UK Research | March 2021

The future of UK regional office demand

Office markets outside Central London after COVID-19

Introduction

The COVID-19 pandemic, the resulting lockdowns and the dramatic changes to working life of the past year have produced widespread disruption to offices and the towns and cities around them. The next few months will see more people return to their usual workplace as restrictions are relaxed. But cities and office markets will see substantial change as a result of the experience of the pandemic. In our last paper, we looked at the implications for London. Here we examine the scale and nature of these shifts in some very different office markets – the wider South East and the major cities outside London (the 'Big Six').

-4.3%
Change in working age population in Big Six cities, 1982-2000

+20.5%
Change in working age population in Big Six cities, 2000-2018

Source: Oxford Economics

The Big Six

The largest cities outside London – Birmingham, Glasgow, Leeds and Manchester – have seen a remarkable renaissance over the past thirty years. With their traditional industries lost and populations decreasing, they once seemed to be in irreversible decline. Regeneration initiatives have been supported by a wider reurbanisation trend – partly driven by rising student and graduate numbers and increasing numbers of jobs in industries that gravitate to cities.

The other Big Six cities, Bristol and Edinburgh, did not have to battle as much with the legacy of deindustrialisation, but have also benefited from the same trend. Private sector employment has grown rapidly in these centres, particularly Birmingham and Manchester, over the past five years. However, in almost every city, central employment has grown faster than the wider conurbation, and far faster than the national trend, demonstrating how much more important office work in city centres has become to their economy and that of the wider nation.

Employment Growth, City Centres, 2015-2019

Source: Business Register and Employment Survey, National Statistics

This is reflected in office markets: the average take-up for the past five years has been higher than for any other five-year period on record, while the average vacancy rate has been the lowest.

Against this background, the COVID-19 pandemic and the shift to homeworking have presented these resurgent cities with significant challenges; office attendance levels have dropped, and amenities depending largely on office workers have struggled. But with many anticipating a rapid recovery during the second half of 2021, off the back of the UK's highly successful vaccination programme, there are also significant opportunities. These will play out differently in each location, although generally all will be helped by an increasing government focus on improving the economy outside London. New infrastructure and the relocation of government departments and parts of the BBC to cities such as Leeds and Birmingham will provide a boost for the office market.

The South East office market

The Western Corridor remains the largest office market outside Central London, benefiting from a cluster of specialist companies in areas such as technology and energy & renewables, as well as corporate HQs attracted by the proximity to Heathrow. Nevertheless, take-up in the market has been somewhat lower in recent years than in the 1990s.

This is partly a result of an obvious trend of both young talent and businesses concentrating in urban areas – although this has in turn benefited locations within the corridor such as Reading, as well as other small cities across the South East, such as Oxford, Cambridge and Brighton. Nevertheless, the best office parks, with good transport links and high-quality amenities, continue to outperform.

COVID-19 presents these markets with similar problems too, but given how easily accessible these locations are by car, and the presence of a local, highly skilled workforce, these may benefit disproportionately from any reluctance to return to commuting. On the other hand, given its specialisms in life sciences and technology, the fastest-growing area of the South East office market is likely to be the Oxford-Cambridge arc, an area that is being given explicit support for rapid development through government policy.

COVID-19: The market impacts

Until Q1/Q2 2021	Q3 2021 to early 2022	2022 and beyond
Short-term impacts • Recession and cost savings impact decision making & lead to more lease extensions & weaker short-term demand • Ability to meet COVID-19 protocols changes occupier preferences • Fresh air and transport accessibility become key differentiators • Yield gap with other European cities drives increasing investment in prime assets	**Medium-term impacts** • Occupiers seek high-quality and sustainable buildings in which COVID-19 measures can be dialled up and down • Uncertain outlook drives greater use of temporary workers and flexible space • Demand for "post-COVID-19" offices intensifies – driving a new wave of value-add opportunities • Increasing polarisation of rents and yields with interest focused on scarce high-quality product as supply of sub-optimal space increases	**Long-term impacts** • Demand for city centre and prime out of town offices remains robust as commuter pull increases • Marked polarisation in yields, rents and lease terms between limited "post-COVID-19" office stock and remainder • More of the offices sector becomes flex – operational assets with higher returns & risk • Hierarchy of office centres may shift

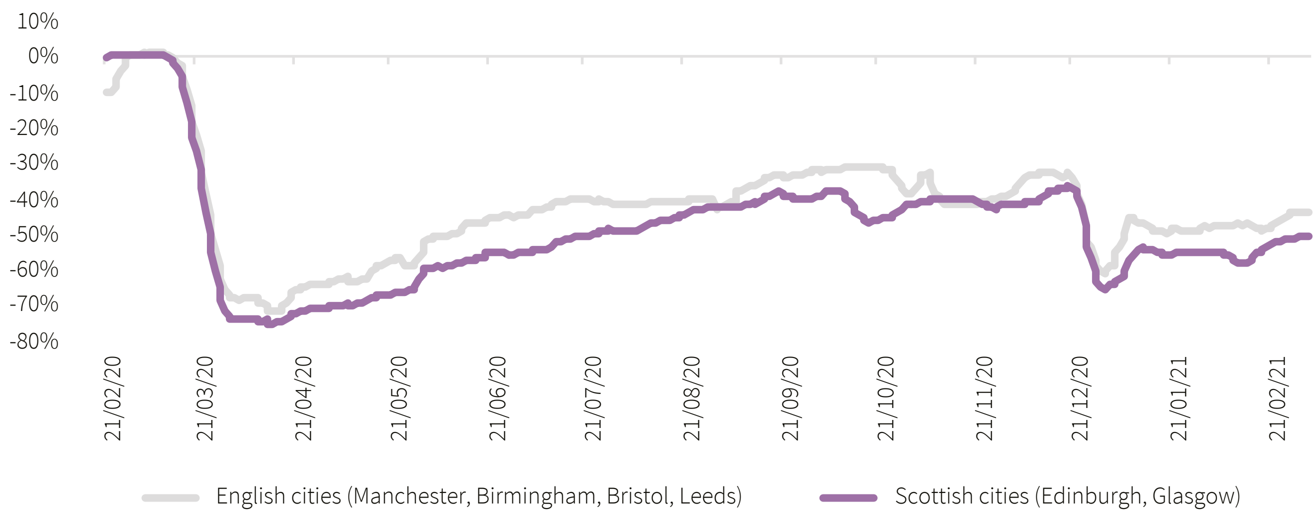
NB. Timeline is indicative rather than definitive, given risks around predicting post-COVID-19 recovery.

What did lockdown do?

From March 2020, mounting concerns over the pandemic led to many offices being closed and both governments and many companies encouraging employees to work from home if they could. What happened was a mass experiment in homeworking, enabled by video conference and fast broadband. It should be noted that this experiment, while extensive, was far from universal: according to government surveys in June 2020, some 21% and 35% of employees respectively in sectors such as information and communication and professional services were not working at home.

The graph below shows Google data on the extent to which people were in their normal place of work in the Big Six, split by Scotland and England given the different timetables and conditions of lockdown. While this includes many non-office workers, it does demonstrate that by late summer last year around 60% of people were back in their usual workplace; there is evidently substantial appetite for returning to a physical place of work as and when restrictions are lifted.

Workplace attendance compared to pre-Covid average



Source: Google

This has nevertheless led to a renewed debate about the future of work, although early suggestions that it would lead to a fully distributed model for many companies have been replaced by the anticipation of a 'hybrid model' that combines both remote and office work.

Public transport use also collapsed over the pandemic, with bus use outside London, for example, falling to between 20% and 40% of previous levels. This is not simply a result of a preference for homeworking; people may want to be in the office but feel that the close contact of public transport is too risky. This is sometimes regarded as simply a London issue, as outside the capital most journeys to work are by car. However, of those commuting to the city centres of the Big Six, around half use public transport, although this varies considerably by location.

Survey evidence shows that many people could remain reluctant to use buses, trains or trams once restrictions are eased; this could be a major hurdle for cities seeking a rapid return to pre-COVID-19 activity levels and is explored later in this report. Clearly, this has been less of an issue for many Western Corridor or out-of-town locations, where 80-90% of journeys are by car – or, indeed, in smaller cities and towns, including Bristol and Edinburgh as well as Oxford or Cambridge, where more journeys are by foot or bike.

> *38% felt they were "very likely" to avoid using public transport after restrictions are relaxed (National Travel Trends Survey, Wave 4, October 2020)*

Equally, the closure of retail, F&B and other entertainment and amenities may also have discouraged commuters – after all, the life around the office is often a key reason why people want to work in city centres. If these sectors remain troubled after the summer and as relief is withdrawn, these problems could become embedded. Consequently, proactive leadership from city leaders, the property industry and local businesses will be essential.

Returning to the office

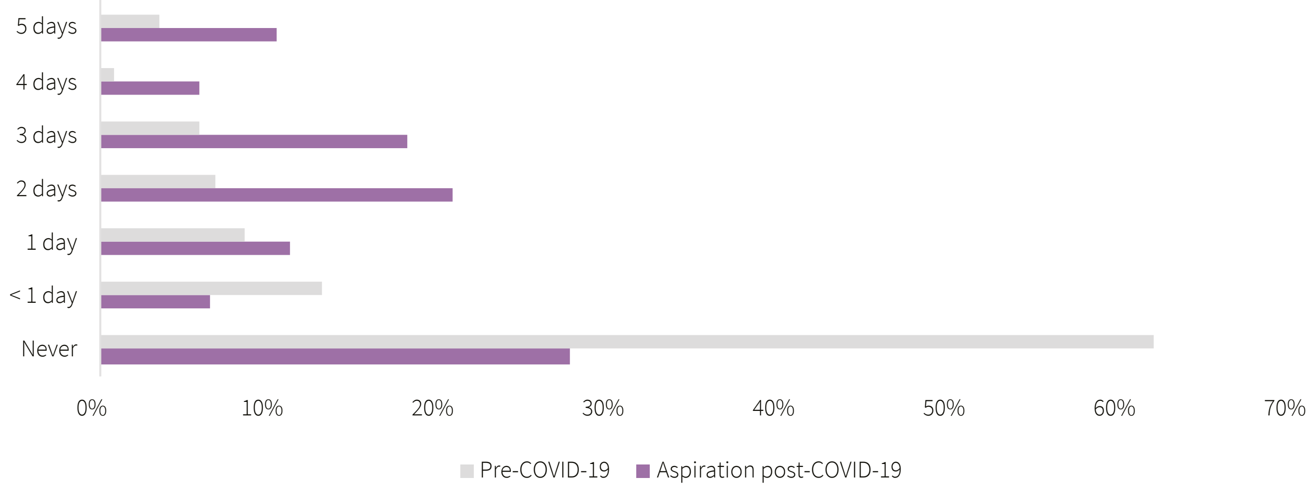
The UK's successful vaccination programme will allow a more rapid return to the office than may have been expected late last year, with benefits for both companies and the wider economy. However, occupiers will face a number of logistical challenges as staff return to the office – revisiting the first relaxation of restrictions in summer 2020. COVID-19 will remain a risk, despite vaccinations; desks will have to be spaced out, social distancing measures kept in place, and hotdesking policies revisited.

These concerns are likely to dominate over the short term, complicated by the fact many companies will be continuing to deal with the pandemic's repercussions. But as they begin to plan for growth again – from 2021 – future working arrangements will no doubt be central. JLL's Human Performance Survey from November 2020 (covering 2,033 respondents globally) demonstrated that few workers want to work permanently from home. Indeed, there was a significant chunk (28%) who wanted to do all their work in the office. However, some 39% wanted to combine the two roughly equally, with two or three days at home. The same survey clearly showed the reason for this: tasks such as collaboration, management and training are best carried out in the office.

Companies appear – to an extent – to be willing to adapt. According to the regular bi-monthly 'pulse' survey answered by JLL's account managers, on behalf of their clients at 292 different corporate accounts globally, 79% expected companies to implement a work from home policy as part of a permanent change to their workplace. The key questions for the office market are how this will be implemented, whether it could lead to less office space being occupied, and whether policies over working from home might change over the cycle.

Furthermore, people are clearly expecting to come back to a different, improved office; a Gensler survey of 2,300 employees of large companies in the US carried out in summer 2020 showed a strong preference for a more spacious office and fewer shared workspaces. The CRE survey shows that managers are responding; some 42% are planning for a less dense workspace. A potential trend towards lower occupational densities needs to be considered alongside any reduction in numbers on any given day.

How many days a week would you like to work remotely from home after COVID-19? How often did you work remotely before COVID-19? (n=2,033)

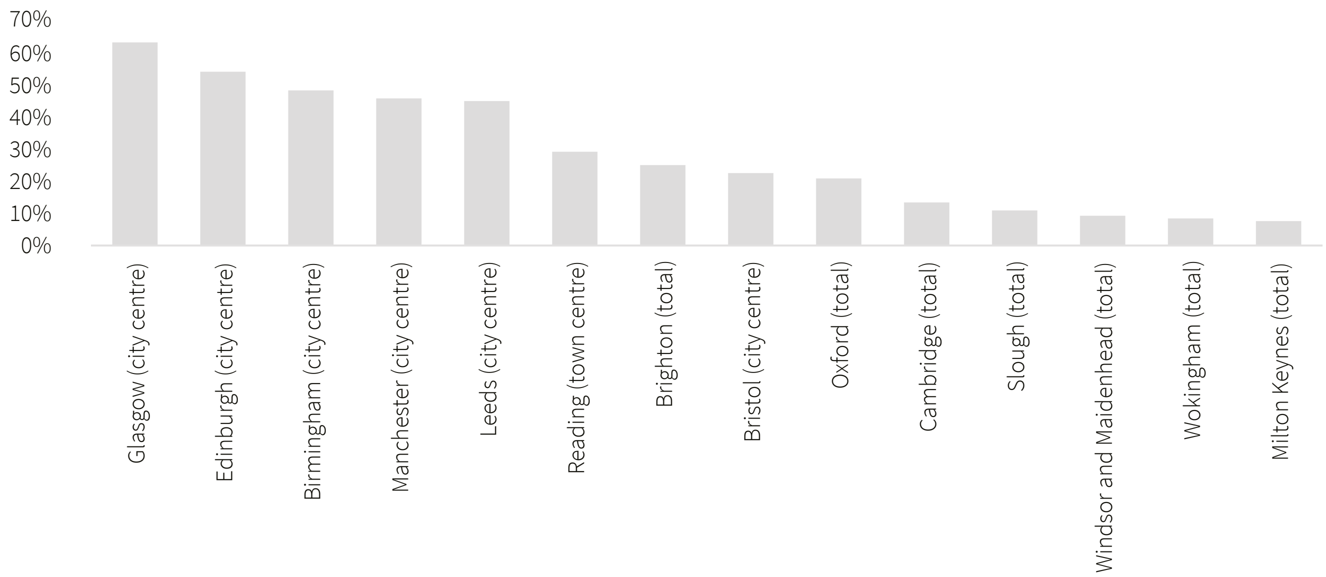


Source: JLL Human Performance survey, November 2020. Office workers only.

As mentioned above, public transport could be central in how quickly some cities can reopen. The dependence of office markets outside London on trains, trams and buses varies enormously, as the chart below, based on 2011 census data, shows. Glasgow has by far the most use of public transport, perhaps unsurprising given its underground line and extensive suburban train network; Edinburgh appears more dependent on bus use.

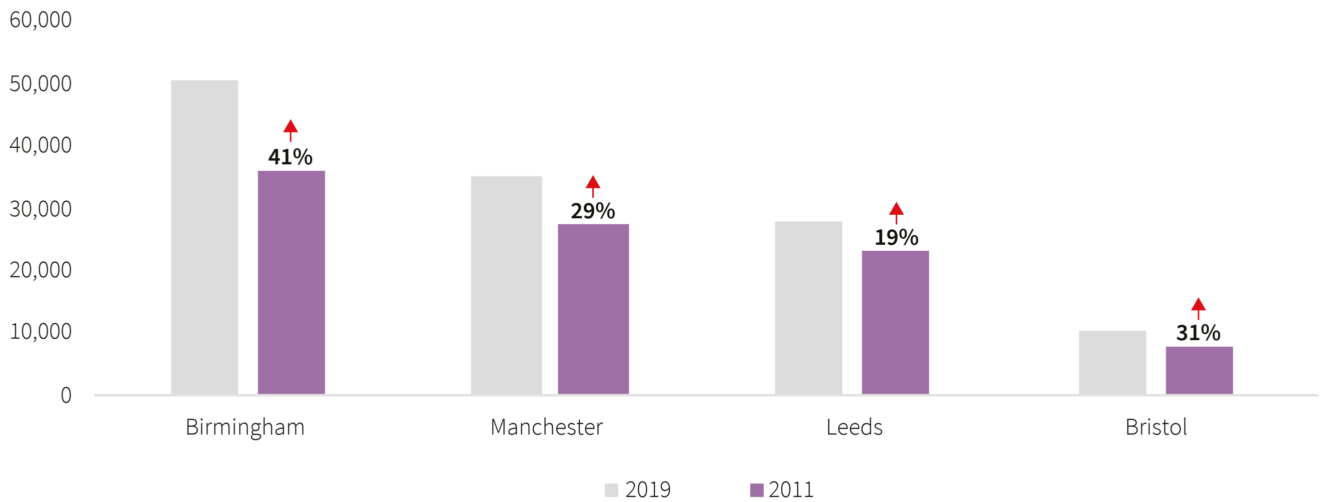
Birmingham's presence may surprise some people, but it has the most comprehensive and well-used suburban train network outside London, and indeed usage has increased by 41% since the census date. Manchester's position is probably understated too as the Metrolink has been extended since the 2011 census and annual use has doubled from 22m trips to 44m trips. Public transport probably now accounts for a majority of city centre commutes in both locations. On the other hand, Bristol stands out as being far less dependent on public transport than other cities. Public transport is even less important for most destinations in the Western Corridor, with Reading a notable exception given its north-south and east-west network.

Percentage of commutes using public transport



Source: 2011 Census

Peak time passengers per day, city centre stations

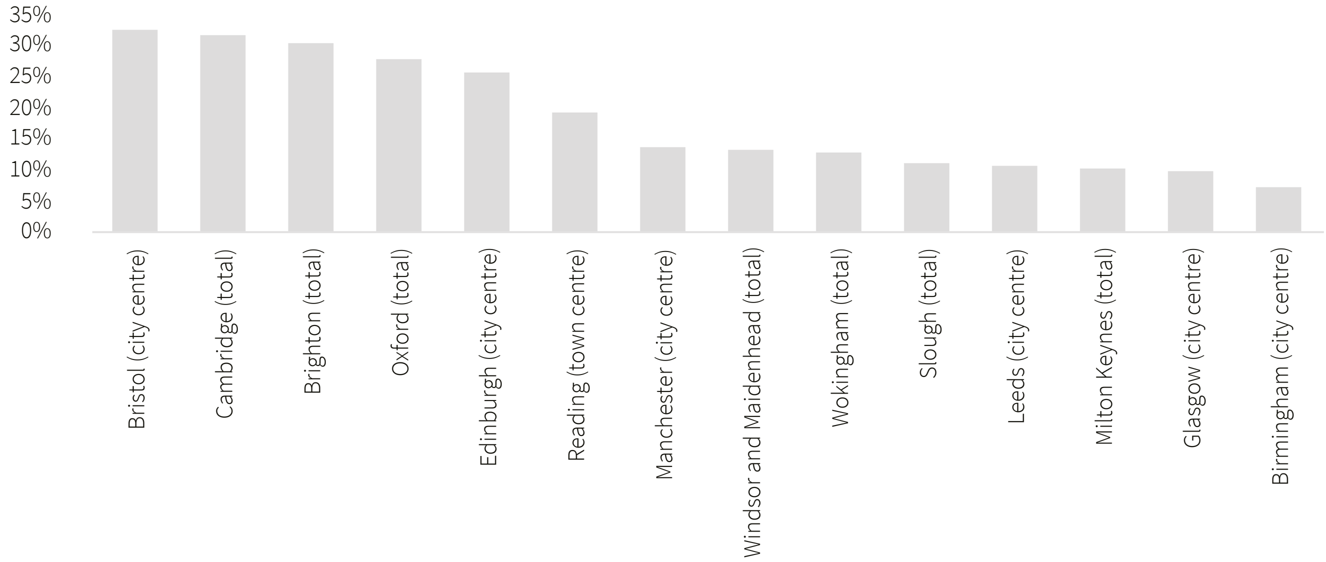


Source: Department for Transport

> *98.7% increase in use of Manchester Metrolink since 2011/12 – 44.3m passengers per annum.*

Cities and employers in these cities should consider operating staggered start and finish times to ease crowding on public transport and reduce anxiety. Cycling and other active travel modes have been on the rise throughout the UK, and the pandemic has accelerated this; over 30% of people have cycled more during lockdown, with many expecting to continue to do so in the future. While they are controversial, cities should continue to install new cycle lanes and other infrastructure, alongside improving the pedestrian environment. This will not only help those who are averse to using public transport, it will also make the cities more attractive in the future for both businesses and footloose talent.

Percentage of commutes by bike or foot



Source: 2011 Census

Some locations are already in a good position on this front, as the graph above shows. Bristol and Edinburgh stand out as the Big Six locations with remarkably high proportions of people walking or cycling to work, although some slightly smaller markets such as Oxford, Cambridge and Brighton show similar trends.

The other major cities have much lower proportions, although it should be noted that there has been an increase in cycling since the census was taken, particularly in these locations, and there were already ambitious plans to accelerate this before the pandemic. Given that in every city at least 20% of people live within 5 km of work – often the younger end of the demographic – there is plenty of scope for both walking and cycling to remain higher after COVID-19, helping city centres recover.

Of course, more car-dependent locations in the Western Corridor (where 80-90% of commutes are by car) may also be well-placed to recover, but transport links and active travel will remain important in the longer term.

Softer factors will also be important in encouraging people to return to the office. A key reason why people enjoy working in city centres in the presence of cafes, restaurants, bars, and arts & entertainment facilities. Unfortunately, these sectors have been disproportionately impacted by the pandemic; unemployment rose 101.2% between March and December last year among those previously working in hospitality, compared to 39.5% in the economy as a whole. The furlough scheme has also become focussed on this sector in recent months.

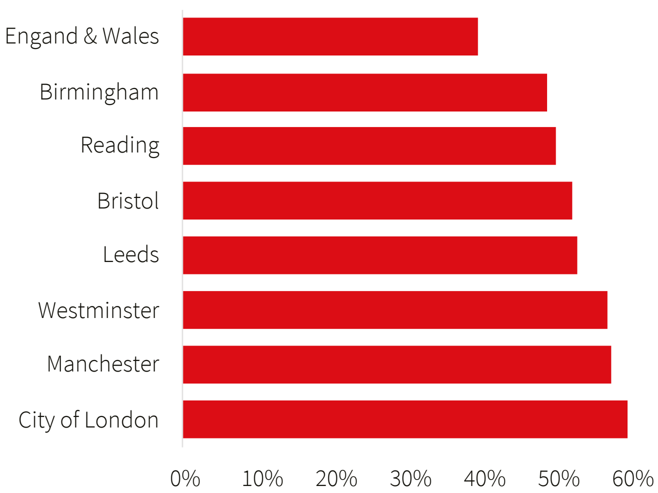
These statistics confirm, respectively, anecdotal evidence that many venues have closed and suggestions that more issues may be in the pipeline. City centre venues dependent on office worker footfall could be at particular risk if daily numbers attending the office remain depressed, even if there is a post-pandemic increase in consumer spending. Few or closed amenities could discourage office workers from returning, leading to a vicious circle but there are some measures that cities, businesses and landlords can adopt to prevent this occurring.

Measures to support F&B and hospitality in city centres and elsewhere
Owners of large, mixed-use buildings or destinations may need to support F&B tenants – recognising its importance to their office occupiers
Local authorities should relax licensing conditions, allowing more al fresco drinking and dining in public spaces
Cities should consider closing roads to allow for more outdoor activities – as has been done in parts of Manchester and is planned in parts of Birmingham & Edinburgh

Health & wellbeing was already becoming more important to occupiers, even before COVID-19, but there is evidence that it has become magnified by the pandemic. Employees are likely to become more concerned about air quality, ventilation, pollution levels, and the proximity of green space for exercise, recreation or simply having lunch. The latter may become more important in the short term as offices reopen, particularly if people remain cautious about F&B, or if there are fewer opportunities given the issues above. The amount of green space in city centres varies significantly, as the chart below shows – it is notably higher in Edinburgh and Bristol, perhaps unsurprising given their history. It is worth noting that this is for city centres; some cities, such as Leeds, have above average levels of green space in the city as a whole.

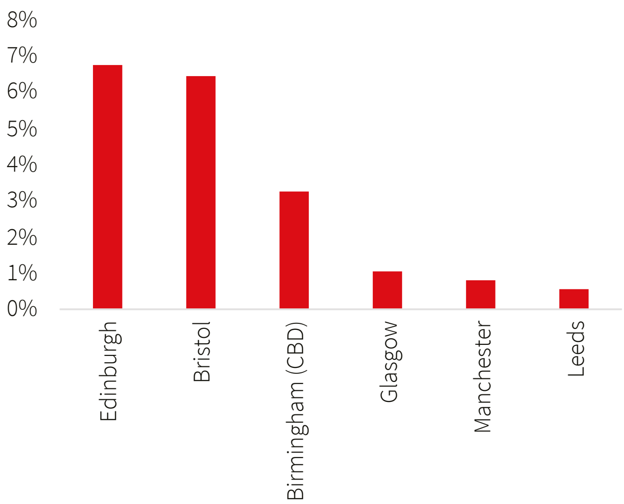
All the major cities will benefit from the age profile of their workers, which is notably younger than the UK average – especially in Manchester. This group is likely to live closer to work and, post-COVID-19, less concerned about travel in any case.

Percentage of city centre workforce under 40



Source: 2011 Census

Percentage of publicly accessible green space in city centres



Source: JLL

Mapping the new normal

Longer-term trends shaping office markets

In the short term, many companies will be focused on dealing with the economic fallout from the pandemic as well as the short term challenges of getting people back to the office and resuming, to some degree, business as normal. However, there is a longer term perspective too: how the office will change in the medium to long term as companies position themselves for the next cycle and for future growth.

The longer term impacts of the COVID-19 pandemic

Homeworking

- **Flexible working** likely to increase post-Covid
- **Offices and cities** still central to productivity and innovation
- **Management challenges** around office attendance and capacity

Office design

- **Collaboration and amenity space** become more central
- **Sustainability & health and wellbeing** gain even greater emphasis
- **New challenges** in designing for different age groups and attendance levels

Technology

- **Online collaboration tools** integrated into the workplace, especially meeting rooms
- **New technologies** to monitor occupancies and manage teams
- **Touch-free** entry systems and amenities become commonplace

Commuting patterns

- **Enlarged commuter catchment** with focus on city centers
- **More employees,** but some individuals will spend less time in the CBD
- **A younger city centre,** with some established families potentially moving out

Investment

- **Polarisation** between smaller footprint corporate HQs and a spectrum of flexible add-ons
- **Yields and lease lengths** reflect this polarisation
- **Intensity of use** implies potential for higher rents per sq ft in longer term

Homeworking

Key market impact:
Demand becomes more focused on high quality offices in the best locations

Key unknowns:
The scale of the shift over the cycle

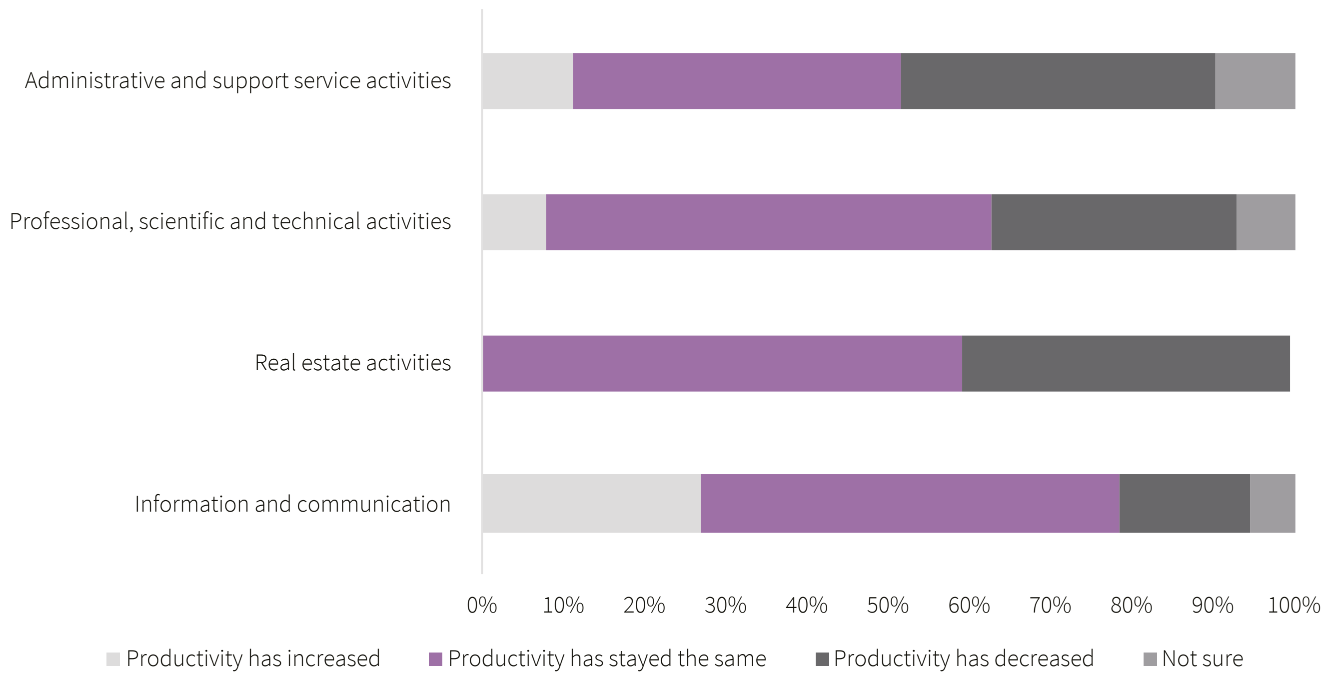
The issues around homeworking have become more obvious over recent months. In particular 'Zoom fatigue' has become a hot topic – there is increasing evidence that people find online meetings harder to concentrate in and more tiring. This may be related to the unnatural experience of staring at several faces close-up and inability to properly establish eye contact. In a conventional meeting, people's focus moves around the room and does not solely rest on people's faces. The difficulties in reading body language and other cues may add to this problem.

There are also impacts on wellbeing caused by examining an image of yourself. In the long term, there are questions around liability for employee accidents – and general responsibility for well-being while working at home – which remain unanswered. Higher heating bills, and - given the poor environmental performance of the UK's housing stock - carbon emissions also need to be taken into account. One particular area of concern could be long term conditions arising from the ergonomics of homeworking situations - from poorly aligned desks and seats through to the impacts of working on kitchen tables, beds or with computers on laps.

There is also some evidence that many companies see long stretches of working at home as unproductive. Economists have long established that accidental meetings, both within offices and the wider urban environment, are key to innovation. Over time, businesses may also find that it is more difficult to onboard new staff, to train more generally, to ensure team coherence and to brainstorm or introduce new ways of working. It is worth noting that in the Government's Business Impacts of COVID-19 survey from January 2021, covering just over 10,000 businesses, 30-40% in the key office sectors said they have no plans to retain or introduce homeworking policies in the longer term.

Views on productivity, February 2021

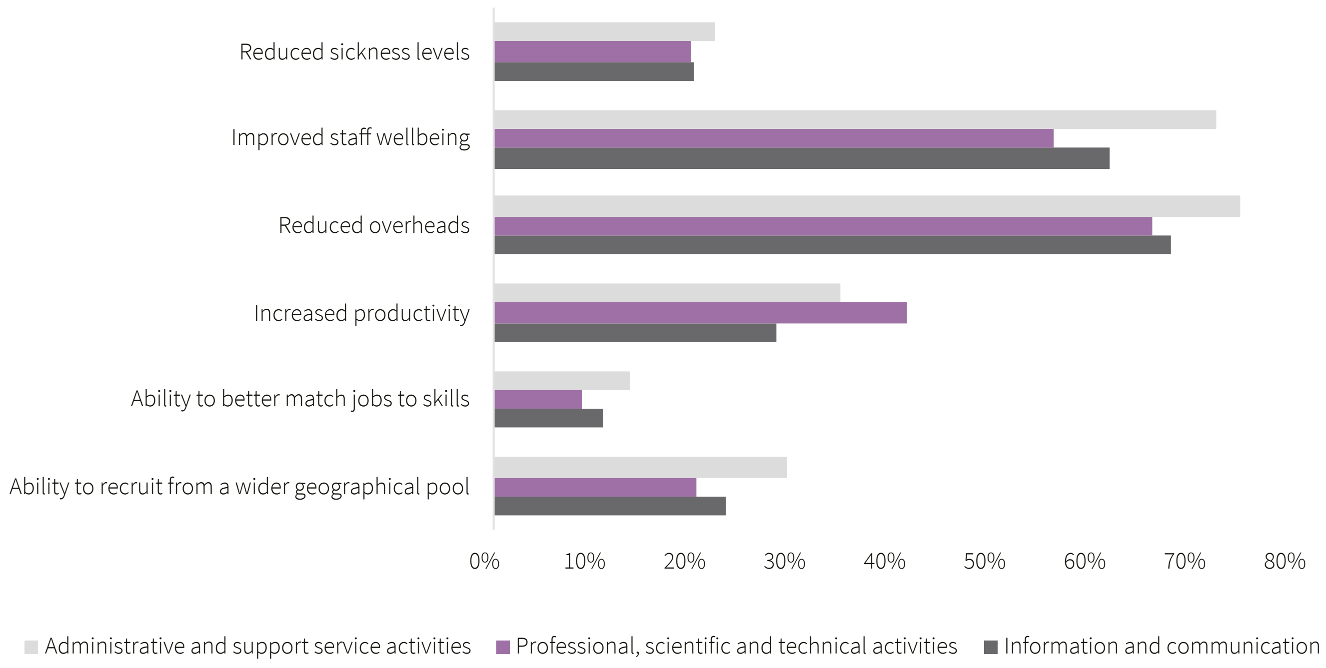
10,351 respondents



Source: February 2021 UK Government Survey, Business Impacts of COVID-19

Nevertheless, according to the same Government survey, around a third of companies in the professional services space and up to 40% in information & communication will introduce homeworking policies, with a further quarter and a third being undecided. The reasons for introducing it are shown below.

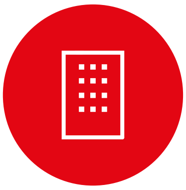
Reasons for introducing homeworking policies



Source: February 2021 UK Government Survey, Business Impacts of COVID-19

Consequently, it is too early to judge the longer term shift to more remote or hybrid models of working. Some companies may find the arrangements superior; others may see longer term losses in productivity or innovation and opt for a more office-based approach. For many, the coming cycle will be a process of experimentation and feedback, and models will change with time as the effectiveness of different working models becomes obvious.

It will vary by sector, company and location, although the success or setbacks of competitors will be important lessons. For most larger occupiers, for the time being, it seems the office will remain central to their strategies – albeit as part of a 'hybrid' strategy that combines it with more flexible working. This leads to the question of whether this could lead to lower demand for offices in the major centres.



Office design

Key market impact:
Demand becomes more focussed on high-quality, net zero carbon offices in the right environments

Key unknowns:
Whether capex will be found to upgrade poorer quality space

While in the short term attention may focus on the practicalities of a return to the office, and the stresses and strains of the post-COVID-19 economy, there will in the longer term be a new emphasis on quality and user experience as companies become more focussed on employee experience. While densities and hotdesking have increased as cost-saving measures, most recently corporates have moved away from viewing offices as purely an overhead. Showcases for brand and culture, they are increasingly regarded as environments that are key to the promotion of collaboration, agility, innovation, recruitment and retention.

In response, office design has already incorporated more meeting and collaborative spaces alongside specific areas for concentrated work, and a range of design typologies aimed at providing variety in working contexts. The amenity offer has also become a far more important part of offices - with event spaces, cafés and yoga rooms featuring in new developments. Occupiers have also become much more aware of the vibrancy of the surrounding area and the importance of unplanned meetings or 'collisions'. Indeed, some campus schemes are now designed with the aim of encouraging these sorts of interactions.

The aftermath of the COVID-19 pandemic is, once the immediate economic priorities are addressed, likely to lead to an acceleration of these trends. If the hybrid model embeds and endures, the role of the office in creating and sustaining teams becomes more central. Offices will require more collaboration and meeting space, a fit-out that encourages interaction, and a wider range and depth of amenities. These will also help attract workers into the office, as well as helping drive brand values and loyalty, supporting recruitment and retention.

Health & wellbeing - from air quality and ventilation to outdoor space or yoga rooms - was already moving up the agenda before COVID-19. But a recent JLL survey of 160 CRE leaders across 14 countries in the EMEA region revealed that some 49% selected 'health & wellness' of employees as their number one investment priority - 11 percentage points ahead of the next option. Inevitably, in the short term, this will focus on air quality - ventilation and/or sophisticated air conditioning - but this will probably lead to a greater interest in the health and sustainability aspects of offices. Cycle storage - and associated showers - will also become much more important, perhaps even critical in office selection processes.

The experience of the last few months will also accelerate technological change in the office space, prompting a new wave of smart buildings (see below). Perhaps most importantly, these buildings will also have to adapt to the ongoing shift to net zero carbon. As we enter the recovery phase, it will become increasingly evident that companies are no longer prepared to consider occupying environmentally damaging buildings.

Workplace liquidity

A temporary weakness in office demand may allow the space for landlords and developers to capitalise on value-add opportunities. These could include introducing new technologies, services and amenities; considering how the environmental performance of the building can be improved; offering more flexible floorplates; and introducing Cat A+, Cat B or B+ fit outs. The demand for flexibility and 'plug and play' office space is likely to intensify, given the wider trends.

While pure co-working operators are already under pressure, given the density and anonymity of occupancy, parts of the flexible workspace market have brighter prospects, with occupiers likely to need overflow, temporary or suburban space as they reconsider their portfolios. Overall, more space will be consumed flexibly. Developers and landlords will increasingly need to consider offering a range of options for how companies can occupy their space. This "workplace liquidity" will become a greater feature of the market. Indeed, the recovery could be particularly marked by contract or temporary workers and the use of flexible space, given uncertainty about both the economy and future workstyles.

Office density

Key market impact:
Occupiers may have fewer desks, but at lower densities and with more collaboration space

Key unknowns:
Whether companies can manage attendance over a week so that space savings are possible

The amount of space per worker has been decreasing since the early 1990s, as different ways of working in the office have been adapted. After COVID-19, this densification is set to unwind.

This will happen most dramatically initially, as companies redesign offices to take account of the need for social distancing and more restricted hotdesking. However, as mentioned earlier, there seems likely to be a residual resistance to close human contact and desk sharing, precluding aggressive re-densification. Alongside the need for more collaboration spaces and amenities, this will help to mitigate any reduction in office demand arising from higher levels of homeworking.

The table below sets out three scenarios using varying densities and utilisation rates for a 1,000-employee company. The base case assumes everyone is in the office and is allocated 9.6 sqm per person and there is no desk sharing, and the utilisation and densities are flexed downwards and upwards respectively. As can be seen, if more space is allocated per person, the space savings of relatively aggressive reductions in utilisation are eroded quite quickly. The overall space savings may be much more modest than implied here. It will be a major management challenge to spread office attendance equally over the week.

Figures in bracket relate to % difference to base case and also indicate minimum space required - in reality companies would need more headroom.

Assume 1,000 employees			Average density per person			
	%	Days per week equivalent	103 sq ft/9.6 sq m (BCO average)	124 sq ft/11.5 sq m (plus 20%)	154 sq ft/14.4 sq m (plus 50%)	206 sq ft/19.2 sq m (double BCO average)
Reduction in utilisation	0%	No remote working	100,000 sq ft	123,600 sq ft (+20%)	154,000 sq ft (+50%)	206,000 sq ft (+100%)
	20%	Working away from the office - equivalent to avg one day per week	82,400 sq ft (-20%)	98,880 sq ft (-4%)	124,000 sq ft (+20%)	164,000 sq ft (+59%)
	40%	Working away from the office - equivalent to avg two days per week	61,800 sq ft (-40%)	74,160 sq ft (-28%)	93,000 sq ft (-10%)	123,600 sq ft (+20%)
			Maximum theoretically possible space saving			

Figures in bracket relate to % difference to base case and also indicate minimum space required - in reality companies would need more headroom.

Technology

Key market impact:
Smart technology becomes a key differentiator for buildings

Key unknowns:
Employee acceptance of some technologies

Mass homeworking has led to the widespread adoption of applications such as Zoom, Microsoft Teams and WebEx, and they will remain a far more significant part of working and office life. AV facilities and meeting rooms may have to be redesigned so that those dialling in do not feel as if they are 'second class' attendees. Indeed, in JLL's COVID-19 EMEA occupier sentiment survey, the 160 CRE professionals surveyed identified "remote working/work from home solutions" and "collaboration tools in the office" as the most important technology investment priorities.

More generally, the experience of COVID-19 will lead, over the longer term, to an acceleration in 'proptech' take-up, particularly in areas where occupiers want to improve the health & wellbeing credentials of their building - for example; ventilation, air quality and natural light. If companies really want to use new hybrid working models to reduce space take, they will have to introduce smarter occupancy monitoring and room booking systems, which will come with their own cost and management difficulties. This will have the side effect of accelerating the delivery of the next generation of smart buildings.

Commuting patterns

Key market impact:
Demand for offices in key locations increases as travel-to-work areas expand and connectivity becomes more important

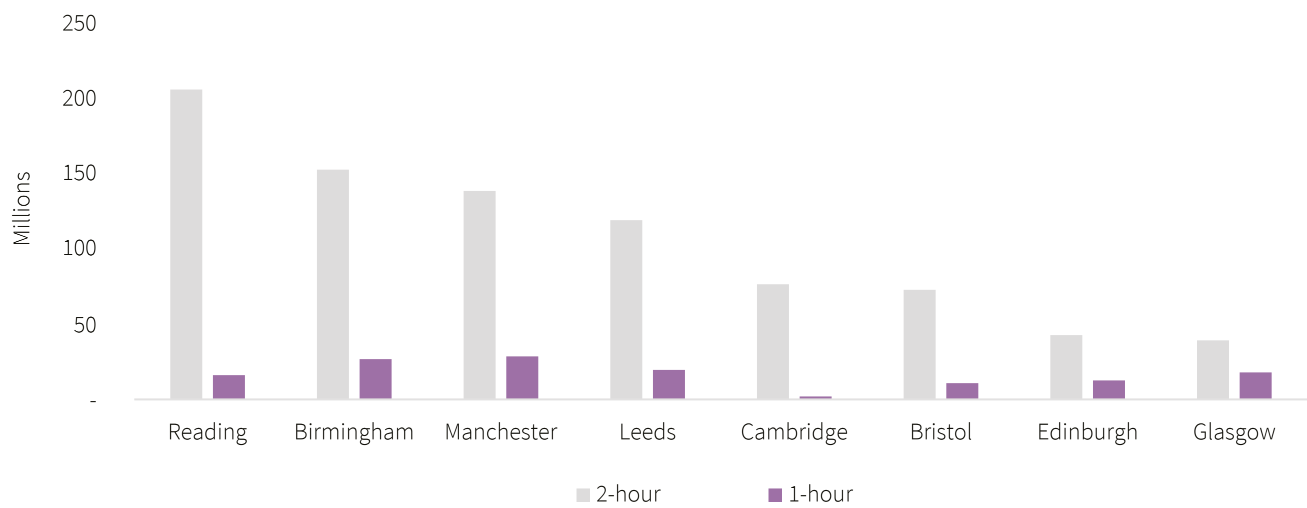
Key unknowns:
Changes in geography of skilled staff; impact of new infrastructure

More extensive homeworking has another implication. The major cities covered in this report, as well as the main office locations in the South East and Western Corridor, are among the best connected in the country, attracting commuters from a relatively large area. If a job only requires the worker to be in the office two or three days per week, workers may accept a longer journey to work (perhaps featuring an overnight stay) radically extending the location's commuter pull.

This means that current residents, particularly those with families, may decide that it is now easier for them to live in more remote locations with more space and lower property prices. This in turn could ease the housing crisis in some cities and allow younger people to move back into certain locations, helping to further concentrate young talent and promoting future dynamism. On the other hand, jobs in a given area may be more plausible for those living further afield; for example, someone living in Swindon may be more likely to consider a job in Bristol or even Birmingham, if they only need to attend 2-3 days per week. This will have the effect of concentrating employment in certain locations.

As can be seen from the graph below, extending the plausible commute from 1 to 2 hours massively extends the potential workforce for key locations, and also extends the advantages over the rest of the UK. The obvious exception is London, although the price differentials need to be taken into account.

Public transport, working age population within 1 & 2 hour public transport radius



Source: JLL / CACI

So, even if companies occupy slightly less space as a result of more homeworking, the overall effect may be to increase demand for city centre or prime out-of-town offices, with more companies now seeing an accessible presence as an essential option. The attractiveness of city centres for local commuters may increase over the next decade as a result of the extension of light rail networks fuelled by the government's investment in infrastructure. New lines are planned in Edinburgh and Birmingham, while Leeds and West Yorkshire are planning the roll out of a metro system. These will also help the city brand, further attracting investment and talent. Meanwhile, in the Western Corridor, the arrival of the Elizabeth Line will improve connectivity by public transport, adding to the catchment and appeal of its most accessible locations.

Implications for investors

Remote working will not lead to a fall in demand for high-quality offices in the major centres outside London over the cycle. Undoubtedly, the office market is facing a difficult 12 months, given the challenges of both the COVID-19 aftermath and Brexit, although there will be pockets of strength and resilience.

Widespread working from home - even if somewhat reduced from the lockdown period - will cause many occupiers to reconsider their space requirements in the short term and their space strategies in the longer term. But it is also evident that most companies do not see a future in which a significant portion of their workforce is 100% remote. Equally, most employees want to be in the office for most of their working week. The model will undoubtedly evolve over time and will vary considerably. Realising space savings will involve significant management challenges, as this report outlines.

Remote working will nevertheless fundamentally change aspects of the office market, and will increase demand for the small proportion of buildings that meet post-COVID-19 occupier criteria. Meanwhile, public transport connectivity and accessibility suggests that more companies may require a presence in the major office centres, even if individual employees are in the office less frequently than before. Together with increasing population and employment, this still implies greater intensity of use in the future, meaning that there is still potential for some rents to rise over the longer term.

The main regional centres will also benefit from the Government's "levelling up" agenda, mainly in the form of infrastructure investments and the relocation of government departments and state-backed organisations such as the BBC and Channel 4. Further improvements in the public realm and vibrancy, as well as more affordable property, will continue to attract both talent and employers to the major locations outside London.

Returns and risk become more polarised by geography and asset quality

A hybrid model of remote and working office, and adaptation to both the pandemic and its aftermath, will lead to a shift in occupier requirements. Offices will need to be more spacious, with a greater emphasis on health & wellbeing; they will feature fewer desks but more desk space alongside a greater share of collaboration and meeting space; amenities and fit-out will be paid even more attention than pre-COVID-19; and investment in smart building technology and net zero carbon upgrades will accelerate. The relatively small number of buildings with these attributes will see a rental and capital value premium; those without will struggle without significant investment to bring them up to the post-COVID-19 standard.

The geographic shifts resulting from more flexible working and the experience of the pandemic will also be important. Areas with the highest connectivity to the wider UK (and beyond) may see increased levels of demand, and stronger rental growth, reinforcing recent trends towards edge-of-centre campus or mixed-use developments. Proximity to green space, accessibility by bicycle or public transport, and an amenity offer that has remained vibrant despite the pandemic will also be vital. There may be some shifts in the office centre hierarchy, perhaps also driven by new infrastructure provided as part of the Government's "levelling up" initiative.

Many office investments will become increasingly operational

This implies that the investment market will become more polarised over the next year and beyond, with a widening spread between a more narrowly defined core and a larger set of value-add opportunities. The former will comprise buildings let on longer leases to corporates, with 'state of the art' fit-out and sustainability and health & wellbeing credentials, all aimed at propagating brand values and attracting staff. Given the UK centres' relatively high yields, and falling returns in other assets, particularly fixed-income, demand for the relatively limited pool of core properties in cities could increase.

Beyond this core category, more assets will become operational and flexible. Investors will have to accept a greater degree of fit-out provision, management, curation and service provision than in the past, as multi-let and flexible leases become the norm (although higher returns may be the reward). The start of this shift has already been evident, with many of the established REITs starting their own flexible space brands, offering more varied lease terms, and providing more active curation of space and tenants.

The main regional centres will continue to see a renaissance

The office markets in this report, whether urban or out of town, are about to undergo a period of reinvention. Some of the changes that are underway - more cycling lanes or al fresco dining - may persist and make the city or location a more attractive place in the longer term, although a coherent approach will require determined and visionary city leadership. Active transport and city centre green space are two areas where some cities underperform. Government policy and improving economies will continue to help the UK's regional office markets move up the European hierarchy. It may have less of a permanent pull for older, more established workers, but more of a pull for the younger and internationally mobile. The office may be a place for occasional meeting and collaboration for some in an organisation, and a second home for others. The next few months will continue to provide some useful pointers, beyond those in this report, on exactly what this means for the office market of the 2020s.

Jon Neale
Head of UK Research
+44 (0)20 7087 5508
jon.neale@eu.jll.com

Elaine Rossall
Head of UK Offices Research
+44 (0)20 3147 1666
elaine.rossall@eu.jll.com

Barrie David
Associate - UK Research
+44 (0)20 7087 5165
barrie.david@eu.jll.com

Cameron Ramsey
Associate - UK Research
+44 (0)20 7852 4408
cameron.ramsey@eu.jll.com

Neil Prime
Head of UK & EMEA
Office Agency
+44 (0)20 7399 5190
neil.prime@eu.jll.com

Sue Asprey-Price
Head of UK Corporate
Solutions and Occupier Clients
+44 (0)20 3147 1941
sue.aspreyprice@eu.jll.com

Jeff Pearey
Head of Regional
Office Agency
+44 (0)113 261 6236
jeff.pearey@eu.jll.com

James Finnis
Head of South East
Office Markets
+44 (0)20 8283 2534
james.finnis@eu.jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.6 billion, operations in over 80 countries and a global workforce of more than 91,000 as of December 31, 2020. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit www.jll.com.

About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 500 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivaled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.