



Focus

Remote work: a trend accelerated by Covid-19 and complex consequences on offices

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by Amundi Immobilier

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ASSET MANAGEMENT

Remote work: a trend accelerated by Covid-19 and complex consequences on offices

This analysis presents Amundi Immobilier's opinions based on market knowledge to date
Finalised on September 25, 2020

Beyond the direct human and economic impacts, **the Covid-19 pandemic raises questions about its potentially disruptive role**, particularly on modes of consumption and production. One of the current key issues for investors and more generally the real estate industry is the resilience of offices to changing working methods, particularly the development of remote work, which could change the demand for office space. This comes in a context where offices are historically the first asset class in terms of volumes invested in commercial real estate.

Although there are still great uncertainties and visibility is reduced, we detail here our 4 current opinions on this topic:

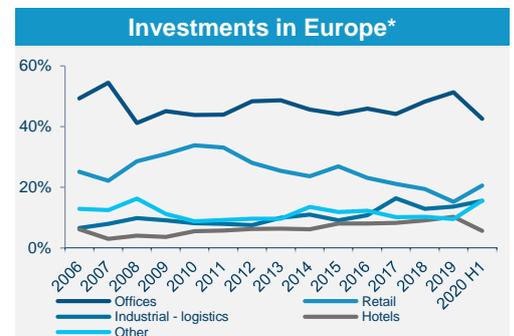
- Growth in remote work should continue
- Offices should remain essential but could transform
- The impact of remote working on office demand is not automatic
- It is still important to analyse the fundamentals of assets

Growth in remote work should continue

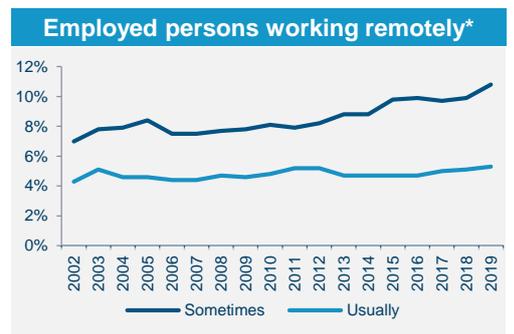
Before the Covid-19 pandemic, remote working was a minority but existing and increasing practice: in the European Union (including the United Kingdom), 16% of employed persons from 15 to 64 years were working from home usually or not in 2019 compared to 12% in 2009. This includes self-employed persons, the latter working more remotely, and methodological bias may exist on counting remote working. The situation by country is also very different in 2019 according to Eurostat (Sept. 2020)¹: for employees (excluding self-employed persons), the proportion of those aged 15 to 64 usually working from home is 9% in the Netherlands compared to 5% in France and 1% in Italy; working from home sometimes concerns 30% of employees aged 15 to 64 (excluding self-employed workers) in Sweden and 24% in the Netherlands compared to 14% in France, 6% in Germany and less than 1% in Italy.

Being an integral part of the Business continuity planning during the pandemic, remote working has been tested on an unprecedented scale and in an extreme form (100% of the time). The relative success of this experience in professional terms should make it possible to strengthen the role of remote working.

Remote working is in fact attractive to employees, who may request it more in the future. According to a JLL survey of confined employees in 10 countries, published in May 2020, the main perceived benefits of working from home are less or no commute, flexible hours and an enhanced work-life balance. It should be noted that these elements refer to broader issues than remote working, such as urban organization or work relationship. Several surveys conducted in the 1st half of 2020 indicate that a large majority of respondents would like to work remotely at least one day per week in the future.



*Breakdown of investments in commercial real estate in Europe, % of volume
Source: Amundi Immobilier on CBRE Research data (2020 Q2)



*European Union - 28 countries; employed persons (including self-employed persons) from 15 to 64 years

Source: This information was extracted by Amundi Immobilier from Eurostat data (Sept. 2020).

Summary

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In view of this desire, companies will remain attentive to the productivity of their employees. In France, in a survey conducted in June 2020 by Deskeo, 55% of French decision-makers interviewed believe that, in normal times (excluding lockdown), their teams are as productive in remote working as at the office, 10% that they are less productive and 30% that they are more productive. This finding will nevertheless to be confirmed in the event of an increase in remote working and is likely to change depending on the surveys or companies. It should be noted that the impact on productivity is the subject of studies, for example by the Banque de France or the OECD, on the macro-economic consequences of remote work.

Beyond the satisfaction and productivity aspect of employees, **the increase in remote working could be desired by companies with a view to reducing real estate costs**, which occupy a significant place in their spending. Particularly since this issue should be reinforced in the short term by the economic impact of the pandemic. In order to reduce the real estate cost, remote working would at least require the establishment of desk sharing - flex desk - with in the end less than 1 workstation per employee. In an online survey of 254 companies in April 2020, JLL points out, for example, that 28% plan to decrease their direct “real estate footprint”. However, we will see that the impact on office space is not automatic.

In the end, **the pandemic should be an accelerator of the implementation of remote work**, which would probably have taken much more time without Covid-19. Thus, in an online survey of 254 companies in April 2020, JLL points out that 68% of respondents plan to increase remote working. In France, in a June 2020 survey conducted by Deskeo with 2,900 professionals, more than 80% of managers and executives and 74% of employees surveyed believe that remote working is a fundamental trend that will increase. On the employee side, according to the May 2020 JLL Human Performance Survey, 69% of people in EMEA (Europe, Middle East, Africa) worked remotely less than 1 day/week before Covid-19; only 11% believe that this will still be the case in the next 2 years.

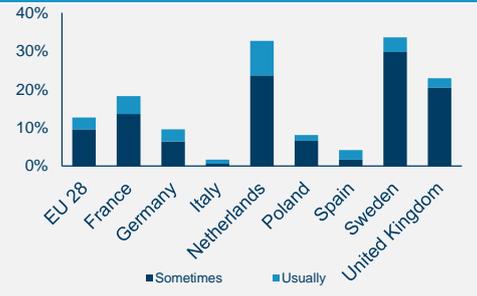
This remote working issue should therefore logically impact companies’ real estate strategies: a CBRE survey of 126 companies around the world points out that close to ¾ of those companies believe Covid-19 will have at least a relatively significant impact on their long-term real estate strategy 5 years from now.

Offices should remain essential but could transform

We believe that **the development of remote working does not mean the end of the office**: while it has shown that one could work from home, **lockdown also illustrated the central role of offices** and certain limitations of remote working.

An important dimension of the office is its ability to meet and work together. In some respects, humans are “social animals” and, despite their performance, technological tools do not replace at this stage physical meetings or unpredictable informal discussions. A JLL survey conducted in 10 countries worldwide in April 2020 highlights that among what employees miss the most about the office, human interactions with colleagues are cited at 44%. It should also be noted that the quality of working conditions in the office is often cited.

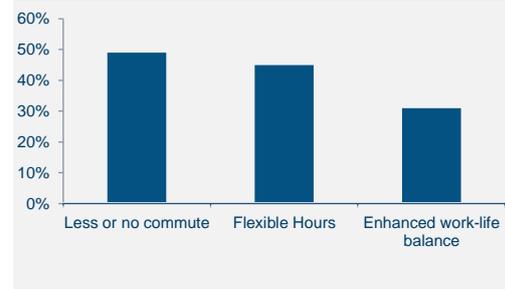
Employees working remotely in 2019*



*employees (excluding self-employed persons) from 15 to 64 years

Source : This information was extracted by Amundi Immobilier from Eurostat data (Sept. 2020). The countries were selected and Eurostat cannot be held responsible for the information thus modified.

Perceived benefits of remote working



3 most cited answers as advantages of remote working Survey of employees in lockdown by JLL in 10 countries

Source : JLL Human Performance Survey (May 2020) cited in The future of global office demand (JLL, June 2020)

Key takeaways

- The Covid-19 pandemic raises questions about its potentially disruptive role
- Before the Covid-19 pandemic, remote working was a minority but existing and increasing practice
- Remote work could therefore be more present than before Covid-19 and modify the real estate strategies of companies
- Employees particularly appreciate the savings in time spent commuting
- The increase in remote working, coupled with a system of desk sharing, could be desired by companies with a view to reducing real estate costs
- Lockdown illustrated the central role of offices

Let us not forget also the problem of psychosocial risks that are to be incorporated into the reflections on the implementation of remote working, particularly since the distance is likely to make their detection more difficult.

Beyond the purely social aspect, **offices are a place facilitating a certain flow of information** that remote work does not necessarily allow, even if this is not easily quantifiable. Benefiting from a place of interaction and exchange could also support creativity and the advancement of projects involving several people. **Offices are also an important means of disseminating corporate culture and working methods**, particularly when integrating new employees. These aspects were highlighted in particular by a large US Internet company that limited the place of remote work in 2013. Among other things, there was a loss of cohesion, exchange and information, but also potentially more difficult management.

These various reasons lead us to believe that offices will remain a key element of corporate strategy and make it unlikely that 100% remote working will become widespread in the next few years. Beyond the simple place of work, we can see that this question of remote work and its proportion also involves the problem of the organisation and essence of companies.

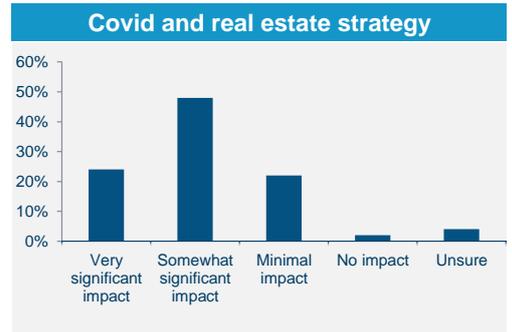
While offices should retain a central place in the coming years, they could evolve somewhat in order to respond to reinforced specific needs. With the more widespread introduction of remote working, **a greater complementarity between remote work and on-site work** seems conceivable, as in the case of retail, where a link between physical and online shopping is under way. In other words, one could focus more on a better link between these two working methods rather than on a pure alternative. In this context, one possibility is that offices must strengthen the characteristics that remote work has more difficulties to satisfy - exchanges and interactions - with spaces focused on experience and collaboration. Some, such as Cushman & Wakefield, point to the potential emergence of offices that would be "Collaborative hubs" where the various employees would meet. These features could be differentiated according to the culture of each company and also the needs of the different teams.

Beyond these potential modifications to the layout, and the increased space for collaborative areas, the issues of well-being and air quality should be more to the forefront.

The impact of remote working on office demand is not automatic

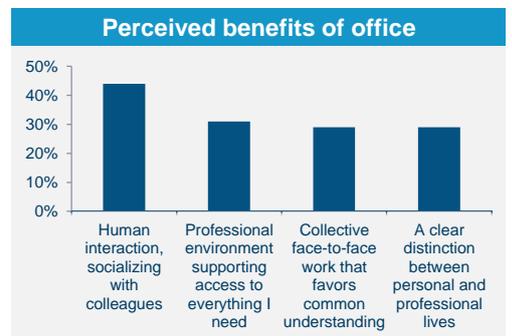
While the development of remote working and desk sharing is, in isolation, likely to affect the leasing demand for offices, the effects are nevertheless more complex and less automatic than it appears. In fact, they are still difficult to grasp, given the uncertainty that exists on the potential scale of remote working that will be implemented.

An initial difficulty in the analysis is that the transition to remote working will most likely depend on the company's business sector, and the functions within it, in view of the potential match between remote working and tasks to be performed. In this regard, the impacts could therefore be segmented.



« Five years from now, what impact will the Covid era likely have on long-term real estate strategy » survey of 126 companies around the world

Source: CBRE Client survey, June 2020



Answers to what employees miss the most about the office (selection of 3 top answers, and 1 ex aequo) Survey of employees in lockdown by JLL in 10 countries

Source : JLL Human Performance Survey (May 2020) cited in The future of global office demand (JLL, June 2020)

Key takeaways

- We believe that the development of remote working does not mean the end of the office
- Human interactions remain an important element of offices
- Offices are a place facilitating a certain flow of information
- We believe that offices will remain a key element of corporate strategy
- A greater complementarity between remote work and on-site work
- While the development of remote working and desk sharing is, in isolation, likely to affect the leasing demand for offices, the effects are nevertheless more complex and less automatic than it appears.
- Offices could evolve towards a reinforced place of collaborative spaces, conviviality and meeting rooms

The establishment of desk sharing requires a deep analysis of the company's organizational needs and methods. Changes in office demand may therefore not be immediate because the transition to remote working has implications for the company's management strategy and may require more comprehensive analysis. It is not impossible that companies set up experiments in order to find the right mix of the number of remote working days and the employees concerned, or even have to proceed by trial and error by modifying the number of days worked remotely in order to arrive at the solution that suits them best. In the event of a sharp increase in desk sharing, the effect would probably not be immediate: many companies have ongoing leases, limiting their ability to decrease space let in the short-term, even if subleasing or searching a new tenant is possible..

On the other hand, as mentioned, **offices could evolve towards a reinforced place of collaborative spaces**, conviviality and meeting rooms, which could compensate for at least part of the gain in surface area made possible by the desk sharing. In the same way, if remote working appeals to some as a solution favouring the concentration of employees on certain tasks, it is rare that these require the whole day: one change could be the development of spaces dedicated to tasks requiring a high concentration within the offices or spaces for discussions/brainstorming.

In the end, 1 or 2 days of remote working per week for all employees should not lead a company to automatically reduce its needs by 20% or 40% respectively. All the more so since the company needs to retain some flexibility in the event of a growth in its workforce, but also because the days of presence of employees on site will not necessarily be shared in a uniform manner.

In the current health context, **de-densification of certain workstations is to be considered**. The implementation of distancing measures could thus increase the needs of space per workstation. However, this de-densification would have a greater impact on business sectors and companies with high density. This de-densification appears more plausible in the short term and could fade in the medium term, particularly if a vaccine is found.

If remote working focuses attention on the number of square metres per worker, **it should be remembered that demand for office space also depends on the number of jobs**. It thus remains a fundamental driver of office demand, and depending on its evolution, it could compensate, at least partially, for the decrease in demand for office space. A striking example is the densification of open space surface areas which occurred during the decade of 2010, with an average decrease in space per employee of 8% in EMEA according to JLL (2020). This did not prevent an increase in the office stock and a vacancy rate that has reached historic low points in certain cities or sectors, particularly through job creation. In other words, the decrease in office space per employee does not necessarily imply a decrease in the overall demand for offices.

Lastly, let us not forget that **the market is not static**: if remote working could lead to drops in demand for surface areas and an increase in vacancies, it is conceivable that this will result in changes in behaviour that would themselves impact market balances. For example, vacant office space could be transformed into other uses such as housing or hotel accommodation if the location and building are suitable, which has already been the case in the past. An increase in vacancies could also limit speculative developments (without tenants) and thus constrain supply. The effect on rents via supply/demand balance would therefore not be automatic and could vary over time.

Toward more flexibility?

While there is great uncertainty about future changes in working methods, there are reflections about a greater flexibility.

Companies could, for example, ask for greater flexibility in leases, in order to adjust their surface areas as closely as possible to their needs. For example, this could involve the existence of coworking space in their buildings or nearby, for example, as an adjustment variable.

There is also the question of workplaces for employees. One of the possible changes is the development of workplaces in addition to the headquarters, closer to the employee's place of residence. On certain days they could go to these "peripheral" offices, coworking centres for example, which would not prevent them from going to headquarters regularly for tasks requiring strong interaction. However, it is still early to confirm these possibilities, particularly as they would have financial impacts.

Key takeaways

- The impact of desk sharing will also depend on the activities of each company and its organisational structure
- It should be remembered that demand for office space also depends on the number of jobs
- The densification of open space surface areas which occurred during the decade of 2010, with an average decrease in space per employee of 8% in EMEA. This did not prevent an increase in the office stock and a vacancy rate that has reached historic low points in certain cities or sectors
- The market is not static: an increase in vacancies, would impact behaviours

It is still important to analyse the fundamentals of assets

While questions are currently focused on the consequences of remote working on offices, this appears to us to illustrate an inherent issue of holding limited liquidity assets in a long-term holding strategy: the increased risk of a changing environment, which could impact the assets concerned. It should be noted that this risk exists to a certain extent for companies' shares or bonds, as their activity may change.

Changes in needs or in the environment are regular, and have already affected real estate in the past, with different magnitudes. For example, housing needs have changed, linked to demographics and urbanisation; hotels have modified their offer in the face of changing demand and competition; retail has become more integrated with e-commerce, etc. Offices themselves have undergone major changes, with the scarcity of individual offices in favour of open space and the emergence of desk sharing - even if there is a coexistence of models. In the future, delivery by drones or robots could impact logistics and retail, remote working could modify the demand for housing (number of rooms and location). The environment is changing regularly, leading to adaptation.

Real estate has the advantage of benefiting from a land value, even if it can differ greatly from one asset to another depending on its location. Since the investor is not omniscient, potential changes strengthen the importance of taking into account the fundamental characteristics of the assets in investment decisions. For offices, well-located assets with technical features that allow flexibility of space or even a change in use seem to be an advantage. This is also the case for dividing up surface areas, as this would make it easier to rent them out in the event of a reduction by tenants.

Key takeaways

- An inherent issue of holding limited liquidity assets in a long-term holding strategy: the increased risk of a changing environment, which could impact the assets concerned
- Changes in needs or in the environment are regular, and have already affected real estate in the past
- Real estate has the advantage of benefiting from a land value, even if it can differ greatly from one asset to another depending on its location
- Potential changes strengthen the importance of taking into account the fundamental characteristics of the assets in investment decisions

¹ This information was extracted by Amundi Immobilier from Eurostat data (Sept. 2020). Where appropriate, the reference period has been modified and the percentage of employees working remotely usually or sometimes has been recalculated from Eurostat data. Therefore, Eurostat cannot be held responsible for the information thus modified.



CONT@CT : serviceclients-amundiimmo@amundi.com

SOURCES

Amundi Immobilier, CBRE, European Commission, Cushman & Wakefield, Deskeo, Eurostat, JLL, etc. (2020)

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serviceclients-amundiimmo@amundi.com

real-assets.amundi.com

