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Article by | Huw Dixon HartDixon

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Insights into the post pandemic workplace

A new future for office accommodation



## About the author

Huw Dixon Co-Founder HartDixon

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An experienced chartered surveyor and property consultant in the commercial sector, Huw works with the globe's leading property funds and investors. He specialises in pre-acquisition work, in particular pre-acquisition strategies and dilapidations claims.

Throughout his distinguished career, Huw has been an elected member of the RICS dilapidations steering group and held a series of prominent roles like heading up the Lambert Smith Hampton London's team and GVA's national specialist dilapidations team, overseeing seven regional offices across the UK.

Alongside long-standing associate Stuart Hart, the co-founders rebranded their GIA surveying business as HartDixon in 2019.

### Core skills:

- Pre-acquisition studies and surveys across all sectors (both UK and Europe)
- Dilapidations consultancy (UK, Europe and USA)
- Portfolio instructions - reinstatement cost assessments, planned maintenance programmes
- Development monitoring on behalf of property owners, funds or investors

“ Practical, thorough, honest and good to work with. HartDixon has advised and managed several complicated projects on our behalf since 2011, offering full design team set up and management, procurement and construction oversight ”

Harry Badham  
AXA Investment Managers



“Where we are going to be in 5-10 years time, no-one knows but the trends are showing huge transformation and we are currently in the midst, driving that change!”

Stuart Hart  
Co-founder HartDixon

## We're in the midst of change in the office and retail sectors

It doesn't take a crystal ball to predict that the office and retail and sectors are likely to look drastically different in a decade's time.

Forecasting their precise future form, however, would be mere guesswork given the huge transformation which is already underway in urban areas.

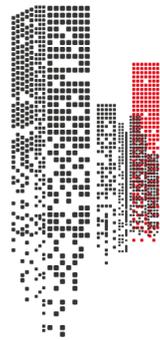
Indeed, from a practice perspective we are excited to be involved in a venture that will see a significant shift in approach on the streets of the capital. Our West End project could prompt a real change in retail elsewhere in London and will see large retail units reinvented as literal shop windows for e-commerce.

Evidence of evolution is everywhere, as highlighted by the emergence and growing trend of the CAT A + model. From a design and use perspective, pigeon holing property portfolios is no longer possible – a one-size-fits-all solution does not exist anymore, if it ever did.

As explored on the pages which follow, landlords are having to discover a new-found agility to satisfy their customers – the entrepreneurs and small business owners shaking up the sectors with their own evolving needs – and only time will tell if the CAT A + concept will endure and conquer our cities.

Aside from presenting some of our own thoughts on the early direction of travel, we sought out a view from inside the legal profession as to the fate of the office and retail markets. And while Anthony Shalet, a corporate lawyer at Rooks Rider, is no more of a fortune teller than we are, he flags some pertinent points that need to be addressed if the UK's high streets are to be reinvented.

We hope you enjoy reading our forward glance at the possible lay of the land and would welcome hearing your predictions for 2030 and beyond.



Businesses are likely to scale back office accommodation until 2022

93% of respondents to the RICS Q2 2020 survey anticipate businesses scaling back their office footprint to some extent over the next two years.

<https://www.rics.org/globalassets/rics-website/media/market-surveys/q3-2020-rics-uk-chart-book.pdf>

93%



At least 30% of office workers prepared to go back to the office

30% of 2,000 office workers set to go back to the office five days a week and only 15% of the respondents looking to work from home.

<http://www.bco.org.uk/News/News46982.aspx>

30%



Transforming communities to benefit the high street

London has more than 600 high streets and 90% of Londoners live within 10 minutes of their high street.

<https://www.london.gov.uk/talk-london/communities-regeneration/15-minute-cities-%E2%80%93-city-your-doorstep>

15-minute cities

## A road map to post-pandemic workplaces

It may not have been the cause, but the global coronavirus crisis has certainly been a catalyst for change, accelerating pre-existing trends in commercial property, propelling the property market to a crossroads and lodged the Covid cliché of a “new normal” in the lexicon of landlords.

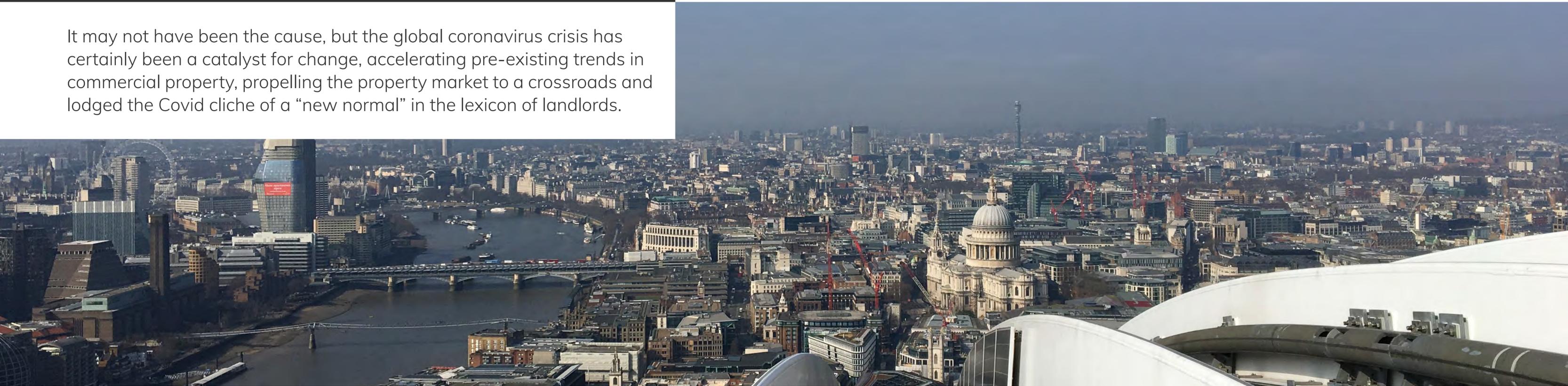


Image: | View from the Walkie Talkie, London

### The new norm?

Previous practices of city commutes, mass meetings and networking lunches have this year been replaced by a stroll to the study, video calls and homemade sandwiches, leaving many office buildings near empty and surrounding shops bereft of customers.

Although some employers and employees may be desperate to see a dramatic return of numbers to the UK's towns and cities in the not-too-distant future, the legacy of lockdown will permanently transform many tenants' requirements.

A quick confirmatory glance at the residential sector which is already demonstrating a distinct shift in thinking. House prices have proved immune to the pandemic, hitting a record high during the summer, with demand for properties in suburbia, seaside locations and countryside settings soaring as city workers reassess their immediate surroundings and seek to secure larger properties with space for a home office.

Whilst the emerging trends of the past decade, like remote working is no longer considered by commercial traditionalists as the preserve of the work-shy or a threat to productivity and the nine-to-five grind, this is not the topical issue of the moment. Moreover, it is the transformation of

office models to suit the needs of a new tenant. In this paper, we discuss the future of the office infrastructure and how one size does not fit all.

CATA+ has been talked about for a number of years and is taking place but it really does mean different things to different landlords and tenants.

“Ultimately CATA+ is still in its early days and landlords are still working hard to understand what the tenant wants.” **Stuart Hart, Co-founder: HartDixon**

It certainly seems that the trend is moving towards new serviced office models and for at least three years now, we have been working with our clients to find a solution fit for purpose but what factors are affecting a common CATA+ solution?

## Is flexibility for new working patterns part of the road map?



“ Whilst the coronavirus lockdown has proven the resilience of technology and effective home working, many employees will be looking to get back to routine and the new norm. ”

### Three days in ... two days out?

All those who had to contend with sub-standard broadband speeds, bad backs brought on by being hunched over a laptop and the constant hubbub of children during lockdown will testify, home working is not the holy grail.

Whilst the coronavirus lockdown has proven the resilience of technology and effective home working, many employees will be looking to get back to routine and the new norm.

#### But what does the new norm look like?

Striking a balance between working closer to home and benefiting from teamwork and team cohesion is the future, and it has been for some time. Since the introduction of hot-desking by the likes of leading corporates

IBM, who have since back-tracked in favour of a more suitable model for their vision ('to be the world's most successful and important information technology company'), landlords have been adapting their office stock to meet the changing needs of tenants.

The lockdown has left some wondering if there is a future for the traditional office. When building businesses or creating new ideas, it has been debated and proven that innovation cannot be created in isolation. Lack of team cohesion and silos can negatively impact on progress or innovation. So there must be a balance to be struck between the best of both worlds.

#### Is the fully serviced office model and 'plug in and play' worth the investment for landlords?

Fully furnished, pay as you use, managed by someone else, all inclusive fees and flexible short-term leases sounds incredibly attractive to the average SME

business owner or freelancer - which are set to double in numbers by 2022.

And forward thinking landlords that combine their valuable office stock with a service that suits the new employer are likely to be the game changers. However it is difficult to design to a standard that hasn't really been defined. From cost per sqm to lease structures, there comes a time when plug in and play becomes less commercially viable.

"In our view, if a business has more than eight employees, the rent a desk model becomes non tenable, however our property clients are reassessing the commercial viability of their CATA+ structures to meet the need for this inevitable flexibility."

Huw Dixon, Co-founder: HartDixon

## The high street could hold the key for change



“ Could access to drop-in office space, premium internet connections and privacy zones be added to these retailer menus? ”

### Does the high street and retail hold the key for change?

One of the models of the moment is ‘hub and spoke’. Such a migration to regional offices would undoubtedly be welcomed by retail property owners and it would no doubt deliver a much needed tonic to the nation’s ailing high streets.

For many business bosses the abandonment of a traditional headquarters may be daunting but has obvious appeal, particularly offering the dual incentives of staff contentment and the boost to their bottom line - ie benefiting from less square footage in expensive central locations.

Indeed, on a grander scale, the balk at the back-and-forth of commuting has prompted a reimagining of urban existence, with the idea of the “15-minute-

city” – complete and connected neighbourhoods where work and life’s necessities can be found within a short walk or cycle ride from home – being mooted by politicians internationally as the future of town planning.

In addition to injecting further footfall for local businesses, there is potential for food and beverage outlets to repurpose parts of their own premises to cater for home or spoke workers. It is not uncommon for coffee shops, for example, to be used for ad-hoc meetings or quiet corners in which to respond to emails.

And will the new planning rules announced in August 2020, allow a building to be used flexibly by having a number of uses taking place concurrently or at different time of the day, lead to the arrival of “pop up” offices on the UK’s high streets?

There will, of course, be institutions and businesses like those regulated by the Financial Conduct Authority that feel old habits rightly die hard and, Covid-19 permitting, seek to return their entire workforces to a single, central location. Even post pandemic, such a decision is, however, likely to be the exception rather than the rule, which means landlords must continue to evolve their own businesses to survive; acknowledging that one size certainly does not fit all.

We ask Anthony Shalet, experienced Corporate Commercial lawyer on his views of whether Retail can be the buddy to the Office solution?

## Will a partnership approach refresh the high street?



“ Unless local government can take control - what else can we do to improve our high streets? ”

We asked Anthony Shalet, Commercial Real Estate Lawyer at Rooks Rider to give his own experience on the impact of Covid for landlords.

### Is the high street open for business when it comes to adapting its stock?

To save the high street and protect landlord and tenant, what we need is a partnership approach – involving all stakeholders. The Local Authority to review its rates, landlords to review flexibility with rents or reduction, government initiatives to continue and stop acting as the sticking plaster – let’s look at something more long term that benefits the landlord and tenant.

### What trends are you seeing?

On the high street, we are experiencing a dramatic move away from retail and the office investment for the smaller landlords which you would expect. However, for good covenants like the food retailers such as Co-op, these remain popular with landlords. We have seen a number of investors keen to buy up distribution centres and micro distribution centres to support the increasing need for supply chains as the ‘logistics’ spokes.

### For Hub and Spoke in office accommodation, are there any investors willing to adapt their premises to set up office there?

Where would you put the spoke? We all know that many employees do not want to travel and change is a challenge, so finding a place that is central to everyone, where all staff are willing to travel to could be difficult. You may as well stick with your central London office. Obviously if there is dead space in a high street coffee shop or empty residential above the shop, or larger premises with excessive storage, I can see this working.

### What about turnover rents?

In the past turnover rents have been a bit of a risky option from the tenant’s perspective as the terms can be quite onerous. That said, since technology has improved, the true model for turnover rents can be better enforced.

The risk to the tenant is that often the terms of the lease involve a minimum rent level the landlord needs to recover and if turnover drops to an all time low – the tenant and landlord are again at risk. So I am not sure this is the answer.

### What would be your word of advice?

Like Evan Davis, the economist and BBC presenter/host of Dragons’ Den, we have to ask the same question ‘why is it that a company like Google, an internet company where everyone can work remotely, decides to build an office HQ in Kings Cross?’ Because people prefer to work around other people. That would be my view.

## It really is time for change!



### Final thoughts

If location alone is no longer the principal lure, courting and keeping tenants is going to require an agile approach to building use. At a physical level this may be as simple as permitting and helping to facilitate how an occupier uses their space – be it removing individual offices for senior management in favour of a hot-desk set up or reconfiguring floor footprints to create large collaborative areas rather than a collection of smaller meeting rooms.

Accommodating a tenant’s aspirations for a future working environment will be essential to retention but standing out from the crowd is going to be crucial to attracting new occupiers.

To achieve a competitive advantage, space requirements will vary dramatically from high end design spec to user friendly and tailored to the expectations of modern-thinking firms. For some tenants, decision making will not just be about the space itself but smarter buildings and space for the changing face of commuting.

From the introduction of charging points for electric cars to secure bicycle storage facilities and energy-saving, automatic lighting.

Just as companies are reconsidering their business plans, so too are landlords. In addition to added value and benefits, investment planned down the line, particularly relating to a building’s IT infrastructure, must be brought forward to ensure properties remain an attractive proposition.

Above all else, CATA+ and the serviced office must provide flexibility. Provisioning floors of a traditional office for a serviced-offering or increasing capacity for additional tenants by shrinking exclusive space and granting access to collaborative areas could lead to both higher customer satisfaction and rent yields.

A similar amount of suppleness is also likely to be needed in relation to leases. If greater comings and goings are going to be a characteristic of commercial property’s next chapter, then serious consideration needs to be given to contracts that predicate spaces being reverted to Cat A every time a name changes over the door.

“The solution is likely to be hybrid – falling somewhere between a serviced office and the much-hailed, ‘plug in and play’ Cat A+ option, which would give tenants the ability to adapt and control how and when space is used”

The solution is likely to be hybrid – falling somewhere between a serviced office and the much-hailed, ‘plug in and play’ Cat A+ option, which would give tenants the ability to adapt and control how and when space is used.

Covid-19 has served as a caution against more extreme alternatives. Indeed, the WeWork model – where space is open for use by anyone with a membership – has been shown to have major shortcomings against the backdrop of social distancing, with keeping space clean from infection near impossible.

A hybrid set-up with collaborative space, on the other hand, could flex to meet coronavirus’ constraints; facilitating social distancing if required and not representing a huge overhead in the event of a business scaling down its use.

With the threat of further lockdowns continuing, the road ahead is far from clear, but the need for change is.

## How can we help?



hartdixon

If you are a UK or global fund, property investor or property portfolio owner, please do get in touch to benefit from our many years of experience in property and building consultancy.

- Contract Administration
- Project Management
- Planned Preventative Maintenance Programmes
- Dilapidations Consultancy
- Reinstatement Cost Assessments
- Project and Development Monitoring
- Building and Due Diligence Surveys
- Expert Witness
- Licence to Alter
- SKA Assessments
- Project Management – Complex Technology Facilities

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