

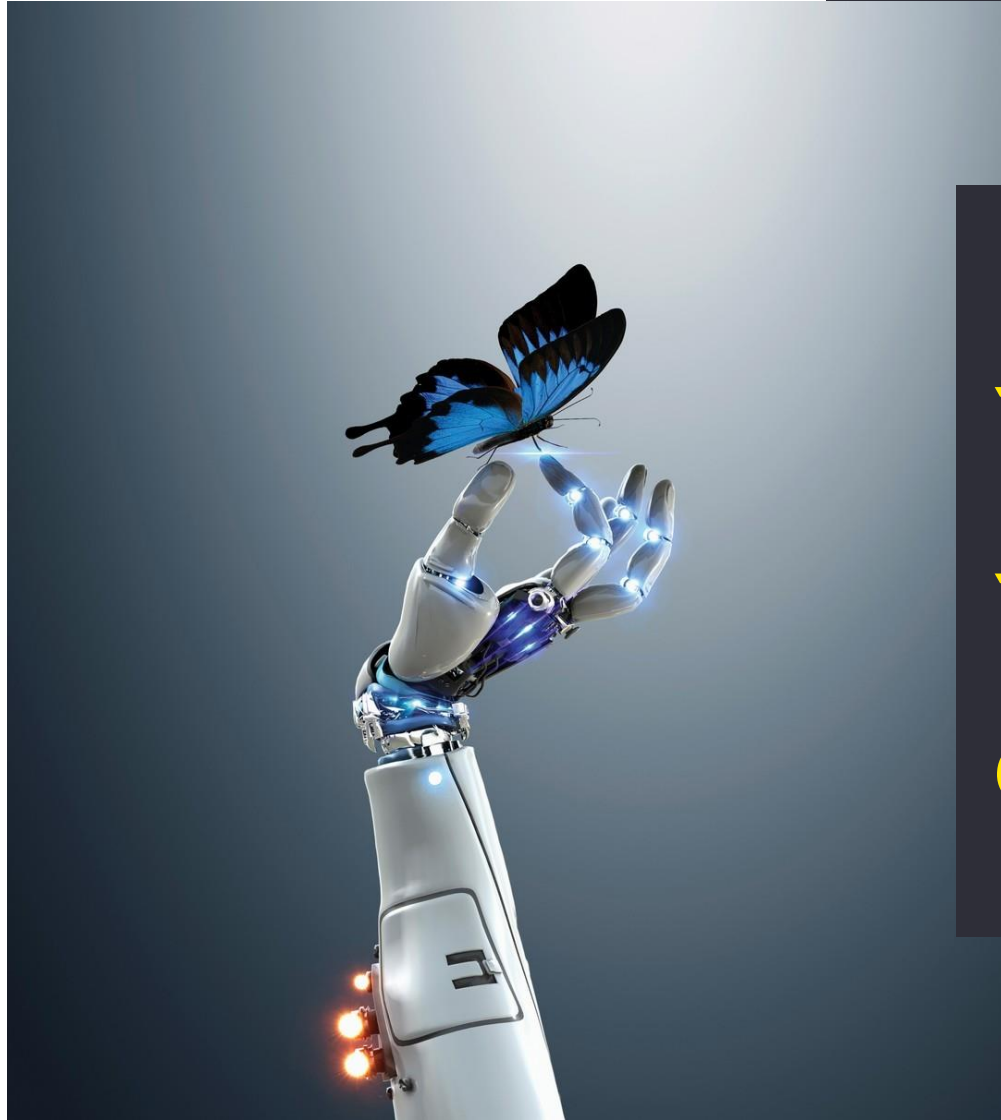
Future of Work

A global real estate player's point of view on the Future of Work and its impact on real estate

October 2020



Urban Land
Institute



Contents

Introduction	2
Executive summary	5
Detailed results	9
About EY & ULI	23

The Future of Work: Flexibility is the key word - for the activity of work as well as for the space



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EY & ULI: *Future of Work - A Global Real Estate Player's Point of View* is the first global report investigating the impact of the pandemic on the Future of Work, real estate and cities over the next three to five years. This report comes at a critical time, with the theme being widely discussed but with future outcomes remaining uncertain. All stakeholders, including investors, developers, workforces, corporates and governments, are dealing with the short-term - actions required to overcome the pandemic, while at the same time trying to work out how these changes might play out over the longer term, for example, related to remote work and an enhanced focus on sustainability and health and well-being.

The research for this report assesses opinions and business projections of more than 500 leading professionals surveyed globally, in addition to views expressed by ULI global leaders in webinars and roundtable discussions. This research provides key insights to better understand how people and businesses will work over the longer term, what the role of the physical office will be and how this will affect buildings, locations and cities more broadly, as well as addressing the topic of cost and demand.

Flexibility is the key word, both for employees and corporates as well as for the activity of work and the space and location. This implies an even greater blurring of sector boundaries than were already emerging ahead of the pandemic. In addition, we see an enhanced focus on the quality of space, not only office space, but also housing and third spaces, locations other than the home and office space, where people can work or meet. How can this ecosystem of locations be best designed to facilitate health and well-being and productivity to successfully attract and retain talent and express the corporate culture?

For the office space, quality will dominate over quantity, with overall demand expected to remain stable at best or decline in a more likely scenario. However, without a doubt, physical offices are key for work to be successful and will continue to provide the spaces we need for physical interactions, team building and collaboration. So, to maintain their prominence, buildings must foster health and well-being and amenities as well as truly adaptable spaces. These spaces must be designed to provide safe and secure locations to conduct physical interactions and enhance innovation and creativity. Buildings that don't, risk obsolescence, higher vacancy rates and declining values.

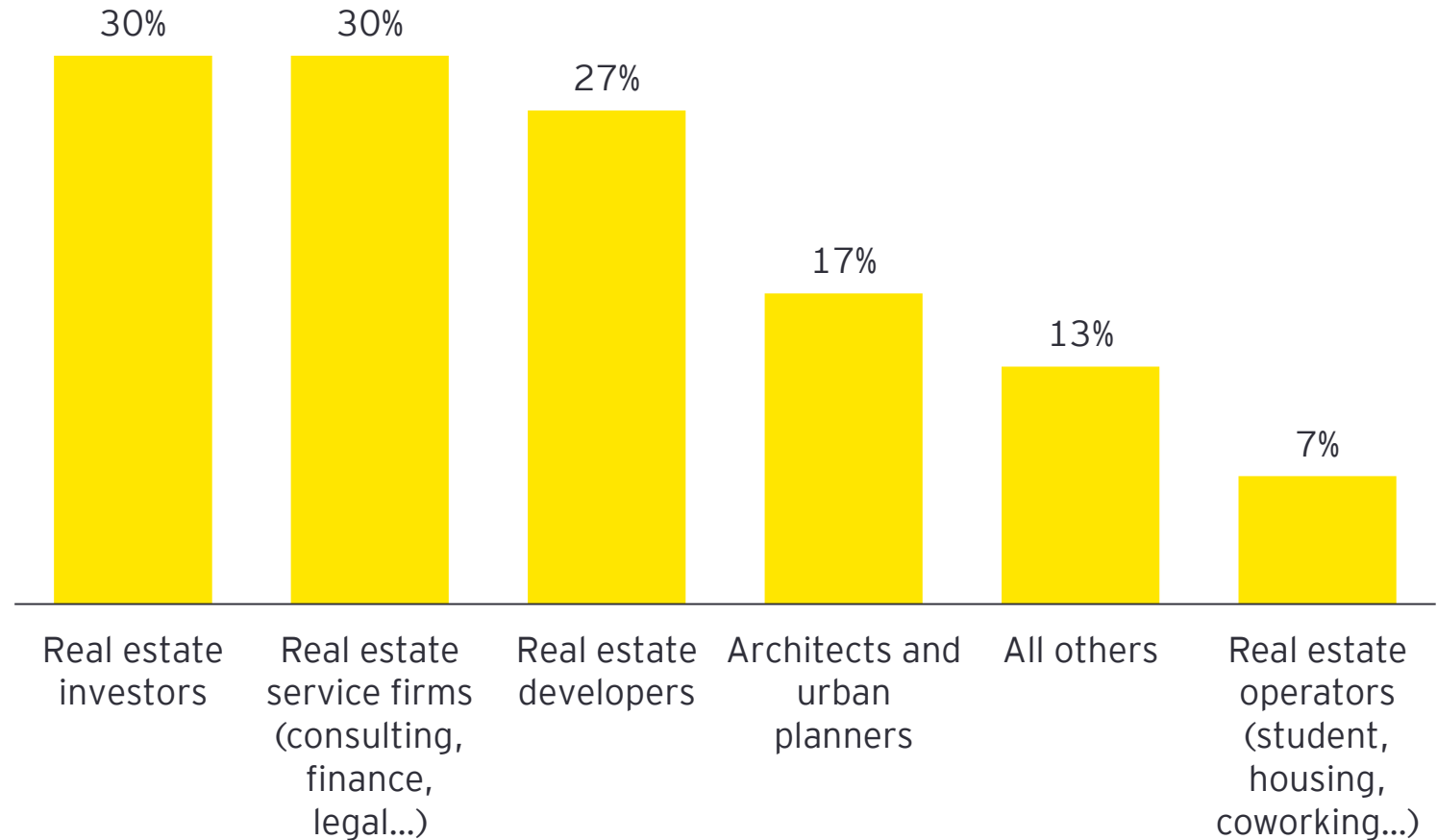
All of this requires a greater focus on technology and cybersecurity both from the user's as well as the landlord's point of view, in addition to innovative, flexible and tailored leasing models to facilitate the occupier's preference for flexibility while maintaining a strong identity/corporate culture.

EY and ULI have teamed up to launch the first global survey on the Future of Work and its impact on real estate

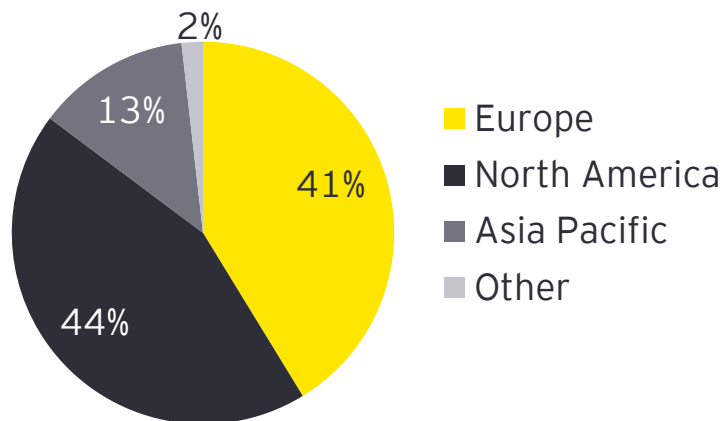
Total sample
555
respondents
(Global e-survey run between August 4 and September 15, 2020)



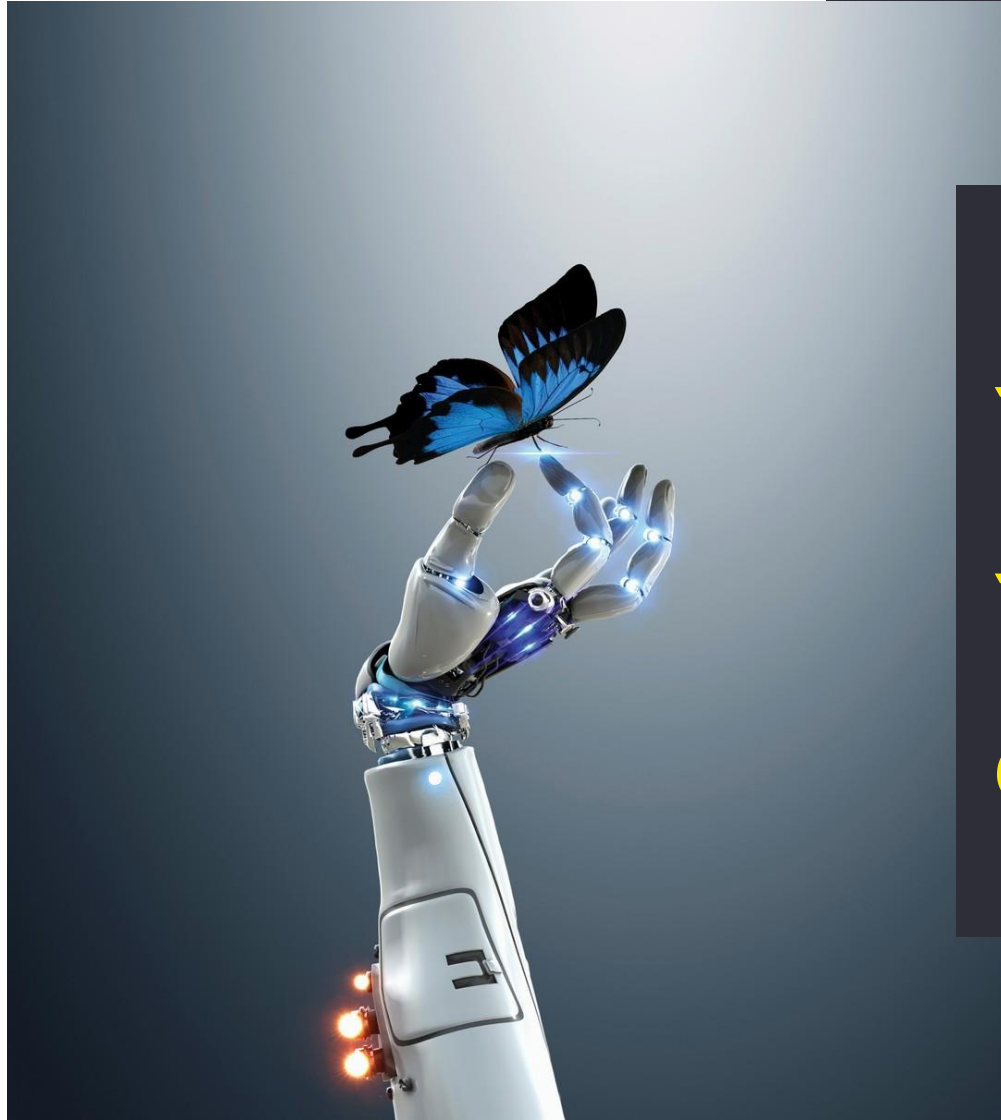
Distribution of respondents by activity*



Distribution of respondents by global region



* A respondent may select more than one activity; therefore, total is > 100%.



Contents

Introduction	2
<hr/>	
Executive summary	5
<hr/>	
Detailed results	9
<hr/>	
About EY & ULI	23

The Future of Work: Flexibility and 'value for money' are key

FoW will be more remote, digital and flexible

- ▶ Real estate players see the Future of Work (FoW) as more **remote** (96%), **digital** (85%), **on-demand** (72%) and **self-employed** (69%).
- ▶ In addition, 85% expect artificial intelligence and business automation to increase and make the FoW more digital.
- ▶ In particular, remote work will completely transform the execution of work: **execution** tasks are likely to be performed **remotely** (78%) while **strategic and talent management** (76%), business development (69%) and creativity (65%) are expected to remain **onsite**.
- ▶ **Remote work is expected to grow** from 20% of employees being offered 20% remote working time to at least 60% of employees spending 40%+ of their time remotely.

Massive changes in the business model of office real estate

- ▶ **Agility:** large corporate users will look for a more tailored and flexible office footprint (96%).
- ▶ **Technology:** respondents anticipate increased IT costs (80%) in parallel with the reduction of costs.
- ▶ **Flexibilization:** 66% of the respondents think flexible lease contracts will become the new normal.
- ▶ **Space:** 53% of real estate players expect a space reduction as a result of changing working patterns.

Although office real estate is currently under enormous pressure, it may prove its HR value over the long term

Over the short term, real estate players expect more uncertainty, flexibility and reduction of office space

- ▶ Less frequent use of office space per employee.
- ▶ City residents increasingly focusing on moving out of town, with a subsequent changed focus on suburban and/or satellite offices.
- ▶ Fewer or ultra-flexible real estate decisions until the impacts of continued working from home, economic downturn and longer-term behavioral changes become clearer.
- ▶ Stalled investment demand until we know how changing employee behavior and remote work balance out, and affect office demand.

Over the longer term, real estate players expect offices and city centers to play a new role and prove their HR value

- ▶ A degree of new investment in real estate as long as it affects talent recruitment and retention, corporate culture and identity, innovation and creativity.
- ▶ More collaborative and downtime spaces and amenities.
- ▶ More space per employee.
- ▶ A new demand for CBD/urban locations where employers and talent enjoy the benefits of mixed-use, vibrancy and services.
- ▶ A sort of “urban renaissance” and the regeneration of urban cores.

“

As occupiers adjust to the impact of COVID-19 on their businesses and scale back, delay or even shelve some office requirements altogether, we expect the pattern of rental decline from the global financial crisis to repeat itself and, if anything, it may be exacerbated further in the event that significantly tenant/occupier-controlled space is released back onto the market as businesses adopt new working practices in the long term. Consequently, there is likely to be considerable uncertainty in the months ahead with rising unemployment, dwindling demand for space and an expectation that rents will tumble across the office sector.

Future of Office: Remote work makes real estate more critical

The quality of real estate will be even more critical

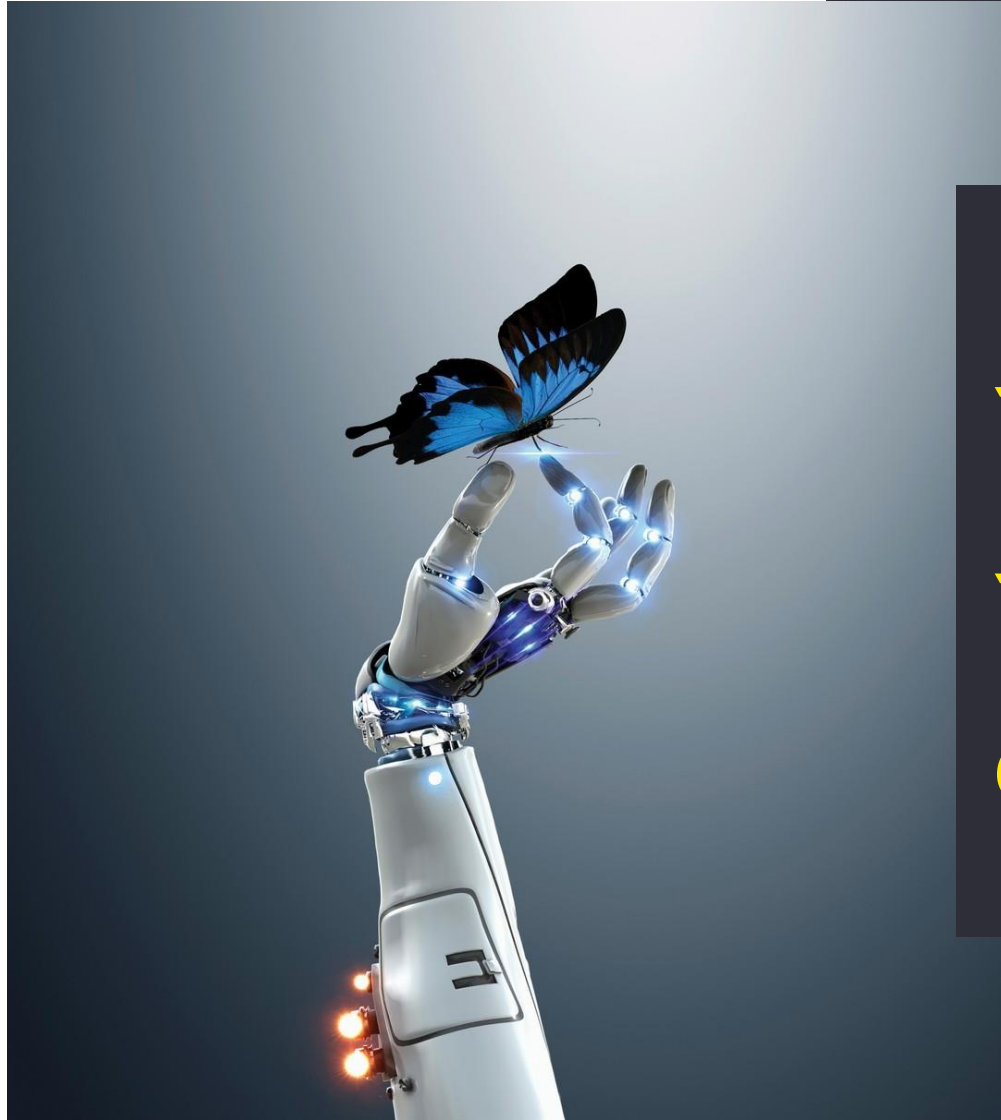
- ▶ Among the challenges, respondents mention the **loss of corporate culture** (78%), less effective talent management (68%), higher staff turnover (56%) and loss of creativity and innovation (55%).
- ▶ The **physical office space** needs to meet new demands including **healthy** building amenities (94%) and more space designed for **collaborative** work (81%).
- ▶ **Office space quality** will play a key role in creating a corporate culture (96%) and recruiting and retaining employees (93%).

Work will be fully embedded in real estate and our cities

- ▶ The FoW will require a **full ecosystem of places** to carry out the work, including the home, satellite/flexible workspaces at edges of cities, third places, and a key role for central/HQ locations.
- ▶ It will **influence the whole spectrum of real estate sectors**, including housing, coworking, third places and hospitality.
- ▶ It is also expected to **affect our cities** with more access to online public services (93%), the necessity to develop more efficient local supply chains (92%) and, of course, a reduced need to commute (91%).
- ▶ The FoW will likely have **consequences on the environment** (decrease of home-to-office commuting and international business travel but increased need for efficient IT systems) and on **social impact (ESG)**, inclusiveness, health and well-being.

“

As occupiers adjust on multiple levels, hospitality and an office have been kind of blending for a while. There's a significant trend there that is definitely being accelerated, particularly because occupiers want to be able to have dynamic access to space that they don't lease over long periods of time. So the whole flex and combining that with hospitality makes sense. The bigger mixed-use question that I think is more interesting is around the blurring of boundaries, of working, living, and learning. [...]. So there will be more pressure on planning to drive more mixed-use developments – Workplace consultant

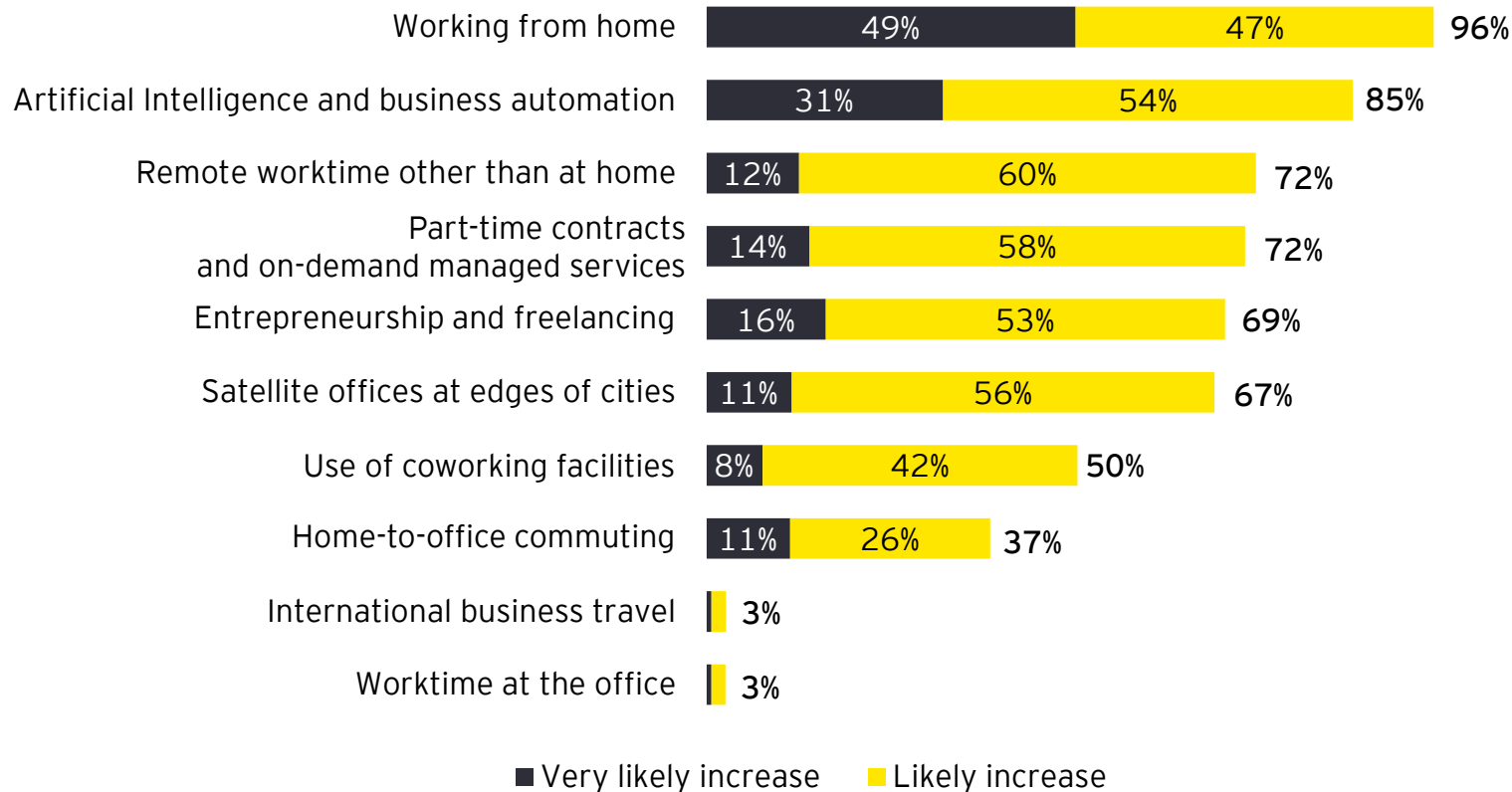


Contents

Introduction	2
Executive summary	5
Detailed results	9
About EY & ULI	23

The Future of Work will be more remote, digital, on-demand and self-employed

What will the Future of Work look like in the next three-to-five-year period, compared to pre-COVID?
 (% of “very likely increase” and “likely increase”)

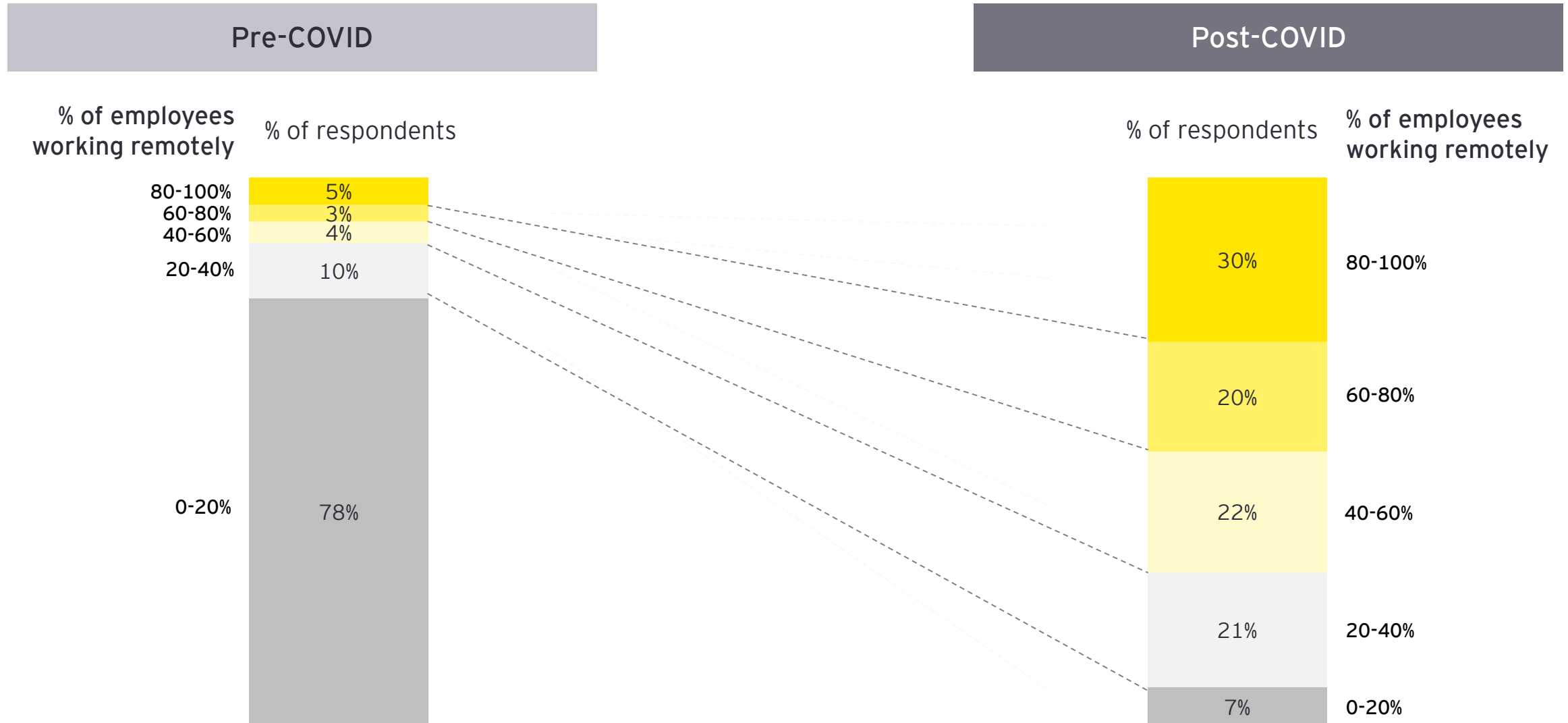


“

The customer base is there for shared workspace. I think coworking is here to stay. I think the question is, who's going to be around to service that demand after the COVID-19 period is over. And I do think there'll be a lot of consolidation. [...] But I think it will emerge, it will be a real business, and there will be players who will thrive after the crisis is over.

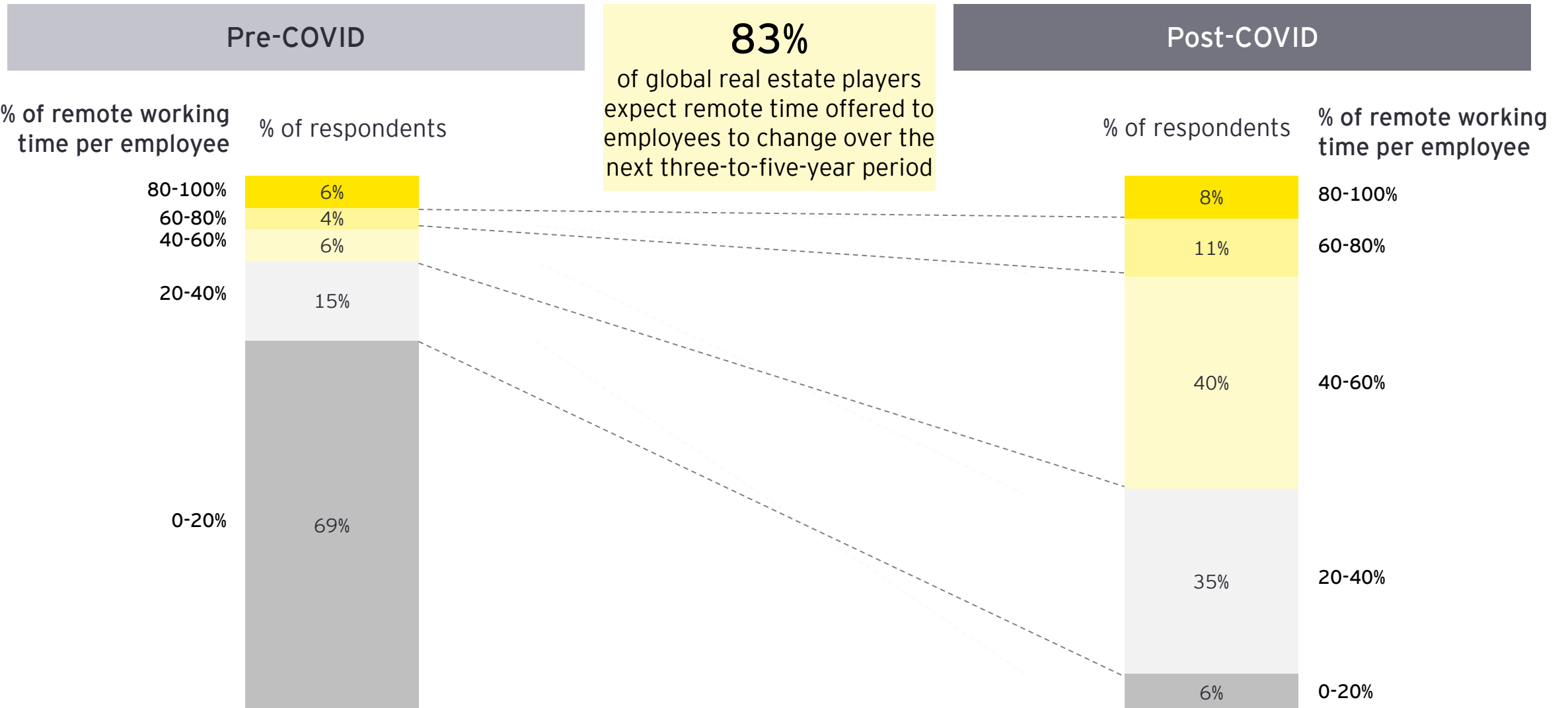
CEO of listed office REIT

50% of respondents say that more than 60% of employees will be working remotely post-COVID



Source: EY-ULI survey, 555 respondents, August-September 2020.

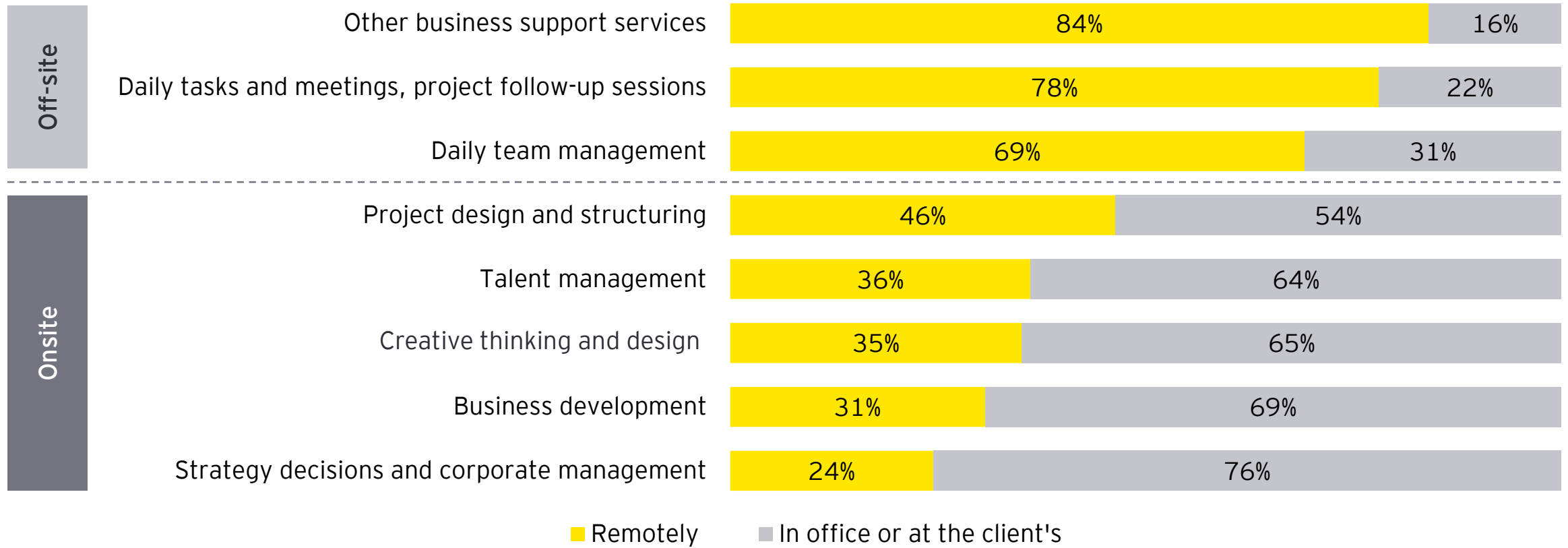
Post-COVID, employees may be working remotely between 1 and 3 days per week according to more than 75% of respondents



Source: EY-ULI survey, 555 respondents, August-September 2020.

Strategic activities, teamwork and creative tasks will remain onsite, while day-to-day management and delivery become more remote

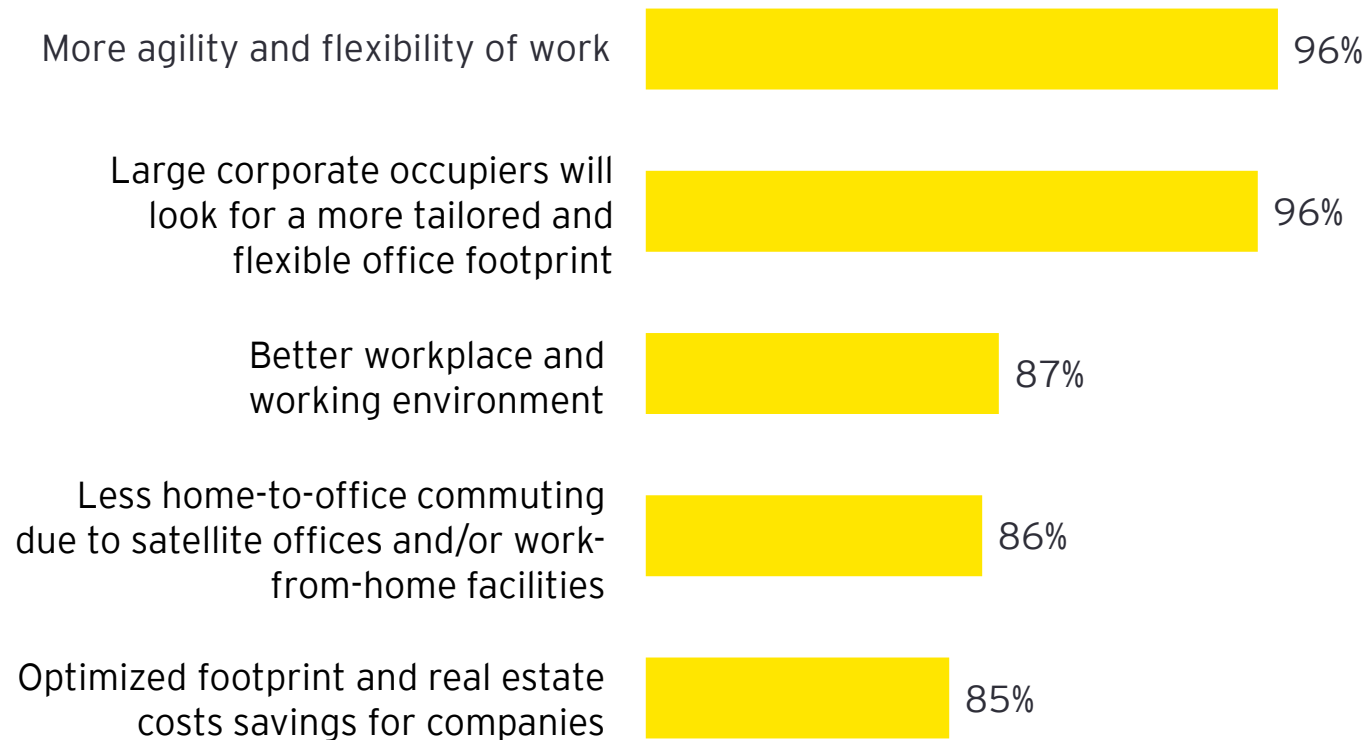
Which tasks and responsibilities will most likely be carried out remotely over the next three-to-five-year period?



Source: EY-ULI survey, 555 respondents, August-September 2020.

The FoW offers more work agility and real estate flexibility

What are the potential benefits from the Future of Work?
(Top 5 of "likely" responses, % of "likely" responses)



“

Particularly for large tech companies, there has been a voicing of a new corporate direction to have additional work from home. There's been quite a bit of pent-up demand and looking for new space. Reorganize their space and redesign their space to make it more collaborative and work together.

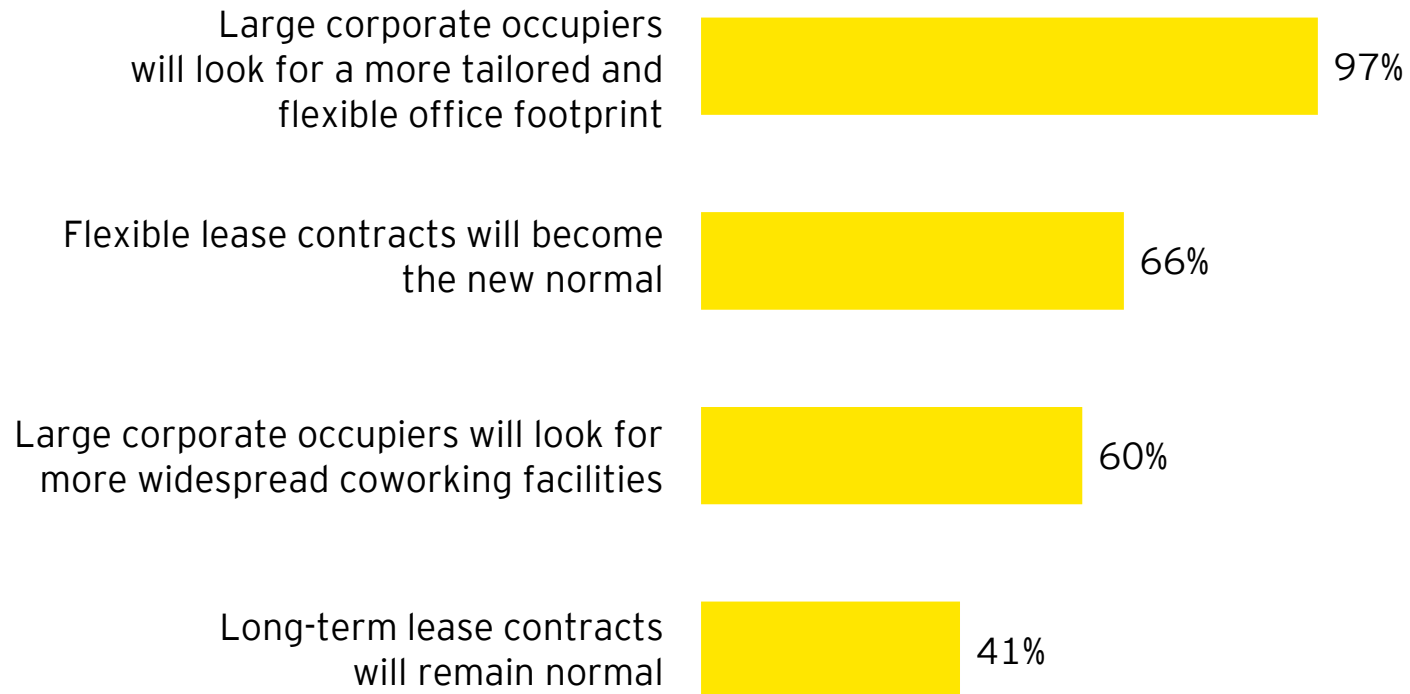
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Flexible space will become part of the building's ecosystem, allowing landlords to package space for their tenants rather than just handing them over to a third-party space provider. Offices may become more like hotels, with branded space and more services to make it attractive.

Source: EY-ULI survey, 555 respondents, August-September 2020.

Flexible and tailor-made lease contracts are expected to become the new normal

What key changes to the office occupier demand are you anticipating?
(% of “likely” responses)



“

It is no longer just about selling ‘offices’ but ‘workspaces’ for real estate players.’ ‘Developers and owners will need to offer flexible scalable solutions to attract tenants.’ It is proposed that data tracking of how spaces are used will be vital for organizations in understanding what mix of long-term office space and flexible spaces they will need.

“

There is the current challenge that investors demand a predictable long-term secure returns, but occupiers want to have flexibility without long commitments.

“

Companies will sign market standard leases for a certain amount of space that they are sure they need for their core operations, and then they will add a layer of flex space.

Source: EY-ULI survey, 555 respondents, August-September 2020.

Primarily, the FoW increases IT costs and concerns about loss of corporate culture and less effective talent management

What are the potential challenges from the Future of Work?
(Top 5 of "likely" responses, % of "likely" responses)



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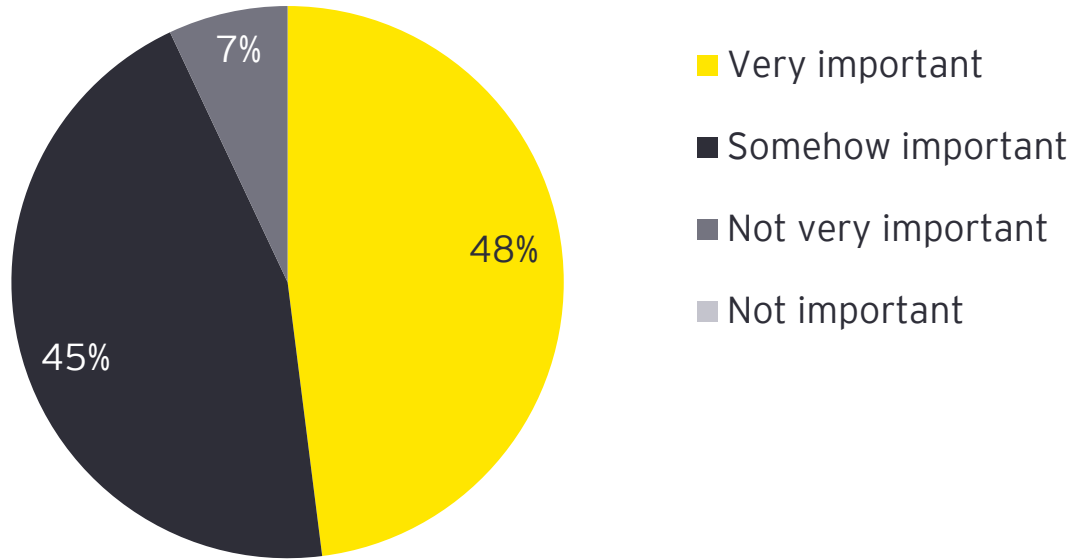
We should achieve a home and work balance with a bit more intelligence and empathy. Employers have a duty of care for staff and that doesn't stop in the office, but it continues at home, which is more complicated. It requires more thought and more effort to make sure employees are still being cared for.

“

This building, one of the most important things it does is keep the corporate culture together. You need to keep everyone together; otherwise you're a bunch of separate people, you're not the entity and you've got to keep that.

However, the HR value of office space is expected to increase

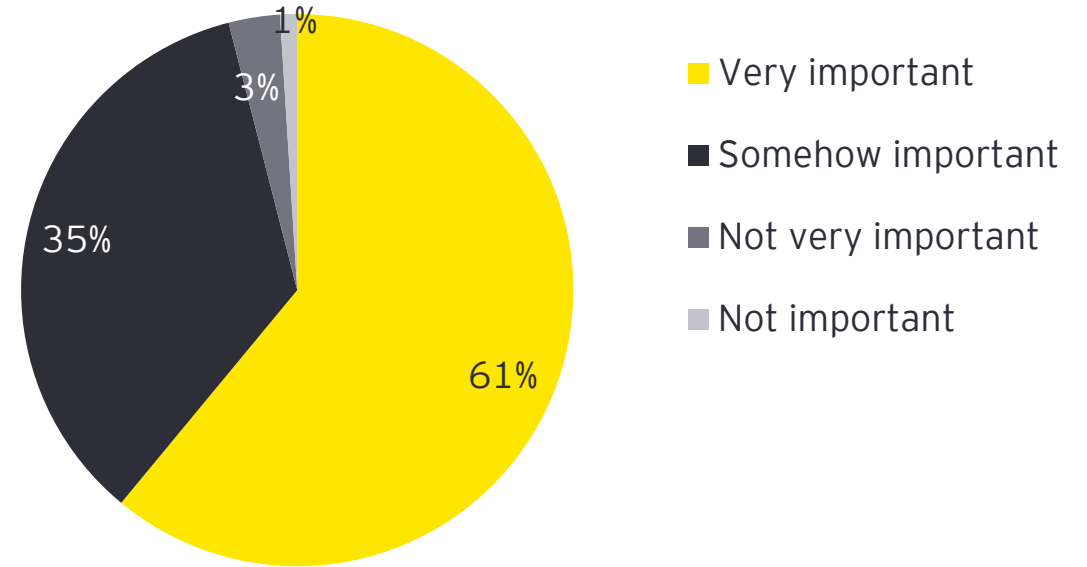
How important is office space to attract and retain employees in a post-COVID-19 environment?



“

Senior leaders and managers will want to come in for meetings to collaborate, create and innovate. There is no question that cities will always be attractive and they will continue to have the most desirable and collaborative jobs.

How important is office space to create a strong corporate culture in the post-COVID-19 environment?



“

The office space is important in attracting and retaining employees as well as social connectivity. The younger generation will be the most office-located to escape subpar home work environments and socialize in city centers afterwards.

Source: EY-ULI survey, 555 respondents, August-September 2020.

Office space surface is expected to decrease

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There is quite some difference of opinion on floorspace demand; short term we would project a decrease, but long term is less certain. We are also seeing new builds and deals happening showing a market appetite. Location is a factor.

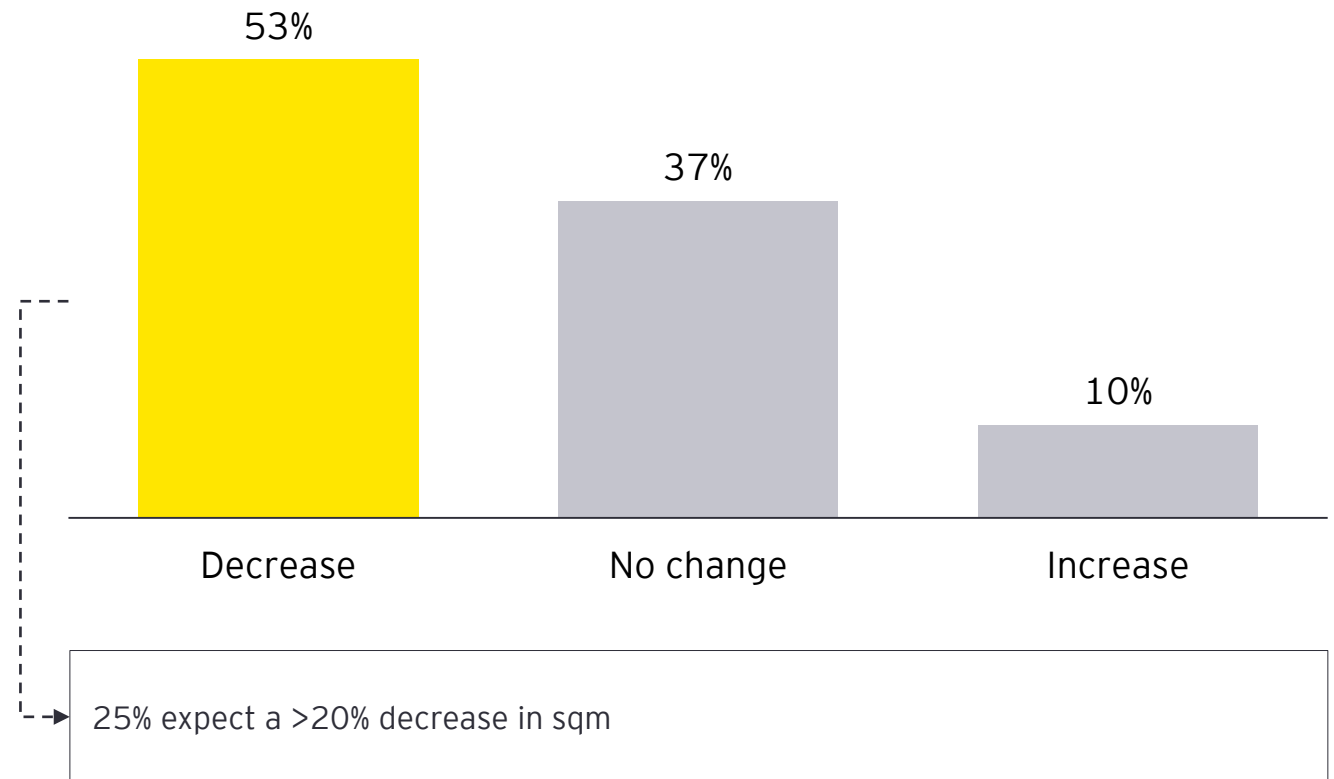
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Ultimately, short-term cost management will have the biggest impact. Big occupiers will be looking to reduce occupancy costs; this is a long-term trend which will continue.

“

As tenants require less space, we will be seeing obsolete spaces and buildings. What does this mean for our real estate players when we have all that space and no demand for it? Owners and developers will be forced to adapt and repurpose the obsolete office buildings which could be turned into mixed uses, co-living and residential.

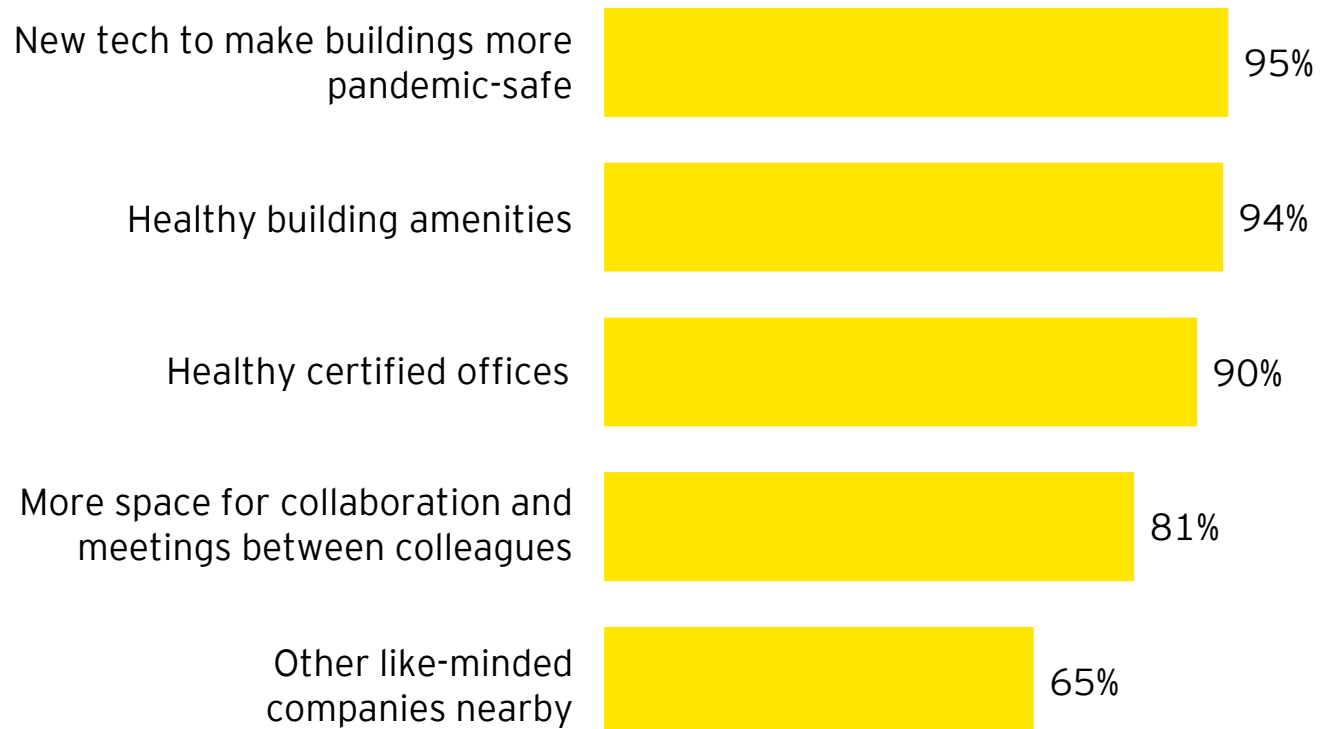
As a result of new work patterns over the next three-to-five-year period, are you anticipating a change in your office space?



Source: EY-ULI survey, 555 respondents, August-September 2020.

Buildings will be safer and healthier, with more collaboration space, amenities and services

How do you think the workspace will change in the next three-to-five-year period?
(Top 5 responses, % of “likely”)



“

Real estate companies will no longer be looking to provide desks to maximize occupancy but rather focus on providing amenities in offices spaces. This could range from providing easy access to food and drink, tech-abled break-out areas, up to concierge services...

“

Buildings need to be designed to offer more than just the ability to move furniture but to respond, create and invoke comfort, safety and a bespoke environment for the way staff wish to work.

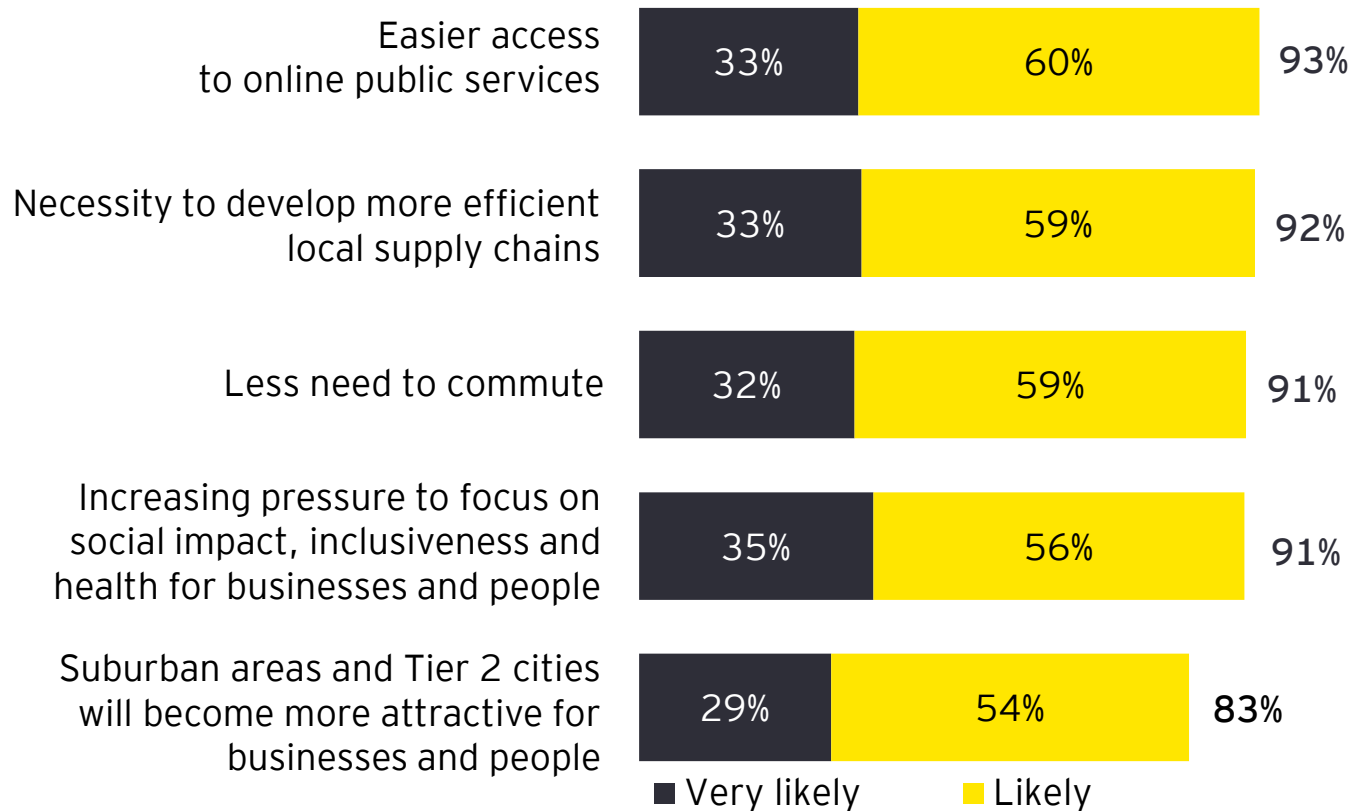
“

Smarter and healthier buildings are seen as ‘winners’ with a focus on well-being as a key selling point to occupiers. Technology will assist us to be back in the office and will be an activator towards health and well-being.

Source: EY-ULI survey, 555 respondents, August-September 2020.

The FoW creates new pressures on cities and communities, particularly in infrastructure and urban development

What are the main changes initiated or accelerated by the COVID-19 crisis on "society"?
(Top 5 responses, % of "very likely" and "likely")



“

While suburbs may become the new CBD, it will not replace the large CBDs where it attracts significant talent and they will continue to remain attractive to organizations as 24/7 vibrant live/work/play environments.

“

So location is no longer becoming a real driver in terms of people deciding where they work. It is more being driven by actually lifestyle and affordability rather than being close to your employer. So some of the trends that we saw already in the last five years, where major corporates were starting to decentralize to various second-tier cities in the U.K., in eastern Europe, in the U.S. This is absolutely being accelerated today.

Source: EY-ULI survey, 555 respondents, August-September 2020.

The FoW will likely affect environmental, social and corporate governance (ESG)

2 examples of impacts

Environmental

- ▶ 68% of respondents think the Future of Work will likely mean less pressure on environment and climate. However, the FoW will likely have consequences in both directions:
 - ▶ Decrease of home-to-office commuting and international business travel, potentially leading to a decrease in CO₂ emissions.
 - ▶ Increased need for efficient IT systems and communications, potentially leading to more energy consumption.

Social

- ▶ 91% of respondents say FoW will increase pressure to focus on social impact, inclusiveness and health for businesses and people:
 - ▶ More agility and flexibility in work, less time wasted in commuting, better workplace and working environment.
 - ▶ Blurring of boundaries between work and personal life, housing unfit to provide suitable workspaces.

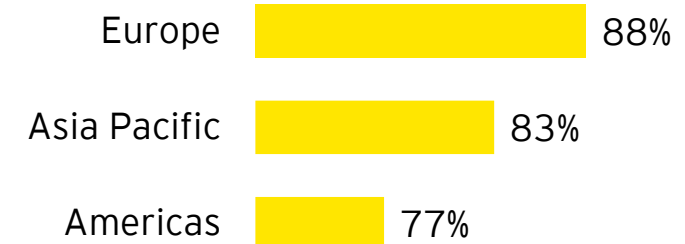
Source: EY-ULI survey, 555 respondents, August-September 2020.

Cultural bias: respondents in Europe seem to expect the biggest changes in the FoW

Future of Work

- ▶ Limited concerns for lower employee productivity in Europe: 40% vs. 51% in Americas and 58% in APAC.
- ▶ Long-term lease contracts unlikely to remain normal for 66% of European respondents vs. 58% of APAC respondents and 53% of American respondents.

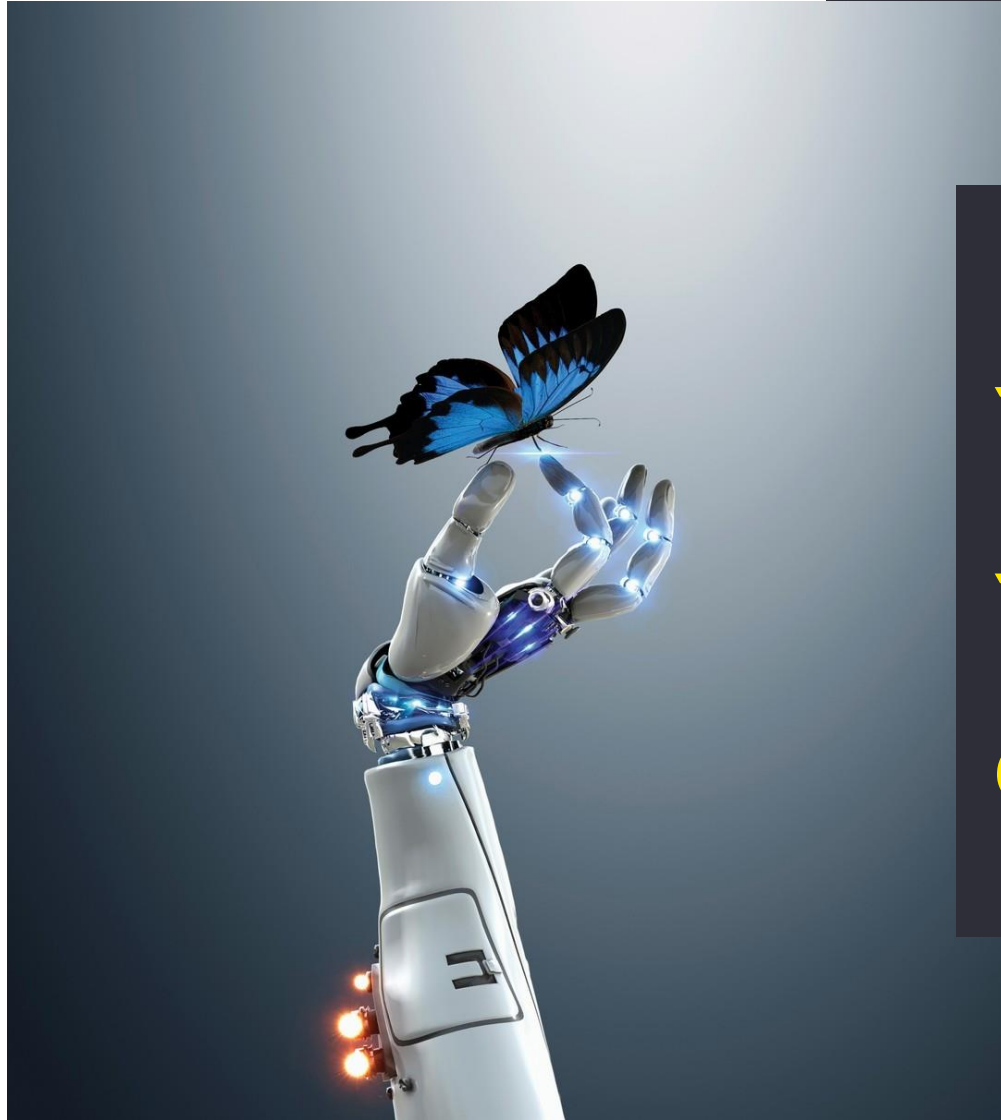
Do you expect remote time offered to employees to change over the next three-to-five-year period? (% of "yes" responses)



Future of Office

- ▶ **European respondents expect more space for collaboration and lounging:**
 - ▶ 89% of European respondents expect more space for collaboration and meetings between colleagues (vs. 79% in APAC and 72% in Americas).
 - ▶ 71% of Europeans expect more lounge space and amenities (vs. 58% in APAC and 45% in Americas).
- ▶ **European respondents expect more use of coworking facilities:**
 - ▶ 63% of Europeans say people will use more coworking facilities vs. 48% of APAC respondents and 35% of Americans.
 - ▶ 72% of Europeans think large corporate occupiers will look for more widespread coworking facilities, vs. only 58% in APAC and 48% in Americas.

Source: EY-ULI survey, 555 respondents, August-September 2020.



Contents

Introduction	2

Executive summary	5

Detailed results	9

About EY & ULI	23

ABOUT ULI

The Urban Land Institute is a non-profit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Established in 1936, the institute has more than 45,000 members worldwide representing all aspects of land use and development disciplines. For more information, please visit uli.org or follow us on Twitter, Facebook, LinkedIn, and Instagram.

The ULI Content Pillars provide a bridge between our broad mission and the programs that deliver it. The Pillars represent the timeless topics or concerns of the organization, within which the program of work must fit. Much of the Institute's program of work cuts across these areas:



Housing and Communities

This pillar is firmly grounded in the founding of the organization in 1936. References to housing products and policy, and specifically to the provision of affordable housing, are included in ULI's Articles of Incorporation. ULI fundamentally believes that housing is a fundamental underpinning of healthy and thriving communities.

Real Estate Finance and Investment

A great deal of ULI's value to our members and ability to meaningfully deliver our mission relates to our activities in real estate capital markets, including providing a forum for the providers and users of capital to convene. ULI's traditional focus has been on connecting capital to real estate through the creation of value. This pillar also encompasses the market and economic factors that affect the supply and demand forces that drive land use change



Sustainability and Economic Performance

Specifically referred to in ULI's mission, and embedded in ULI's dedication to the creation of long-term value, sustainability is more than energy efficiency or adaptation to climate change. It encompasses environmental, social, and governance issues as they relate to efficient use of resources and creating and maintaining a sustainable and resilient built environment.

Innovation in Development Practice

ULI's applied research and education programs are based principally on best practices, on "what works," and the process of real estate development remains central to the mission and to our members' activities. We foster innovation, but look to practical experience and knowledge sharing to advance the state of the art. This pillar refers primarily to activities, at various scales, that are considered site-specific. ULI traditionally takes a case study approach, using real-world examples to illustrate broadly applicable principles and practices.



Shaping Successful Cities and Regions

Site-specific development occurs within a broader physical and policy context shaped by numerous actors and decision-makers. This larger context, from neighborhood to metropolitan region, is the subject of this pillar. Here, activities and issues transcend property boundaries and encompass land use planning and development policy, infrastructure, metropolitan growth strategies, and transportation issues.

About EY Real Estate, Hospitality, Construction

EY | CORPORATE REAL ESTATE

REAL ESTATE REIMAGINED

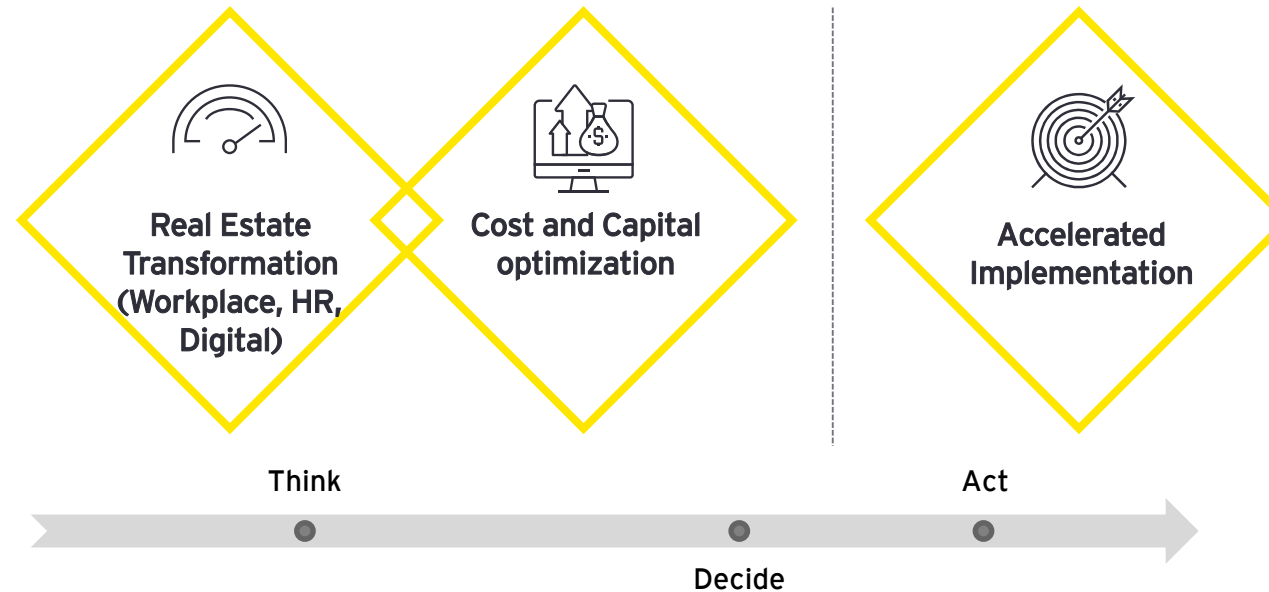
EY operates across the entire real estate value chain: private, public, social. Thus EY supports the end users (Corporate real estate), but also real estate companies, developers, lessors and builders.

EY supports over 4,000 clients in the Real Estate sector and brings together around 10,000 EY people worldwide.

In a post-Covid world, the real estate industry will change dramatically. The pressure on operational costs, impact of remote working, health precautions, technological and collaborative tools will encourage users and real estate players to rethink the “future of real estate”.

Redefining the essential purpose of real estate

Tomorrow’s workspaces will be more scattered and connected. It will be necessary to combine mobility and safety, collaborative work and customer proximity, employee engagement and retention of the best talents. Services related to real estate will be even more essential in the future. This period of crisis allows us to reimagine the fundamentals features of workspaces and accelerate transformation, while optimizing costs and capital allocation.



By combining these three dimensions, EY delivers the best Real Estate innovations and practices for Real Estate users and professionals who design, build and finance Real Estate projects and bring them to market, as well as for public sector entities who are preparing the developments and infrastructure of tomorrow.

EY - ULI/Future of Work 2020

EY VIEWPOINTS



Jobs and recruitments in the Real Estate sector



2020 Barometer of business districts (EY-ULI)



Overview of Real Estate and City



EY Overview of the Real Estate Investment Market

About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About ULI

The Urban Land Institute is a global, member-driven organization comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of providing leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 81 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise and best practices on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns. Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. In 2019 alone, more than 2,400 events were held in about 330 cities around the world.

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