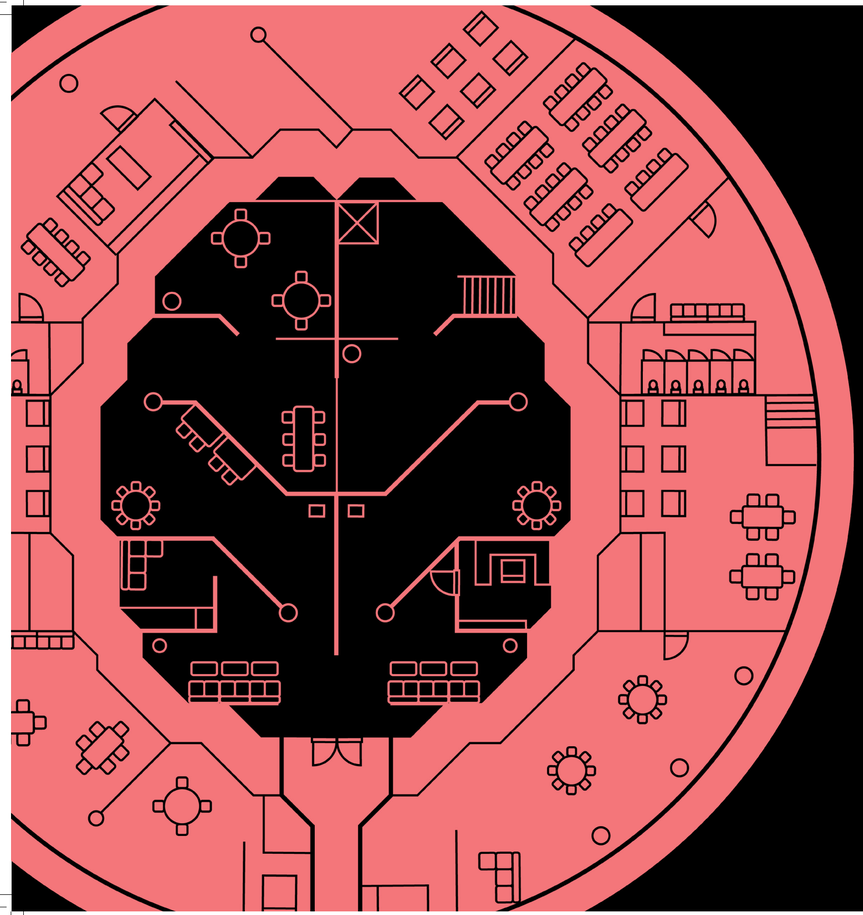

Deloitte.

The Future of Work is changing: real estate needs to change too

The world of work is changing. Clients in every industry are now facing the challenges and opportunities presented by this disruption, with much thought going into how work will be completed and by whom in the years to come.

The real estate industry is no different, with a significant impact on the physical workplace anticipated that occupiers, developers, and investors will need to carefully consider. Drawing on major disruptors identified by Deloitte—ranging from automation and replacement of jobs to diversity and generational change—we have identified four key trends we predict the industry will need to respond to in 2019.

Written by:
Ana Virginia P. Carnaúba (BRA)
Chris X Robinson
Russell McMillan
(UK)

Location strategy is key

Location strategies have never been more important, whether driven by the need to access skilled talent pools, improve financial performance by moving to lower cost locations, or the need to respond to geo-political events. In the past, these were often developed in a reactive ad hoc manner. In the future, occupiers need to keep these under constant review to ensure the footprint is optimized and future requirements are anticipated, planned for, and executed on at pace.

For developers and investors, it is essential they understand the emerging location hotspots and deliver the real estate required into them. This may create additional risks if it involves investing in markets that are still emerging but offers the opportunity to capture demand as it grows.

Real estate must be seen as a value driver

For many organizations, real estate is still seen as a cost that has to be managed. In the future, real estate must be seen as a driver of value. It will do this by providing a physical environment that has the employee experience at its heart and is designed to promote purpose, engagement, collaboration, and innovation. These are all key in helping the organization of the future respond to the rapidly changing demands of this technology-enabled world.

To achieve this, corporate occupiers must be able to articulate and track the value that the workplace will deliver. For developers and investors, the challenge is to supply the market with buildings that have the features occupiers will value rather than just looking to optimize short-term financial returns.

The way people use space will change

In the past, remote working was promoted to reduce cost. Today, it is staff who are demanding agile working. Both trends drive down the amount of traditional office space required. But as traditional office space decreases, we predict the amount of non-traditional space—space that supports teaming, collaboration, and co-working—will increase significantly.

Occupiers need to develop a greater understanding of how they actually use the space. Sensors and other building technologies can help provide insight as to how different types of space are used, which in turn allows buildings to be operated at higher levels of utilization.

In addition, occupiers need to adopt fit out and furniture solutions that can evolve in a cost-effective manner. This will require a move away from traditional, often rigid, corporate standards.

For developers and investors, the challenge is to deliver buildings that have the flexibility in the base build to accommodate a wider range of configurations and anticipate the demand for intelligent building data and analytics.

Flexible office space will become part of the strategic solution

Serviced office space has long had a place in the corporate portfolio, where it has often been used as a tactical solution to accommodate project or overspill space. However, as the flexible office market has become more sophisticated, occupiers are now looking to use this space strategically—such as accommodating high-growth digital businesses.

As organizations become more dynamic and the future becomes more uncertain, it is likely that flexible space will play an ever-greater role within the corporate portfolio. The challenge for occupiers is to justify the additional flexibility and increased amenity offered by the space against the cost premium over traditional long-term space. For landlords and investors, it poses a question as to how to capture the premium that occupiers are willing to pay, with many considering a move to shorter flexible lease terms and/or developing their own flexible office brands.

Conclusions

Real estate is an industry where decisions are expensive, committed, and long-lasting. Concepts such as innovation and "failing fast" do not sit comfortably with multimillion dollar construction contracts, multi-asset global portfolios, or investor demand for security and longevity of tenure.

However, the Future of Work is coming. And it's clear that it will impact more than just the commercial office market—whether its automation transforming the operating models of manufacturers or retailers using sensors to gather and harness consumer data in their stores.

For developers and investors, we predict the Future of Work means buildings where the talent of tomorrow will be based. The building of the future needs to be designed around what the occupier will value. And it must be flexible and fully enabled for the technology that is needed to manage the workplace of the future.

For occupiers, the focus must be on maximizing the value that real estate contributes to the organization. This can be achieved through the continual optimizing of strategic locations, the balancing of long- and short-term leases, the aligning of the physical and virtual workplace, and the placing of the user experience at the heart of workplace design.