

Deloitte.



Real Estate Predictions 2021

Optimizing your use of office space
and real estate footprint

**The time to prepare for the future
of work is now**





COVID-19 has accelerated new ways of working, which in turn will impact the use of office space. What are the implications for the real estate industry and corporates? What opportunities will arise? How to prepare the property portfolio for a more agile future of work? The urgency is clear: the time to act is now.

New ways of working

Within only a few months, the pandemic has disruptively anchored new ways of working around the world. The glass ceiling of telework has been pierced in all organizations. From now on, each corporate is seeking its own standards in terms of work organization. The matrix approach is one of the most effective standards. It offers a combination of several factors: the evolution of vocations, the adaptability of resources and skills, the configuration of places and spaces according to uses and needs. This unprecedented context strongly encourages corporates and their teams, to forge themselves convictions about the motivations for commuting to the office every day. Each employee, visitor, or partner will seek an experience through adapted digital tools and facilities, which will allow an immersion in a dedicated work ecosystem.

A reduction of real estate footprint

Inevitably, companies are moving towards a reduction of their real estate footprint, for instance by sharing work positions and through the reconfiguration of premises to promote collaborative, informal spaces and the reception of visitors. The effects could be beneficial from several angles. For corporates, it is an opportunity to reduce their operating costs and overall property costs (e.g. rent, service charges, taxes, and CAPEX), as well as business travel, energy consumption, and carbon footprint. This is also an opportunity for the property industry, including local authorities, as to the redevelopment of obsolete buildings.

Agility and flexibility

Several consequences are now foreseeable, with companies seeking greater flexibility:

1. During negotiations with real estate owners, tenants will aim to reduce the

fixed commitments, increasing break options and the possibility of subletting, in spite of potentially less attractive financial conditions.

2. Third spaces, including co-working spaces, will fulfill several aspects of the needs, e.g. the agility to consume or reduce workspaces with the possibility of very rapid adaptation, and welcoming and adapted spaces for employees close to their homes or a client.
3. The birth of "corpworking", based on the sharing economy and a more dynamic HR management strategy, which allows employees to access workspaces with no restriction enabling the access of other companies.
4. Agility also requires the implementation of digital tools, such as Integrated Workspace Management System, desk booking, and digital concierge services. This will enhance the user-experience for employees, who will be able to book meeting spaces, workstations, parking spaces, or meal delivery.

Enhancing the property portfolio

This momentum represents an opportunity to enhance corporates' property portfolio. For instance, a switch to "flex office" (with unallocated workstations, fewer than the number of employees), with a rate of 30 to 50%, can save up to 40% of space, crystalizing material savings (e.g. rent, charges, taxes, CAPEX, and OPEX). For example, a shift to flex office could reduce an initial surface area of 10,000 m² to 5,900 m² in the Paris business district of la Défense. This would generate an annual saving of about € 2 million. In the case of a French standard 9-year lease (including the subscription to co-working), this would amount to roughly € 18 million. On the scale of a property portfolio, this optimization of operating costs can be substantial.

New spaces

Combined with a reduced footprint, corporates are facing market momentum to take on new space. Record construction activity in office buildings together with a slowdown in take-up has put pressure on rent (both headlines and economic) in a number of submarkets. This puts corporates in some submarkets in a strong position to negotiate for new spaces and for amending existing lease terms.

How to set up an action plan

1. Diagnosis

First of all, a comprehensive knowledge of real estate occupation in all its dimensions is vital. For instance, insight into the terms of the leases (to detect the negotiations levers, break option and expiry dates), occupancy ratios (workstation/m²), workforce, building efficiency ratios, total annual cost (per workstation and per m²), technical due diligence (CAPEX plans), fit out charter, and teleworking charter.

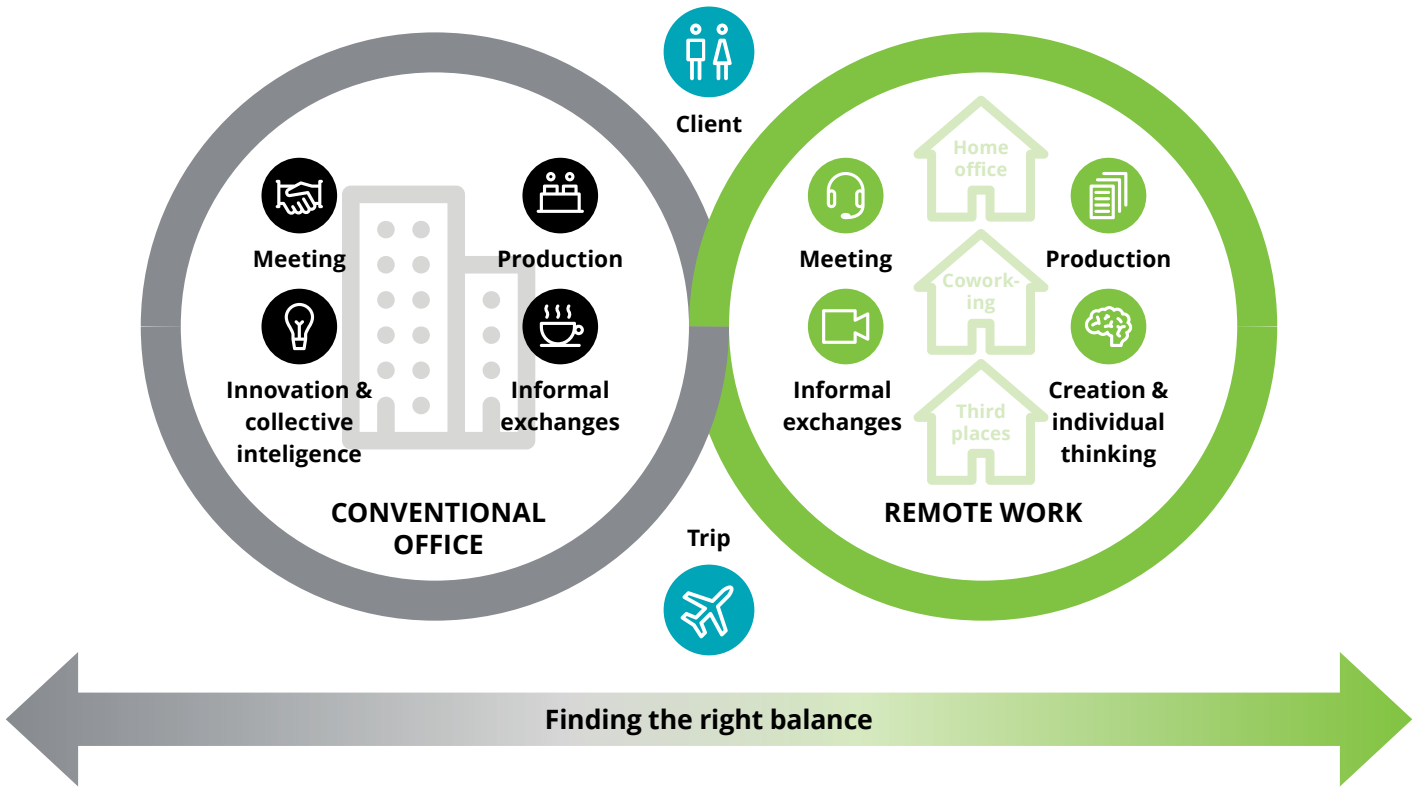
2. New reference system

The change to new ways of working must respond to concrete needs. Each person has their own set of rules, which will answer several questions, such as: what are the reasons for going to this workplace? How can I keep my employees committed? What flexibility do we require in the organization of work? What will be the impact on the performance of my teams? This will enhance the right balance between face-to-face and distance and help to optimize occupation ratios. A set of specifications covering all the parameters will constitute the priorities that must be respected during the following steps.

3. Strategy

The cross-referencing of all these data, combined with the objectives and constraints linked to the corporate's strategy, will enable various options.

Starting off from work situations, quality of the employee's experience and requirements of the business...



The construction of the scenarios or business plans and the corresponding financial modelling will enhance performance management. These business plans will also enable the inclusion of market trends on a dynamic basis.

In this way, it will be possible to identify a priority path: either renegotiation of the current conditions with a potential surrendering of extra space (the “stay” scenario), or considering a potential search for new premises, leaving one or more historical premises (the “move” scenario).

Anticipation is key

For such a structuring project for a corporate the key word is “anticipation”. Deadlines may seem far away especially the milestone dates for lease maturities, but such an optimization project, that will impact working methods, requires iterative and collaborative exchanges with all stakeholders. The world has seen a glimpse of the future of work in this COVID-19 era. What does this mean for the real estate industry? Real estate owners and their tenants who want to thrive in the near future, know what to do. It’s time to act.

Author

Bruno Amsellem MRICS
 Partner | Real Estate Advisory | FR
bamsellem@deloitte.fr

Contact

Olivier Gerarduzzi MRICS
 Director | Real Estate Advisory | FR
olgerarduzzi@deloitte.fr



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities. DTTL (also referred to as “Deloitte Global”) and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.nl/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 264,000 people make an impact that matters at www.deloitte.nl.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2021 Deloitte The Netherlands

Designed by CoRe Creative Services. RITM0582346