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WE NEED TO TALK OFFICES

The office sector today is facing the technological and ideological equivalent of the Industrial Revolution. How this will shape its future was the subject of a roundtable debate featuring prominent industry experts hosted by *BE News* and sponsored by Dentons

INDUSTRY GUESTS:

Christy Bowen, director, West End valuation advisory, JLL

Eric Chong, director of research and policy, BCO

John Duckworth, executive director, The Instant Group

Oliver Hall, partner, Make Architects, and chair, BCO Next Gen Committee

Phil McLaughlin, project director, Kajima

Andrew Muckian, partner, Dentons

Lindsay Roth, design director, principal, Gensler

Jane Sartin, executive director, FlexSA

David Swan, founder and managing director, Falconvest Group

Jane Wakiwaka, head of sustainability, Real Estate Management (UK)

Nicky West, partner, Dentons

Liz Hamson, editor-in-chief, *BE News* (chair)

Despite reports to the contrary, the UK's office sector is still alive and kicking. After surviving multiple Covid lockdowns and work-from-home directives, employees are starting to return to the workplace in growing numbers. Although there still hasn't been a full return to the office, many central London workers are back in the workplace almost three days a week and this figure continues to rise.

But the sector has reached an inflection point. It is experiencing a paradigm shift, and it is set to be transformed over the next three to five years by myriad factors, including the growing adoption of AI, tech and data, the rise of flexible workspace, the demands of Gen Z workers, changing occupier needs and ESG challenges.

Summing up the shifting dynamics the sector is experiencing, The Instant Group's John Duckworth kicked off the debate by stating: "The office asset class is going through some of the biggest, if not *the* biggest, systemic changes ever [seen] since the 19th-century constructive of what the office was created for."

He added: “We sometimes don’t realise it, but the next 10 years will define what the future of the office is.” Duckworth said it “is quite extraordinary what’s happening around us”, adding that occupiers want something fundamentally different.

“Developers are reacting to that, and so are landlords,” he said. “It’s a shift from the feudal system of landlord and tenant to a customer-based one; that’s going to be a very profound [swing] for anyone involved in the asset class right now.”

Better amenities

David Swan of Falconvest Group agreed. “We’re going into much more of a client-led setting, and not treating the tenant-landlord relationship as adversarial, but more like a hotel relationship,” he said.

This means better facilities and amenities to attract people, including Gen Z, back to the office – not just amenities in the office but those around it. “I’m really struck by how many new serviced offices have amazing roof terraces, outside space and very impressive gyms, although it obviously does depend on the company,” said FlexSA’s Jane Sartin.

However, Kajima’s Phil McLaughlin said the emphasis should be placed on getting people out into the local environment. “It’s not [about] putting amenity into your building; [maybe] put some in, but encourage people to use the local area, shops, bars and restaurants.”


John Duckworth


Phil McLaughlin

According to Dentons’ Andrew Muckian, the law firm’s Dublin city centre office, which opened 15 months ago, is surrounded by retail and leisure and these amenities act as a pull for employees – especially the younger generation who are in the office four to five days a week.

“The quality of an office and amenities in the vicinity are now a huge factor in whether you get that kind of high level of attendance or less,” said Muckian, who heads up the Dublin real estate team. “In Dublin, there’s a lot of new city centre development, which traditionally didn’t have modern office schemes as it was down by the river and the docks area. But employees want to be central. People are tired of working where there’s nothing going on at lunchtime or outside. They don’t want an office gym anymore. They want to get out and about.”

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>
> *John Duckworth*

McLaughlin conceded that out-of-town business parks face more of a challenge in terms of attracting workers – “because when you’ve been working from home, why would you travel all the way there?”

He added that when companies were looking at prospective locations and evaluating whether people would want to go and work there, they asked themselves: “Can I attract young people if I take this space?”

According to Gensler’s Lindsay Roth, business parks can sometimes feel overly curated. “Everything is very much planned for you, but the richness of the city gives you ⊳

these multiple layers," she said. "It gives you choice, so there's something unique about it that's hard to replicate."

But focusing on employees' rights is going to empower the individual, which might backfire slightly on the day-to-day 'you must come to the office' conversation, according to Oliver Hall of Make Architects. "The staff member could simply say 'I don't want to be in the office', which could be a problem," he explained.

For Hall, one of the major issues surrounds the prioritisation of housing provision and the lack of discussion surrounding the economic importance of offices. "It's all about 'well we'll just stimulate the economy through lots of measures, but principally let's build lots of houses to keep the public happy'."

The conversation needs to be about densifying cities to allow people to live close to offices, he said, adding: "There's no point building lots of houses across the country, distributing people widely, because then they are further away from office locations.

"We've got these great office locations in Bristol, Manchester and Birmingham, but if we're building houses everywhere and sprawling people across the country, that's not good. We need to be focusing on cities and building houses to draw people back in and, consequently, promoting office use."

Panellists then moved on to the subject of the flexible office market, the variation in terms of the different space available and how flex space is valued.

"Before, it was limited in terms of the space you could take," said Sartin, listing daily co-working, standard serviced offices, fitted space, fitted space on an all-inclusive basis and managed space. "Now, there's a whole range of different spaces to meet occupiers' requirements. The stress test is what works for them," she added.

Valuation challenge

As for the question of how to value flex space, JLL's Christy Bowen said anything could be valued, but added there had been little transactional evidence to support valuations. "That's been the challenge,"

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>
> *Oliver Hall*


Jane Wakiwaka


Andrew Muckian


David Swan

she added. "There have been very few investment transactions of any nature and it has been even more limited when it comes to flex transactions, so you don't have the investment data points to determine how the investment market would look at these assets."

There is a lack of transparency of operational data in terms of both costs and revenue, unlike in the hotel and self-storage markets, said Bowen. But post-pandemic, as occupancy builds and most centres that have opened are at full occupancy levels, and following a few years of high-cost inflation, now is the stage where both costs and revenue start to inflate at a more normalised rate, she added.

"We're at that turning point where it will become easier," said Bowen. "For now, it's assessing how certain that income stream is, who your investment market is and what returns they want from it."

'More than EPCs'

Talk then shifted to ESG, which is still the biggest challenge for the sector, according to Swan. "You have a government pushing, but you have occupiers pulling who are saying it must be more than EPCs – it needs to be net zero, really uber efficient," he explained.

"As a tenant, as a corporate occupying one of the biggest potential producers of carbon dioxide buildings, to be able to say 'we are in a brilliantly efficient building', that's a big tick for them."

On the financial front, Swan pointed out that banks would not lend unless the ESG criteria was met. "If you're an owner or investor, you need a bank on board to help with the capital structure," he said. "If your building doesn't meet the green criteria, you're nowhere." This is particularly true as ESG and sustainability continue to rise up the agenda, Swan added.

Jane Wakiwaka of Real Estate Management (UK) said that after Covid, wellbeing had a huge impact that extended to looking at the provision of amenity spaces and services as part of the office beyond occupied spaces. "We see a lot of demand for high-quality cycle storage as people place greater importance over how they're getting to work as part of maintaining their own wellbeing," she added.

The risk of greenwashing is another factor to consider, as the transparency in terms of how buildings are performing is crucial, according to Wakiwaka.

"If looking at policy and legislation, we are increasingly moving towards a landscape that is driving disclosure, so good-quality data is key," she said. "It also provides an opportunity over how those spaces are actively managed to reduce energy use, by accounting for occupancy patterns, like hybrid working, instead of assuming full occupancy five days a week."

Eric Chong

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> *Eric Chong*

Nicky West

This led the panel to discuss the use of AI and its potential impact. "It could transform the number of people needed to do certain work," said Muckian, pointing to services firms that carry out large due diligence exercises.

AI is revolutionising and will revolutionise that area, he added. He said he believed this would lead to heavily reduced hours and, consequently, reduce heavily the number of people needed.

Muckian continued: "This is why people are now taking 15-year leases, and that's going to come down further as AI develops as nobody's going to sign up for more than seven or eight years. Occupiers will not know how many numbers they need one way or the other – bigger or smaller."

The BCO's Eric Chong said he believed that overall, it was too early to determine how the software would change the industry, given we are still in the generative AI phase and are focusing on machine learning.

"Until we reach the point of predictive AI, which would be able to find and provide answers to complex questions, then that's – I won't say scary, but – the exciting part. Currently, you still have to guide AI when you use it," said Chong.

He continued: "Maybe a year or two from now we can revisit this question. Today AI helps us be more efficient in many tasks such as writing and editing."

Chong also stressed the potential legal risks, with firms using the software for their planning application drafts. "They screen all 14,000 planning application documents and instruct AI to analyse and summarise them," he said. "Would you go back and check all 14,000 documents? Likely not. What if someone found an error and sued you? Are you responsible for that? Or is that AI or ChatGPT? So is that a legal risk? No one can answer that for now."

Loss of skills

According to Dentons' Nicky West, AI cannot be avoided and should be embraced for certain jobs, but she voiced a concern:

Lindsay Roth

Liz Hamson

"What's worrying about AI is [people] losing the skillset. How do you keep those going for people if they're never doing the job and so don't understand the learning behind it?"

Whether AI will ever have an influence office design is unknown. But Roth said she was "excited to be in the period of workplace design", adding: "Since Covid, [everyone] wants to know what we can do for our people. So, the ability to invest in creating qualitative space that's genuinely for people is exciting and it's a great time to be in the industry."

However, she warned that what the industry must watch is that nobody gets left behind. "As we create these qualitative spaces, they are premium spaces, for the best of the best," Roth said. "You're putting them into the great neighbourhoods, the great buildings. It's making sure that we are considering everybody."

Two-tier market

West made the point that the market today is two-tier, which she said was good "because it will force something to happen to the secondary, tertiary space".

Buildings will have to be repurposed, but it will take time, said West, adding: "We are going through the equivalent of the Industrial Revolution with office space, and it's positive. In the past, developers haven't thought so much about the hearts and minds of the building – how much it can really benefit people to work in a lovely environment.

"Before, buildings were built, let, done. Nothing exciting about it. But now tenants can get a buzz out of their buildings. It's huge and positive."

Summarising, Duckworth said the market had been through a lot over the past few years: "It has lived off a cyclical approach that readjusts and has done every five years. Now, there's something more profound going on. I think it's a systemic change to offices. We're going through a big readjustment, and that's to do with occupier demand and how talent and employees want to use those."

This will take time, said Duckworth, but it will "leach into the long-standing view that the office asset class was an institutional bond and that's now gone forever".

He added that he didn't want to be "doom and gloom about the office class", adding: "I think it's a great asset class. I just think it's going to evolve into a different type of asset, from an investment perspective." □

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Nicky West