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The Post-Pandemic Office in the Public Sector – a Once-in-a-Generation Opportunity to Re-think Public Sector Portfolios

Perspectives

The Post-Pandemic Office in the Public Sector – a Once-in-a-Generation Opportunity to Re-think Public Sector Portfolios

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Office assets are changing significantly in the post-pandemic world, with much of the focus being placed on declining demand driven by the adoption of hybrid working policies by employers. This article will focus on the office portfolios of national governments organizations who are typically large employers with substantive office portfolios comprising owned and leased buildings, often concentrated in national capitals. By way of example, the Government of the United Kingdom has an office portfolio of approximately 30 M SF (2.8 M m²) accommodating approximately 340,000 staff (as of 2023)[1]. In the USA, the Public Buildings Service of the General Services Administration has a portfolio of 363 M SF (33.7 M m²) (housing approximately 1.1 M federal employees) of which 265 M SF (24.6 M m²) is office space.[2] The Government of Canada's office portfolio is 66.7 M SF (6.2 M m²), and houses approximately 273,000 federal employees[3]. The Central Government Real Estate Agency for the Netherlands (RVB) is the largest real estate company in the Netherlands with a portfolio of 129 M SF (12 M m²) of buildings[4] of which 23.7 M SF (2.2 M m²) is office space, housing 120,000 employees (2020).

These portfolios are being impacted by the same demand pressures related to hybrid working as private sector companies, for the same reasons. While there are many similarities between public and private sector entities with respect to their future plans for office space, many governments are also taking the view that this is a moment in time for transformational change of culture. This is supported, in some cases, by restructuring of back-office government services, as will be outlined below.

Much like the private sector, public sector offices have changed significantly over the last fifty years, evolving from cubicle farms of the 1970s and 80s. Office strategies of the 1990s for the public and private sectors tended to be efficiency focused, reducing areas through densifying and reduction of space standards. The rise of mobility and increasing use of laptop computers started to change office usage patterns in the late 1990s and 2000s. "Activity based working" was a concept initially introduced in commercial offices in the mid-1990s in Europe leading to workplaces designed for different activity settings (such as socializing, formal meetings, focused work, etc.). This shift allowed for improvement in utilization of space by incorporating non-dedicated (or shared) desks, while providing more varied accommodations for staff.

Older style government offices often have a high proportion of cellular offices and space allocated based on position or title, with high inefficiency both from an allocation perspective (SF per person) and a space utilization (number of occupied workstations) perspective. The United Kingdom was an early pioneer in re-thinking office portfolios, when the Office of Government Commerce published guidance on transforming government workplaces in 2004[5], which subsequently became an industry standard, Smart Working Code of Practice, BSI PAS3000[6]. European governments like Finland, Netherlands and Norway have been implementing activity-based workplaces prior to the pandemic for about 10 or 15 years, following examples set by the private sector. Other countries adopted the approach of activity-based workplaces later – Australia 2013 and Canada around 2017.

As with the private sector, the COVID-19 pandemic resulted in many governments employers formally implementing hybrid work programs. While some governments have considered return-to-office mandates more recently, the dynamics at play within public sector portfolios are complex – as will be shown in this paper. Public sector real estate managers are viewing post-pandemic office trends as an opportunity for leapfrogging to the future on two fronts – modernizing how government employees work as well as modernizing functionally obsolete office portfolios.

What are the characteristics of the portfolios of national governments?

At the national level, portfolios are large and comprise diverse and special-purpose asset bases, often including offices, defense properties, courts, correctional facilities, laboratories, museums, heritage facilities etc. Some governments manage their office portfolio within an organization focused primarily on that asset class (US, Canada, UK, Australia) and others manage multiple asset classes within a one organization (RVB – Netherlands, Senate Properties – Finland). Office portfolios of national governments

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often include heritage or iconic buildings that are prominent landmarks in their urban environment and will tend to have major concentrations in cities that are national capitals in proximity to legislatures.

Office portfolios will typically comprise both owned and leased properties. Public Service and Procurement Canada's office portfolio is 52% leased, USA GSA Public Buildings Service is 50% leased, and the United Kingdom office portfolio is 68% leased. The Australian Government is atypical, with a portfolio that is 94% leased^[7]. Given the relative size of public sector leasing portfolios, and concentration in national capitals, these portfolios can have a significant impact on local office leasing markets. As an example, the GSA is the single biggest occupier of leased space in the USA^[8] (leased portfolio of 180 M SF), and approximately 25% of this space is in the national capital region of Washington DC, Maryland and Virginia^[9]. The US federal government is the largest segment of the DC metro area leased market occupying approximately 12% of the office inventory. In Canada, Public Service and Procurement Canada's leased office portfolio is 34 M SF (3.2 M m²), and approximately 50% percent is located in the Ottawa-Hull area. Within the City of Ottawa, roughly 30% of the office inventory is leased by the Government of Canada.

Portfolios can often include owned buildings that are old, poorly maintained, functionally obsolete, and potentially surplus to current needs because they are the wrong type of space and in the wrong place. As an example, Canada's Fixed Asset Review of 2020 states^[10] "the office portfolio is aging and the condition of assets is deteriorating. The average age of the Crown-owned office portfolio is 56 years ... the office portfolio building systems are well in excess of their useful life... the condition of the office portfolio is the worst (42% in poor and critical condition) among all of the asset classes".

The owned component of the portfolio therefore has added complexity in decision making when compared to the leased component because office occupancy decisions are made in tandem with investments in asset life-cycle renewal, and often incorporate broader government goals such as net zero. Business cases are complex for owned buildings – you need to spend money to save money – and timing is often dictated by capital funding availability. While private sector tenants in leased spaces will expect to negotiate a tenant inducement allowance at the start of a lease to cover or offset some of the fit-up expenses for new office space, these mechanisms are often out of reach for governments in leased space due to complex government leases, procurement processes and financial administration / budget appropriation rules.

What is the role and mandate of the government real estate service provider?

Entity governance can vary: part of a ministry or department of the state government (Canada PSPC, Ireland Office of Public Works), a part of Cabinet Office (UK Government Property Agency – an executive agency of Cabinet Office), an autonomous agency reporting to a Ministry (Norway's Statsbygg, Netherlands RVB) or a state owned enterprise (Finland's Senate Properties).

The entity can have multiple complex roles – landlord to government departments, asset manager, property manager, corporate real estate and workplace strategic planning, capital project delivery, center of expertise and policy advisor.

How is planning and management different in the public sector?

Some governments permit decentralized decision-making regarding real estate by departments and ministries (Australian federal government, Canadian federal government), some have more centralized governance and mandates (Canada PSPC (for office space only), UK Government Property Agency (for office and warehouse space), Netherlands RVB (excludes some property types). Historically individual departments or ministries have occupied their own space and buildings with decisions being made based on siloed needs.



In some cases, it is mandatory for government departments to use the central real estate agency as landlord for space that is government-owned or leased. For leased space, the department will effectively have sub-tenant status (USA, Canada). In some cases, while departments can procure leased space on their own, they must use the central real estate agency as advisor (Norway, New Zealand, Australia).

Funding mechanisms vary – some entities collect rent or recover costs from government tenants (Senate Properties, Finland)[11], Public Buildings Service (USA)[12], the Government Property Agency (UK), and some entities rely substantively on direct appropriations (PSPC, Canada).

What are the emerging strategies in government office portfolios?

Government portfolios reflect the services that they deliver, which in turn impacts the need for space and choice of location. Over and above cost savings, for many governments, the pandemic represents a once in a generation opportunity to re-think service delivery as well as the portfolios that support it. Multiple strategies are emerging:

- **A move to “smart working” and re-thinking the purpose of the workplace:** the Government Property Agency (UK) sees the workplace as fostering “the 4 C’s” of collaboration, community, creativity and caring[13] and the agency is actively implementing the Smart Working Code of Practice. European entities have been going in a similar direction for a decade prior to the pandemic, with North America (PSPC (Canada)[14] and the GSA (USA)[15]) more recently. To achieve this, the traditionally siloed support areas of technology services, human resources and real estate are having to collaborate, synchronize and modernize – a very significant transformational effort across government. The outcomes are modernized workplaces and better supported workforces.
- **Co-location of multiple departments or agencies** is replacing the legacy approach of managing departmental occupancy needs in silos. This is a complex endeavor as it requires changes to governance of decisions, and harmonization of requirements to new common space standards, common workplace technology, and security needs. Despite the challenges, this strategy is being pursued by multiple entities: GSA (USA), PSPC (Canada), Senate Properties (Finland), GPA (UK), and Government Property Group (New Zealand) to deliver smaller, more efficient and “smart working” enabled portfolios.
- **Reconfiguring the footprint** is happening in multiple ways. Many portfolios are reducing footprint size for space and carbon efficiency, and to reduce operating costs. There is an emphasis on consolidation into owned buildings – RVB (Netherlands) and PSPC (Canada). Some are increasing regional presence to reduce space in congested national capitals (Government Property Group – New Zealand[16], UK, Finland), to hire from a broader talent pool and support economic diversification into regional areas (UK, New Zealand)[17]. Some are introducing a hub and spoke model in large metro areas to provide flexibility to employees (USA, UK, Canada), and some are incorporating third-party provided co-working spaces – PSPC (Canada)[18], and GSA (USA). While return-to-office mandates has affected some government portfolios, this unfolds differently in the public sector compared to private sector – in part because union collective agreements have entrenched hybrid working in some cases (making this harder to reverse), and in part because inefficiencies and obsolescence typically inherent in government office portfolios mean that portfolio rationalization is still needed.

Reconfiguring footprint in government portfolios is complex, as illustrated by the GSA (USA). A recent report estimated that on average the GSA office portfolio has 25% utilization, and that more than half of the leases (83 M SF of space) have expiration dates between 2023 to 2027[19] indicating that there is an imminent opportunity for rationalization. However, addressing excess and underutilized space has been a longstanding challenge and is one reason that real property management has been on the US Government Accountability Office’s High-Risk List since 2003[20]. Factors contributing to the challenge include lack of budget resources to reconfigure space, complex disposal processes, data reliability, and reluctance of agencies to share space with other agencies.



- **Recapitalization of owned buildings** to modernize, address deferred maintenance, and other goals such as energy efficiency and net zero, sustainability, climate adaptation and circularity RVB (Finland, Netherlands[21], Canada[22], USA[23]).
- **Digital and smart building transformation:** similar to private sector landlords, there is enormous opportunity on this front for government but focus can be different. Norway's Statstbygg has partnered with Digital Norway[24], with the intent of advancing the adoption of PropTech in the industry as a policy matter. Energy efficiency and net zero are important objectives for many governments, but rest on the capital investment programs that convert building automation and mechanical systems of old "dumb" buildings to "smart" buildings. The Government Property Agency (UK) is creating an interoperable platform for property technology across government buildings – to address things like access, security, and workplace services. Some governments are advancing the adoption of Building Information Management (BIM) in public building construction (UK, Finland, Norway[25]).

In short, portfolio rationalization is not just a question of reduction of office inventory – government office portfolios need to be understood in the context of service, workforce and digital transformation. Two examples best illustrate this over time:

- **The Government Property Agency (United Kingdom)** was formed in 2018 to centrally manage office and warehouse space. The portfolio (as of 2023) comprises 10 M SF (950,000 M²) of office space (45% of the Government's office assets)[26]. Strategic objectives[27] include a net zero program, and supporting civil service transformation through better workplaces, smarter working and an interoperable property technology platform for government. Another objective includes supporting the UK "levelling up" growth agenda which involves creating regional hubs to move civil servants out of London to other communities, as well as regeneration of publicly owned sites supporting economic development.
- **Senate Properties (Finland)** is an unincorporated state enterprise operating under the Ministry of Finance and operates approximately 9,000 buildings with a total area of 63 M SF (5.9 M m²)[28]. Prior to the pandemic, the government office portfolio of approximately 13 M SF (1.2 M m²), had been using activity-based workplaces for about ten years. Employees were fully mobile and used non-dedicated desks. Sharing of offices between departments was being discussed but not implemented. In the post-COVID environment office occupancy was 25%. Responding to government priorities for modernization of service delivery as well as carbon neutrality by 2035, Senate has developed a plan to reduce and reconfigure its portfolio by 2030 to accomplish two objectives: the development of a shared network of "single window" public access customer service counters supported by digital government services, and a network of 20 to 30 back-office workplaces shared between multiple agencies. The initial three co-working shared locations were opened by mid-2023.[29]

Conclusion:

The pandemic accelerated a trend that was already underway for many governments who were looking at activity-based working to address the efficiency of their office space. However, because a portion of the public sector portfolio is typically owned, modernization of workplaces sometimes moves along the timeline of a twin priority, which is recapitalization of older buildings and greening of the portfolio. Timing is tied to the needs of the asset life-cycle and midlife retrofit, and to funding availability. This complexity is often absent for private sector occupiers of leased space who will make decisions about changes to space / location tied to the term of the lease, can operate with more flexibility and agility, and can get a landlord to partially fund the fit-up through the tenant inducement package in a lease.

While modernization and reduction of public sector office portfolios is now a priority for many governments, many of these projects will move slowly because of the complexity of the decision-making



environment, funding constraints and need to plan for (and fund) long-term asset lifecycles in an owned portfolio.

Many governments are viewing this as more than a question of space and facilities – it is a rare window to re-think and reinvent how the public service operates. At minimum the traditionally siloed areas of real estate, technology and human resource management are now collaborating with a focus on the employee workplace, similar to large private sector occupiers. Some governments are also seeing this as a catalyst for cultural transformation of their workforce, and transformation of government service delivery strategies as well.

ENDNOTES

[1] <https://www.gov.uk/government/publications/state-of-the-estate-in-2022-2023>

[2] General Services Administration FY2020-State of the Portfolio Snapshot.

[3] <https://www.tpsgc-pwgsc.gc.ca/biens-property/rpportfolio-eng.html>

[4] <https://www.rijksvastgoedbedrijf.nl/over>

[5] Office of Government Commerce “Working without walls”, 2004, followed by “Working beyond walls” in 2008.

[6] <https://www.gov.uk/government/news/new-smart-working-code-of-practice-announced>. In 2023, 225,000 civil servants work in organizations assessed as “mature” for smarter working.

[7] <https://www.anao.gov.au/work/performance-audit/management-commonwealth-leased-office-property>. The government’s office portfolio was sold and leased back in the 1990s, a controversial decision at the time.

[8] <https://www.cbre.com/insights/briefs/cotw-uncle-sam-is-embracing-remote-work>

[9] <https://cavalrycre.com/gsa/>

[10] Treasury Board of Canada Secretariat Fixed Asset Review: Office Asset Class Report, page 28

[11] <https://www.senaatti.fi/en/how-we-work/>

[12] <https://www.gsa.gov/reference/reports/budget-and-performance/annual-reports/2020-agency-financial-report/managements-discussion-and-analysis/financial-statements-summary-and-analysis/federal-buildings-fund>

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[14] <https://www.tpsgc-pwgsc.gc.ca/biens-property/mt-wp/mt-wp-eng.html>

[15] <https://workplace.gsa.gov/about/>

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[19] United States Government Accountability Office Report GAO-23-106200, dated July 13, 2023.

[20] Government Accountability Office High-Risk Series, April 20, 2023

[21] <https://www.rijksvastgoedbedrijf.nl/verduurzaming-en-circulariteit>

[22] <https://www.canada.ca/en/treasury-board-secretariat/services/innovation/greening-government/strategy.html>

[23] <https://www.gsa.gov/climate-action-and-sustainability/greening-federal-buildings>

[24] https://www-statsbygg-no.translate.goog/nyheter/statsbygg-gar-inn-som-eigar-i-digital-norway?_x_tr_sl=no&_x_tr_tl=en&_x_tr_hl=en&_x_tr_pto=sc&_x_tr_hist=true

[25] <https://www.united-bim.com/leading-countries-with-bim-adoption/>

[26] <https://www.gov.uk/government/publications/gpa-annual-report-and-accounts>

[27] <https://www.gov.uk/government/publications/gpa-business-plans>

[28] <https://www.senaatti.fi/en/how-we-work/>

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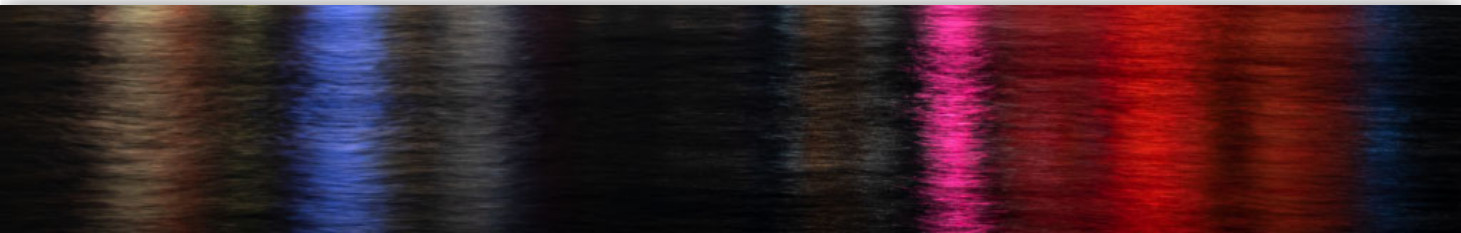
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