

The Future of Work and Commercial Real Estate Post-Pandemic

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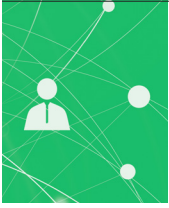
The onset of the COVID-19 pandemic in mid-March and the accompanying physical distancing measures sent droves of Canadian office workers home. Those that were lucky were able to continue working remotely. Since then, the economy has been gradually reopening and the streets of the GTA's business districts are noticeably busier than they were a few months ago. However, there has generally been a tepid response from companies and workers at the prospect of making regular appearances at the office anytime soon.

Remote Work May Be Here to Stay

With the timing and effectiveness of a vaccine still unknown and reports that productivity has been maintained or even increased since the lockdown, many companies are choosing to delay their plans to return workers to their physical premises. For instance, [Scotiabank recently announced](#) that employees of its Toronto headquarters won't be due back until 2021 - at the earliest. In the extreme, [Ottawa-based Shopify Inc.](#) announced that they do not expect the vast majority of their employees to ever go back. The question that everyone in the GTA's commercial real estate industry is asking is, will this massive shift be a temporary situation born out of necessity, or is it the permanent acceleration of a trend that was already in progress which will leave a lasting impact on office vacancy levels and rents?

Leasing Transactions Are Way Down

What we do know is the pandemic and associated economic slowdown have had a notable impact on the GTA office market. According to Avison Young's [Second Quarter Office Market Report](#), the cooling effect of the COVID-19 lockdown is shown in the reduction of leasing transactions during the first six months of 2020, which fell by 50% compared to the prior year. Availability in the GTA increased to 9.3% in Q2, up from the 11-year low of 8.7% reached at the end of 2019. Sublease space hit a five-year high of nearly three million square feet.



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Expect Rental Rates to Fall in the Short Term

Future space requirements are still up in the air as businesses continue to evaluate the merits and drawbacks of keeping most of their workforce working from home. Though under pressure, rental rates have so far remained relatively flat. In the short term however, rental rates are expected to fall, especially in the downtown core, due to weaker demand as well as supply increases from companies subletting excess space to offset overhead costs. Opinions on the longer-term outcome are split. Some feel companies will require the same or less space due to their work-from-home arrangements. Others feel companies will require the same or more space as they move employees back to the office and implement physical distancing practices.

New Technology Keeps Remote Workers Connected

During the last few months, many workers have started using virtual meeting and collaboration software like Zoom and Microsoft Teams consistently for the first time. The longer a company stays in a work-from-home situation, the greater the chance these technologies will be incorporated permanently into its business processes. In addition, we can expect the development

and adoption of new tools and technologies for remote work to be accelerated by the pandemic. As workforces evolve to find ways to work efficiently from a distance, it becomes less likely that they will revert to the way things were, even if the coronavirus becomes a non-issue.

However, [some industry players](#) feel that even though these trends and a potential recession may work against office real estate in the short term, a permanent movement away from maintaining a physical presence is not likely. This is due to the benefits of having employees gathered in one place, such as facilitating in person meetings, monitoring and mentoring junior staff, socialization and networking, and informal collaboration. In addition, many employees still desire the formal barrier between their work and personal lives that the office provides.

Managing Remote and In-Office Employees

One path forward some businesses are considering is the adoption of a hybrid model, allowing employees to choose whether they will attend the office or work from home. While this may be an appealing option that will hopefully keep everyone happy, there are [potential downsides](#). There will be two distinct employee experiences that need to

“Unlike the industrial sector (which is excelling) and the retail sector (which has been devastated by COVID-19), the jury is still out on the office sector. It is not yet clear to what extent the WFH phenomenon will affect the office sector in the long term. It’s still too early to say whether it will be permanent, temporary or something in the middle. The longer occupiers remain in a state of indecision, the greater the chance that what is now viewed as cyclical office demand could become structural in nature. Irrespective of the outcome, the GTA office market entered the pandemic from a position of strength and it’s possible that any fallout downtown may be counterbalanced by additional demand in the suburban markets, which were already improving pre-COVID-19.”

Bill Argeropoulos, Principal and Practice Leader, Research (Canada) for Avison Young.



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be successfully managed. If some processes and communication methods are not fully adapted to incorporate remote workers, this may leave them feeling frustrated and excluded. Additionally, any inefficiency among remote workers may be attributed to working away from the office in general, rather than problems with how operations are structured to incorporate these workers.

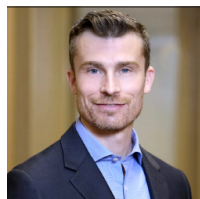
Tough Decisions Ahead as Pandemic Uncertainty Lingers

While the pandemic continues, many companies are choosing to take a wait and see approach to return employees to their physical premises and making office space decisions. Those facing lease renewals in the coming months will need to make tough decisions based not only on their vision for how and where their employees will work in the future, but also their confidence in governments' ability to control the pandemic and the timeline for the economic recovery. Those considering having remote work a permanent part of their operations now have the experience and technology to support this transition and increase their probability of success.

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