perspective, implementation often requires interior retrofits with updated office furniture, which can be a significant capital outlay. This tends to occur when leases are renewed, or new leases are signed. Leases are long-term in nature, and a very small proportion of a city's inventory will be under construction or renovation at any point in time - all suggesting that the impact of more efficient space usage takes time to unfold.

Research done on office space use in 2017 for the City of Toronto demonstrated that corporate real estate planners were assuming 160 to 180 SF/employee of gross floor area as a typical planning standard, but that the City's inventory of downtown office buildings calculated an average space allocation of 251 SF/employee.[39] As an illustration of the timescale for impacts to be seen, this author's analysis of downtown office space in the City of Toronto indicated an approximate 20% decline in SF/employee from 1996 to 2015.[40]

To what extent does this impact demand for office space in a market? A 2014 research paper by Dr. Norm G. Miller found that space per worker has declined over time in the U.S. due to efforts by corporate occupiers to increase density as well as improve space utilization, but that modest economic growth is sufficient to offset these trends in downsizing space. Markets dominated by larger than average tenants would be more affected, and that there are other influencers such as occupancy type and industry, as well as age.[41]

In addition, disciplined implementation of a reduced space planning standard is more prevalent in very large multi-location occupier organizations with sophisticated corporate real estate groups. In the City of Toronto as an example, one-third of downtown office leasable space is occupied by tenants under 20,000 SF, with the largest occupiers (>100,000SF) who would typically implement hybrid working models at scale accounting for about 40% of space.[42] Smaller tenants who adopt remote working more extensively may view use of co-working space as an attractive alternative to maintaining permanent office space.

The economic impact of the pandemic on vacancy rates is already evident. We can anticipate that structural changes in occupancy patterns will continue to dampen absorption for the reasons discussed above. Whether this continues to be offset in future by economic and employment growth over time (as has occurred historically as suggested by Miller) will depend on the pace of economic recovery, the strength of local office markets, as well as other tenant characteristics (such as tenant size and type, industry and job type etc.).

CONCLUSION

The office is here to stay. People are social animals and need to congregate… but the pandemic has succeeded in entrenching flexible work into office environments that previously had, for various reasons, resisted. For some users of office space, a trend to flexible or hybrid working models has been accelerated. This will be a permanent structural change for some tenants and may dampen demand for office space in the short to mid-term as organizations work through under-utilized space and the shadow vacancy that exists. The extent to which increases in vacancy rates are offset by an economic recovery and longer-term business growth will vary by market and remains to be seen.

The impacts on corporate real estate strategy include understanding why people need to come into the office, having a clear employee value proposition for offices and an attractive space offering. Reasons to come into the office may include the need for collaboration, innovation, socialization, mentoring, onboarding of new colleagues, networking, team building and participating in a meaningful and cohesive corporate culture – all of this translating into an increased need for various types of collaboration and socialization space, with great audio-visual capabilities and supporting amenities, and perhaps less space dedicated to solo work. The management discipline, tools and data for defining and measuring quality of employee experience will become more important to large occupier organizations. This discipline is rising importance and capability, but currently focused on space-related factors. Ultimately it will need to broaden and intersect with other employee-centric corporate support areas including talent and people management, and quality of technology tools.

Office buildings with great technology infrastructure, and amenity-rich neighbourhoods that offer a healthy and engaging workplace experience, will be better positioned to attract tenants who are thinking in an employee-centric way. There is a new impetus around functional obsolescence of older inventory that office landlords need to consider.

Corporations will need to articulate clear and equitable policies around hybrid working models, addressing the impacts that range from allocation of office space through to human resource management. Managers and leaders will need to think with more specificity about the impacts on corporate culture and management skills, as well as the need to craft flexible arrangements for employees and teams that recognize the nature of the work being done (e.g. task-focused, collaborative) and the preferences of individuals. Managers will need to have strong emotional intelligence to be successful in managing hybrid, remote and distributed teams. Lack of appropriate leadership skills may ultimately be the critical weakness for some organizations in making flexible and remote work arrangements successful. •

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41. Norm G. Miller. "Workplace trends in office space: implications for future office demand." *Journal of Corporate Real Estate*, Vol. 16 Issue 3 pp. 159 - 181, September 2, 2014. https://www.emerald.com/insight/content/doi/10.1108/JCRE-07-2013-0016/full/html

42. Ibid.

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