

Prepared for:

INREV

CONFIDENTIAL AND PROPRIETARY

OFFICES: KEY THEMES IN THE COVID-19 ERA

July 2020

CBRE
GLOBAL
INVESTORS

INTRODUCTION – THE CURRENT SITUATION

- Corporate occupiers are living through a large-scale experiment in agile/remote working.
- The results have been largely positive due to advances in information and communication technology and increased trust.
- What does this mean for the future role and demand for office space?
- What are the long-term cultural and behavioural impacts beyond the pandemic?
- How will the rise in remote working and reversal of office densification translate to demand?

DISRUPTION OR ACCELERATED EVOLUTION?

CHANGING LANDSCAPE

Challenges and Opportunities

ECONOMIC

- Economic downturn and occupier distress
- Impact on globalisation and role of winning cities
- Reduced supply and demand

WORKING PRACTICES

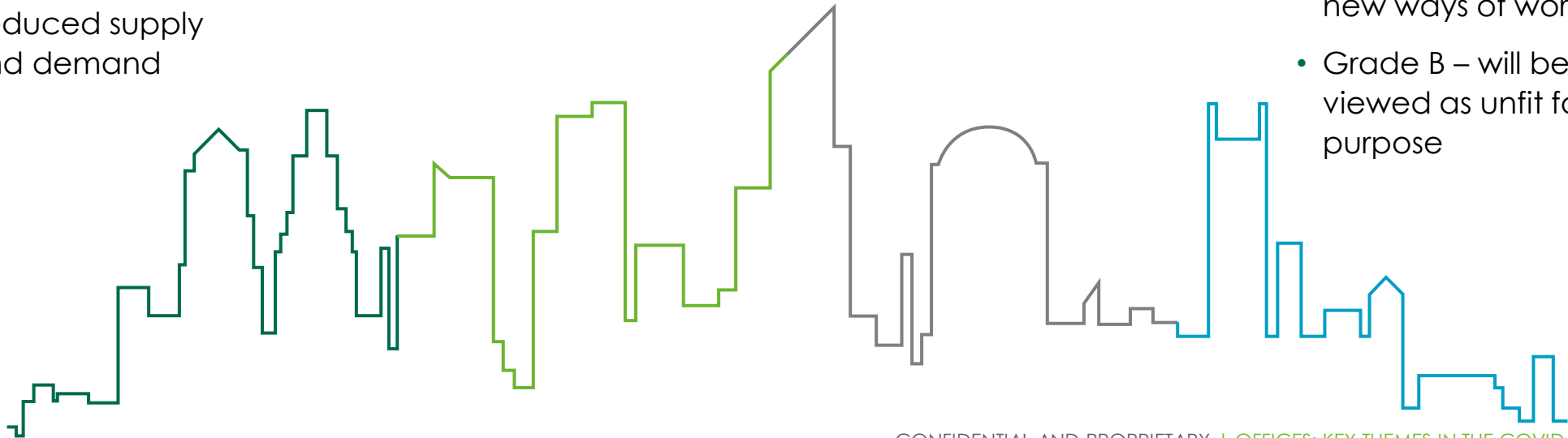
- Increased adoption of agile working practices, i.e. WFH
- Utilisation – reduction in intensity/density

CULTURAL

- Focus on health over profit
- Hygiene, light and air centre stage
- Attitudes towards shared public services, i.e. transport

OBSOLESCENCE

- Fundamental review of the role of the office
- Essential enhancements to specification, tech and ESG to facilitate new ways of working
- Grade B – will be viewed as unfit for purpose



OFFICES BETTER THAN HOME?

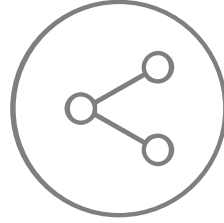
Five Key Drivers Supporting Office Demand



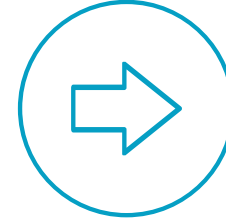
Physical premises required to **build corporate culture**, motivate team spirit and provide focal point for collaboration



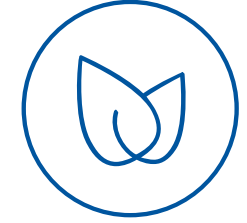
Offices provide the best environment across all work styles—collaborative to focussed—with **access to tools and technology** required by modern business, i.e. superfast broadband/teleconferencing



The office as a platform for professional, business and personal development and to create a competitive edge in **engaging and attracting talent**



Drive towards “hot desking and increased utilisation” will be challenged by **occupier preference for dedicated space**



Building specification will be expected to provide **safe, healthy, vibrant workplaces** with a focus on air quality, natural light and optimal wellness to attract talent and drive **efficiency**

KEY TRENDS/THEMES – LONG TERM



URBAN INTENSIFICATION

- Dominant/winning cities will continue to outperform over the long term
- Labour/skill shortages focus demand in locations with the widest pool of talent
- Health and well-being results in demand for the best quality and most efficiently run space



TECHNOLOGY

- Increasing adoption of technology aimed at improving building efficiency and user experience
- Tech-enabled buildings to reach global business audience and employees at home affecting patterns of demand and locational preferences



ESG

- Widespread focus on employee well-being, reducing energy consumption and waste
- Link between productivity and employee satisfaction driving wellness agenda
- Corporate and personal responsibility for environmental impact of built environment

KEY TRENDS/THEMES – CURRENT



EFFICIENT UTILISATION

- Fundamental review of working practices, acceptance of agile working and demand for optimal utilisation
- Hot desking will be tested in the wake of COVID-19
- Variance of utilisation rates across EMEA skews the availability picture



KNOWLEDGE/CREATIVE GROWTH

- “Economies of skill” – clustering of fast-growing companies in the knowledge and creative industries, i.e. technology and medicine driving demand in fringe CBD locations
- Activities most reliant upon collaborative workplaces and availability of superfast broadband



DISCERNING OCCUPIERS

- Increasingly demanding and discerning occupiers
- Cost less important than quality, amenity and service levels
- Growing expectation of flexibility in ways of working and lease length
- Significant delta in prospects for Grade A/Grade B

KEY TARGET ASSET FEATURES

Focus on Quality, Amenities and Service



FLEXIBILITY/MULTI-LETTABLE

- Diversified income – lease term and occupier exposure
- Flexibility of working style to allow both collaborative working and quiet spaces
- Improved rental growth and tenant retention through competitive tension with existing and potential tenants due to relative position in the local market



AMENITY-RICH

- Typically CBD or highly attractive submarkets with multiple transport connections and lifestyle options
- Capable of attracting talent and supporting positive brand identity
- Shared amenities, enhanced services and working environments to the occupier “community”
- Multimodal transport options, vibrant amenity-rich locations



ENDURING OCCUPIER APPEAL

- Buildings with long-term occupier appeal to provide resilient income against a backdrop of lease flexibility
- Top specification: light/air quality, connectivity, flexibility, efficiency
- Long-term investment mindset to maintain occupier appeal – continuous lifecycle enhancement

THE FEATURES OF THE SUCCESSFUL FUTURE OFFICE

Asset Characteristics



AN APPROACH TO INVESTMENT IN A STRUCTURALLY CHANGING SECTOR

1 START WITH WINNING CITIES MARKETS

The first step is to **minimise cyclical risk** by focussing on cities with strong risk-adjusted returns. This means they have forecast total returns that offer good value relative to cyclical risk

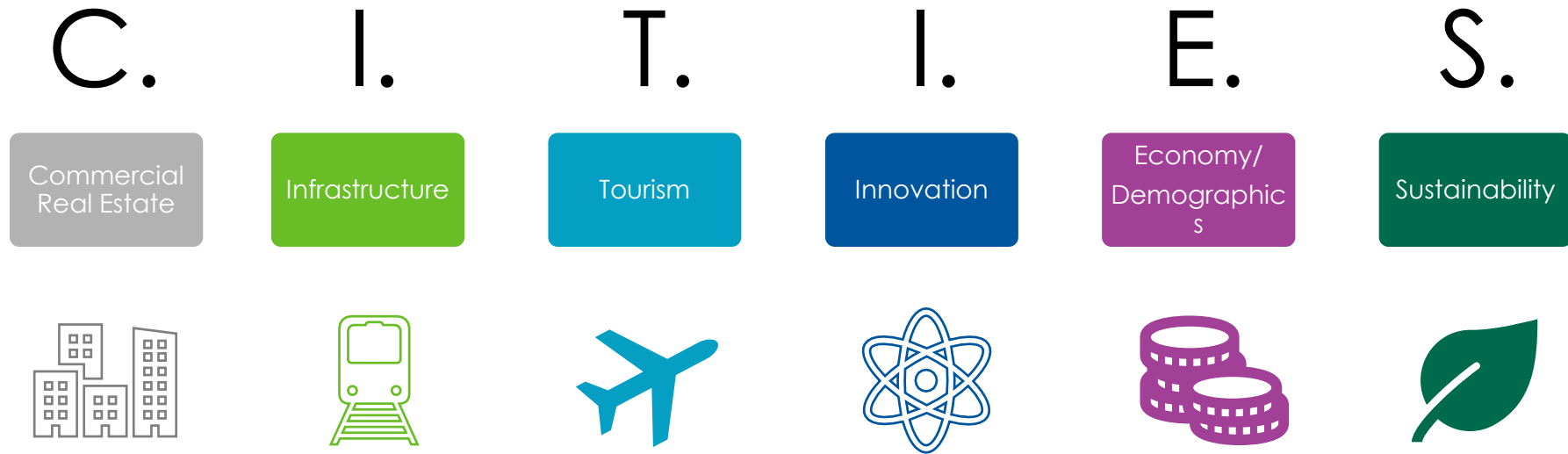
2 ADD A “FUTURE OF OFFICE” RISK OVERLAY





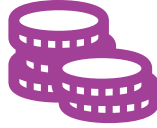

The second step is to **minimise structural risk** arising from changes to how and where we work – this varies for core and value-add investors

3 MAKE SURE THE FORMAT IS COVID-PROOF

The third step is to **minimise asset-level risk** by ensuring the asset either is or can be transformed into a “future-proof” attractive modern office

WINNING C.I.T.I.E.S.



	Commercial Real Estate	Infrastructure	Tourism	Innovation	Economy/ Demographics	Sustainability
						
Input Variables	<ul style="list-style-type: none"> Liquidity Score Supply-Constrained Environment 	<ul style="list-style-type: none"> Intracity Mobility Intercity Connectivity 	<ul style="list-style-type: none"> Instagram Tags Inbound International Visitors 	<ul style="list-style-type: none"> Innovation City Index Next Innovation Hub 	<ul style="list-style-type: none"> GDP Per Capita Household Income Growth Population Growth 	<ul style="list-style-type: none"> Air and Water Quality Good Governance Income Equality
Market Characteristics Measured	<ul style="list-style-type: none"> Transparency Liquidity Supply Constraints Market Maturity Lower Risk 	<ul style="list-style-type: none"> Growth Opportunities Connectivity Accessibility 	<ul style="list-style-type: none"> Attractiveness Trade Openness Global Connectivity Consumption expenditures 	<ul style="list-style-type: none"> Inventions Entrepreneurial Environment Efficiency Knowledge Intensity Competitiveness 	<ul style="list-style-type: none"> Wealth/ Disposable Incomes Purchasing Power Economic Growth Potential 	<ul style="list-style-type: none"> Good Environment Low Pollution Economic and Social Inclusiveness Public Sector Effectiveness
How does this contribute to long-term commercial real estate market performance?	<ul style="list-style-type: none"> Lower Cap Rates Lower Supply-Side Risk Lower LT Vacancy Rates Stronger Rental Inflation 	<ul style="list-style-type: none"> Multimodal Environment Lower Transportation Costs for Residents and Businesses Efficient Infrastructure Facilitates Growth of Local Economies 	<ul style="list-style-type: none"> Increased Retail Sales Foreign Direct Investment Global Connections Attractive Environment Cultural, Natural Amenities 	<ul style="list-style-type: none"> Breeds New Industries Existing High-Growth Clusters Highly Educated, Adaptable Workforce 	<ul style="list-style-type: none"> Primary Real Estate Demand Driver Retail Sales Growth 	<ul style="list-style-type: none"> Meeting ESG Goals Tenant and Investor Demands Lower Operating Costs Identify and Plan for Climate-Related Risks Attract People, Talent, and Capital

SUMMARY – LOOKING TO THE FUTURE

1 SHORT-TERM CHALLENGES

Economic downturn and permanent adoption of working from home will reduce demand for workplace accommodation.

Rental tone will be under pressure as occupiers seek to reduce costs during the immediate/short term.

2 LONG-TERM UPSIDE

Increased demand for best-in-class office space as a result of “de-densification” driven by desire to provide flexible collaborative space.

Constrained pipeline in core markets due to structural undersupply as a result of limited appetite for speculative risk and absence of development finance.

3 WINNERS AND LOSERS

Discerning occupiers will drive demand for Grade A space. Asset-level performance will depend upon providing best-in-class service, attractive amenities in flexible, tech-enabled “future-proof” space.

Performance will vary significantly by city and submarket depending on demographics, elasticity of supply, use of mass transit and occupier base.