

*Research Report*  
*Jones Lang LaSalle Incorporated*

---

Effects of Corona on the office markets

# After Corona: Scenarios for the future significance of office use

## *What enduring effect will the Coronavirus have on the office markets?*

### Intro

At present, no one can predict exactly how the economy as a whole, individual sectors or companies will fare in a year's time or how they will develop in the medium and longer term. It is also currently impossible to determine what the Coronavirus means for the use of office buildings and therefore for the office market as a whole over the medium and long term. On the one hand, some people are generally of the opinion that "there will be hardly any change" but on the other, there is an assumption of increased remote working (working from outside the office, especially in the home office) which could lead to the loss of one fifth of office jobs.

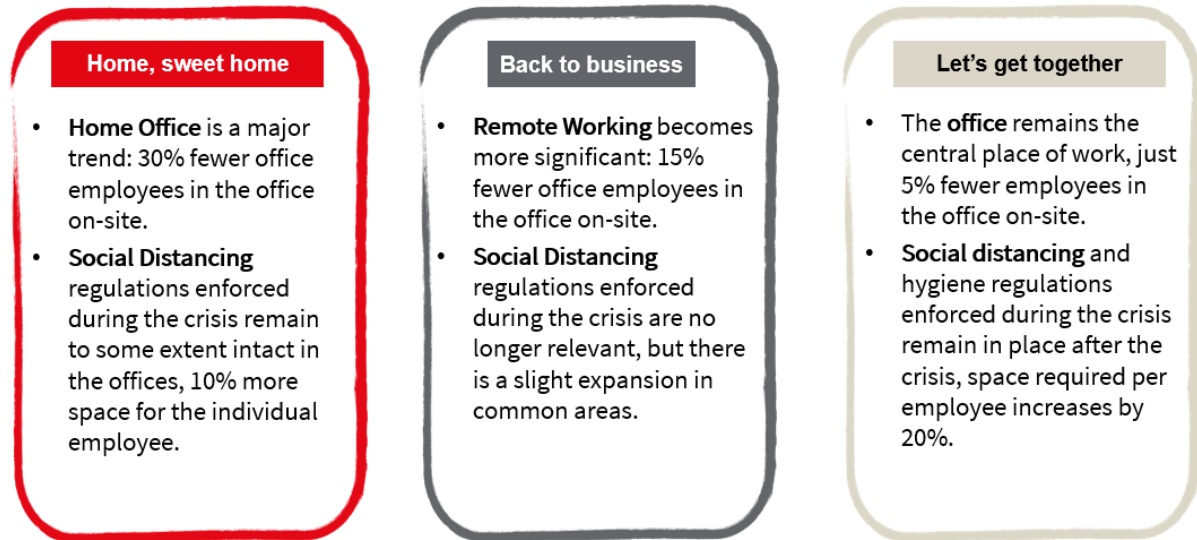


Source: GettyImages

We present three scenarios which illustrate a range of possible developments. While some office users will drastically reduce their volume of office space following their positive experience of remote working, others may expand. Each scenario shows the sum of the different real estate strategies implemented, i.e. the qualitative and quantitative result that can be the consequence of different real estate strategies across all office users in an office market. Scenario 1, for example, shows a result in which, on balance, there will be a significant reduction in the current volume of office space in an office market, whereas in Scenario 3, on balance, even more office space will be needed after Corona.

## The three scenarios

The scenarios presented here refer to the period after the acute Corona phase, i.e. there are no longer any pandemic-induced, restrictive regulations on travel and social distancing.



For each of the scenarios there are effects on different parameters, e.g. on property requirements and the choice of location.

## Scenario 1: Home, sweet home

<b>Spatial (use) concepts</b>	<p><b>Main changes<sup>1</sup>:</b></p> <ul style="list-style-type: none"> <li>• Workspaces in the sense of desks: quantitative: - qualitative: +</li> <li>• Workspace in the sense of spontaneously used workplaces: quantitative: - qualitative: +</li> <li>• Conference/ meeting rooms: quantitative: +/- qualitative: +</li> </ul> <ul style="list-style-type: none"> <li>• Quiet rooms, project rooms etc.: quantitative: +/- qualitative: +</li> <li>• Tea kitchens, lounges etc.: quantitative: - qualitative: +</li> <li>• <b>Total office space:</b> quantitative: - qualitative: +</li> </ul> <ul style="list-style-type: none"> <li>• Strong differentiation according to departments and functions.</li> <li>• Increased design and use of the office as a place to meet.</li> <li>• Significant savings in real estate costs; significantly increased investment in IT and communication solutions.</li> </ul>
<b>Property requirements</b>	<ul style="list-style-type: none"> <li>• High-performance digital infrastructure required to enable remote working on a large scale.</li> </ul>
<b>Choice of location: office</b>	<ul style="list-style-type: none"> <li>• Significance of the location, especially in the "Next Normal" after Corona, extremely specific according to sectors and tenants. For some companies, the savings achieved in terms of space and therefore cost can be used to move to a higher-quality location.</li> <li>• Increased use of external Flex Office facilities.</li> </ul>
<b>Choice of location: employees' homes</b>	<ul style="list-style-type: none"> <li>• "People go where the jobs are" no longer applies here. On the contrary: remote workers become freer in choosing their main place of residence.</li> <li>• Demands on the fit-out specifications of private homes are increasing (balconies, extra room as an office).</li> </ul>
<b>Communi-cation</b>	<ul style="list-style-type: none"> <li>• To a certain extent, the exchange of information takes place through different channels than in the past; this requires active and regular use of modern communication channels.</li> <li>• The corporate culture, the feeling of togetherness and team spirit have to be shaped in a different way for the most part.</li> </ul>

<sup>1</sup> + means a significant increase  
 - means a considerable decrease  
 +/- means hardly any change

## Scenario 2: Back to Business

<b>Spatial (use) concepts</b>	<p><b>Main changes:</b></p> <ul style="list-style-type: none"> <li>• Workspaces in the sense of desks: quantitative: - qualitative: +/-</li> <li>• Workspace in the sense of spontaneously used workplaces: quantitative: + qualitative: +</li> <li>• Conference/ meeting rooms: quantitative: +/- qualitative: +/-</li> </ul> <ul style="list-style-type: none"> <li>• Differentiation according to departments and functions.</li> <li>• Increased design and use of the office as a place to meet.</li> <li>• Savings in real estate costs; increased investments in IT and communication solutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Quiet rooms, project rooms etc.: quantitative: +/- qualitative: +</li> <li>• Tea kitchens, lounges etc.: quantitative: +/- qualitative: +/-</li> <li>• <b>Total office space:</b> quantitative: - qualitative: +</li> </ul>
<b>Property requirements</b>	<ul style="list-style-type: none"> <li>• Improved digital infrastructure required to enable remote working on an increased scale.</li> </ul>	
<b>Choice of location: office</b>	<ul style="list-style-type: none"> <li>• The importance of the location remains specific according to sectors and companies.</li> <li>• No significant changes in preferences for the choice of location.</li> </ul>	
<b>Choice of location: employees' homes</b>	<ul style="list-style-type: none"> <li>• "People go where the jobs are" continues to apply to the majority of employees, as they come to the office regularly.</li> <li>• On the other hand, permanent or regular remote workers will be freer to choose their main place of residence, increasing their demands on the fit-out specifications of their private homes (balconies, extra room as an office).</li> </ul>	
<b>Communication</b>	<ul style="list-style-type: none"> <li>• For the few remote workers, the exchange of information takes place through different channels than in the past; this requires active and regular use of modern communication channels.</li> <li>• The corporate culture, the feeling of togetherness and team spirit have to be shaped in a different way in part.</li> </ul>	

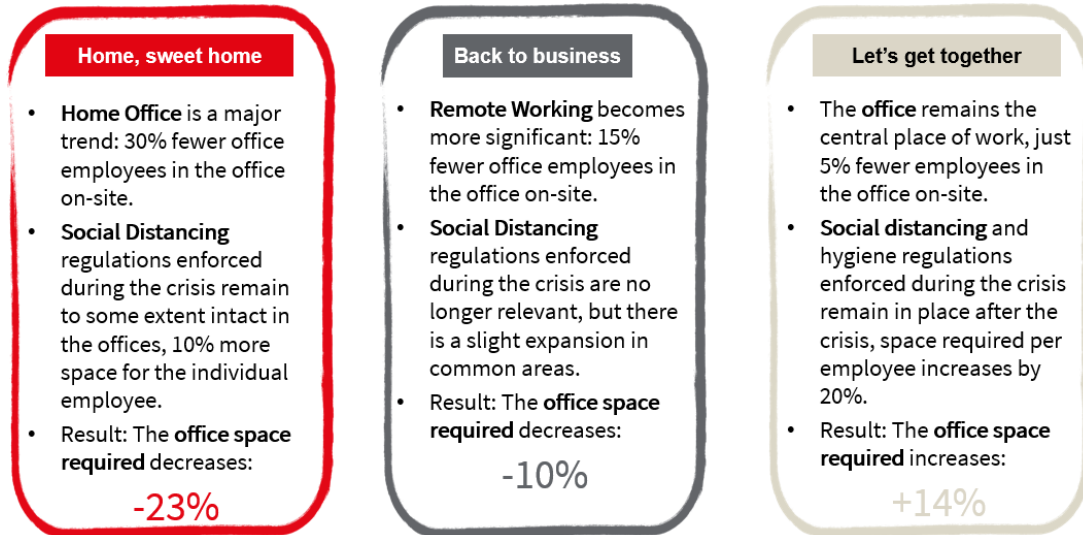
## Scenario 3: Let's get together

<b>Spatial (use) concepts</b>	<p><b>Main changes:</b></p> <ul style="list-style-type: none"> <li>• Workspaces in the sense of desks: quantitative: +/- qualitative: +</li> <li>• Workspace in the sense of spontaneously used workplaces: quantitative: + qualitative: +/-</li> <li>• Conference/ meeting rooms: quantitative: + qualitative: +</li> </ul> <p>• Increased design and use of the office as a place to meet. • Higher real estate costs due to requirements for more space.</p> <ul style="list-style-type: none"> <li>• Quiet rooms, project rooms etc.: quantitative: + qualitative: +</li> <li>• Tea kitchens, lounges etc.: quantitative: +/- qualitative: +</li> <li>• <b>Total office space:</b> quantitative: + qualitative: +</li> </ul>
<b>Property requirements</b>	<ul style="list-style-type: none"> <li>• Improved digital infrastructure required to enable remote working on a small-scale.</li> <li>• If necessary, modification of access routes to allow for the desired greater distance.</li> </ul>
<b>Choice of location: office</b>	<ul style="list-style-type: none"> <li>• Significance of the location especially in the "Next Normal" after Corona is extremely specific according to sectors and tenants. Many companies will have to consider alternative and therefore less expensive locations due to the increased requirement for space. On the other hand, some tenants are likely to try to compensate to some extent for the working concept of compulsory on-site attendance, which many of their employees feel is now outdated, by optimising the location; this will benefit central and well-connected locations.</li> <li>• Decentralisation is gaining in importance: several smaller locations in one city instead of one large headquarters building.</li> </ul>
<b>Choice of location: employees' homes</b>	<ul style="list-style-type: none"> <li>• "People go where the jobs are" is unchanged here. Demand for residential space in the major cities remains at a high level.</li> </ul>
<b>Communication</b>	<ul style="list-style-type: none"> <li>• The exchange of information can still take place through personal contact in the office.</li> </ul>



## Figures, please!

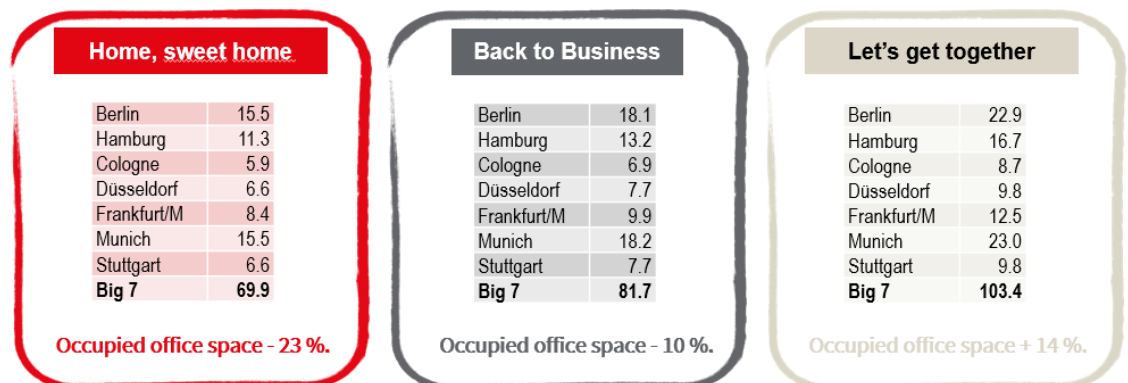
After these primarily qualitative assessments, the possible quantitative effects for the three scenarios on office space or markets are now described:



These assumptions are applied uniformly to the figures for the current supply of office space in the Big 7 markets:

### Baseline situation:

Q1 2020	Million sqm
Berlin	20.1
Hamburg	14.6
Cologne	7.6
Düsseldorf	8.6
Frankfurt/M	11.0
Munich	20.2
Stuttgart	8.6
<b>Big 7</b>	<b>90.7</b>



The changes in offices and work concepts will naturally take place over a longer period of time. The figures given here, on the other hand, *anticipate* the result in terms of occupied office space, *ceteris paribus*<sup>2</sup>, i.e. without taking other influences and developments into account. Otherwise, an immediate reduction of 23% in the amount of space occupied (in Scenario 1), for example in Frankfurt, would be equivalent to a fivefold increase in the volume of vacancies to 3.2 million sqm and an increase in the vacancy rate from its current level of around 6% to 27%.

<sup>2</sup> For example, an increase in the volume of vacancies, such as those triggered by business insolvencies, or reductions in the supply of space by converting offices to residential use, are not reflected in the scenarios.

Now it depends on which scenario is realised, i.e. with regard to the future changes in demand for office space or possible changes in the places employees live and the resulting effect on local housing demand.

In Scenario 1, demand for office space declines significantly, while demand for housing at the location of the office premises falls slightly to moderately due to the effects described. In Scenario 2, demand for office space declines moderately and demand for housing declines minimally.

The office space released onto the market in Scenarios 1 and 2 will initially lead to rising vacancy rates. Given that an average of 153,000 sqm of office space in the Big 7 office markets has been converted<sup>3</sup> to other types of use (mainly residential use) in the last three years, this would initially suggest that there is little potential for reducing vacancies. The future reduced demand for residential locations close to the office premises in Scenarios 1 and 2 will again reduce this potential. However, whether the office space consequently released onto the market can still be absorbed by the general demand for housing ultimately depends more on other factors such as economic trends (including the impact of job losses or short-time working).

In Scenario 3, demand for office space even increases and demand for housing remains unchanged. Given the extremely low vacancy rates in the period before the Coronavirus and reduced construction pipeline volumes during the crisis, the duality of high demand and low supply (at least after the economic dip) will continue in this scenario.

---

<sup>3</sup> The total annual volume of reductions in the supply of office space was as high as 563,000 sqm, whereby the temporary removal of space from the markets, such as during office refurbishments, was also included here.



## Summary

We attribute the highest probability of occurrence to Scenario 2. In addition to these Corona-related consequences, economic and structural influences also have an impact on the office market. The effects, some of which are delayed, have different implications for the various office market segments:

<b>Letting market</b>	<ul style="list-style-type: none"> <li>• In some cases, the consolidation of space by way of new contracts will result in a slight increase in take-up activity. The pre-emptive effects on project lettings described below will also lead to a slight increase in take-up activity in individual cases. Overall, however, take-up will remain at a lower level for a longer period of time, as there will be more lease prolongations<sup>4</sup> in the current supply, as smaller volumes of space are also rented for the most part when new contracts are concluded. Moreover, companies will expand less overall. More than ever, demand will focus on the high-quality segment.</li> <li>• Vacancies will increase due to the lower overall demand, but also the numerous sublettings and the handing back of space; this oversupply will not be absorbed by, for example, conversions to residential use.</li> <li>• In terms of demand, there will be some accentuated differentiation between submarkets, and new office locations may even be created. Office rents will move sideways or decline less sharply in sought-after locations and will fall more sharply elsewhere. Properties that continue to meet the requirements for increased quality and flexibility may even experience rent rises (irrespective of location). The spread between nominal and effective rents will be wider than has been the case to date.</li> </ul>
<b>Project development market</b>	<ul style="list-style-type: none"> <li>• Ongoing developments with a high level of pre-letting are being completed, even if individual tenants who are already signed up are unable to meet their contractual obligations. If necessary, capital investors will step in. However, there will also be delays and cost increases for projects already under construction.</li> <li>• Projects not yet started and without sufficient pre-letting rates could be completely abandoned.</li> <li>• Competitive pressure will decrease as the number of developers reduce as a result of a market consolidation.</li> <li>• Project lettings are likely to be brought forward, as many tenants will want to take advantage of the incentives that developers are increasingly offering at present. Other tenants who need to implement their relocation plans quickly will shift their focus from project lettings, and instead try to implement more timely solutions in the current stock.</li> </ul>
<b>Investment market</b>	<ul style="list-style-type: none"> <li>• Rising financing costs limit transaction activity. This benefits investors with a strong equity base</li> <li>• Acquisitions will be investigated even more intensively. For example, the sectors and tenants targeted, their backgrounds, business models and types of lease contracts will be analysed much more rigorously (especially in the case of flexible office space operators).</li> <li>• Properties and space must meet high demands for flexibility, and not only within the office use category: the alternative use potential is also shifting back into focus and the digital infrastructure of buildings is becoming more important.</li> <li>• Properties where the location, space flexibility, digital infrastructure and tenant structure meet the changing requirements will be among the winners. Even properties with justifiable weaknesses should benefit from TINA (“there is no alternative”) in times of low interest rates: there is no alternative for investments in real estate with robust cash flows.</li> <li>• The already increased number of forward deals could increase further because developers who have so far reacted speculatively and have a low equity base could now be forced to enter into forward deals to cover running costs over several projects.</li> <li>• If, as feared, there is a consolidation in the developer market, this will significantly reduce the supply side for investors in the medium term, leading once again to a significant rise in competition for individual products.</li> </ul>

<sup>4</sup> Lease prolongations do not count statistically as take-up.

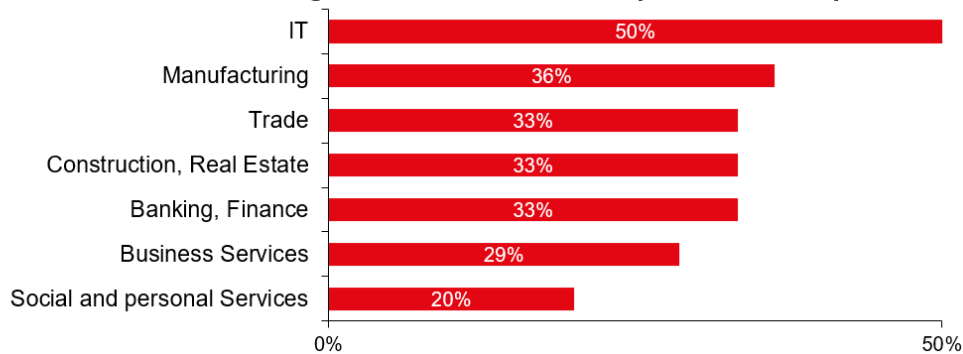
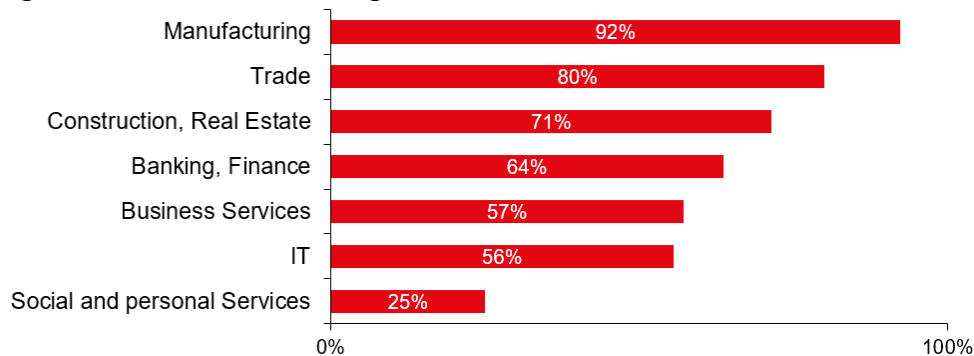
<b>Flexible Office Space</b>	<ul style="list-style-type: none"> <li>• Although the Coronavirus initially led to a decline in demand and to market consolidation among providers of flexible office space, this market segment will be extremely popular with many (including previously new) users and especially with corporates.</li> <li>• Flex Office facilities will benefit from the users' desire for flexibility in terms of space, service and running time.</li> <li>• Corporates will secure exclusive space contingents that are strictly separated from other tenants/users, i.e. the space will be reserved exclusively for the respective corporate (security/flexibility/business continuity planning). This will lead to an increase in larger leases or agreements on use. This space, also rented specifically at decentralised locations, will become a permanent part of a business's corporate real estate strategy.</li> </ul>
------------------------------	--

Office space users will remain cost-sensitive even after the acute phase of Corona and, inter alia, will examine savings in terms of real estate. Nevertheless, some companies could reduce the density of jobs somewhat in the medium to long term, not only through temporary remote working, but also permanently, i.e. either using more square metres with the same number of employees or leaving the total office space unchanged but reducing the number of employees slightly.

How the required office space changes "below the line", i.e. which scenario prevails in the end in a real estate market, will depend, inter alia, both on how the number of employees in the office premises changes and which qualitative and quantitative adjustments are made in the office itself. If companies fear that the use of the home office could negatively affect the drive or spirit of their employees and the flow of information, they will endeavour to encourage their employees to work more in the office again after the social distancing regulations have been removed, putting less focus on the home office; in these cases, there will also be fewer quantitative changes in their use of space.

It will be possible to accurately identify the trends over the next few months. Only then will company, public sector and self-employed users of office space be able to establish the individual effects. In principle, macroeconomic trends are of course a major driver of office space demand, but perhaps no longer the most significant; this would apply where changes to remote working were to lead to massive reductions in the total volume of space.

A survey of investors, users and developers on the effects of the Corona crisis conducted by JLL in the period from the end of March to the end of April 2020, the "JLL Thermometer"\*, revealed, inter alia, that remote working will increase strongly among 65% of office users. A further result was that 31% of office users assume that the Corona crisis will have a significant impact on their requirement for space. Differentiated by sector, the assessments are as follows:

**The Corona crisis will have significant effects on our requirements for space.****The significance of remote working to us will increase.**

*% of companies which responded with "completely agree" or "agree"  
Sectors with at least six responses are shown.*

In Germany's seven largest office markets (referred to as the Big 7), these sectors have been responsible for an average annual take-up of 2.5 million sqm of space over the last five calendar years.

The fact that remote working, and in particular the home office, will be an integral part of office culture is also shown by further surveys<sup>5</sup>. The PwC CFO Survey<sup>6</sup> from April 2020, for example, points in this direction with regard to the longer term effects: according to this survey, almost half of CFOs plan to offer remote working on a permanent basis for those activities and functions for which it is possible and makes sense. The results of a survey conducted by Corenet Global<sup>7</sup>, the Association of Corporate Real Estate Managers, at the end of April are even clearer: 94% of participants believe that the increased use of remote working will continue beyond the Corona crisis. For example, many banks will have a certain home office quota on a permanent basis.

Increased remote working therefore points to a reduced total area; however, the above quoted response regarding changing requirements for space does not necessarily have to be the same as a reduced requirement for space for all companies over the medium and long term. Many companies, for example, are putting their flexible open-plan space concepts introduced in recent years (or currently under review) to the test, and in some cases (again) prefer cellular offices. Others are looking to reduce the density of workspaces in their open-plan offices. Back-up space in the Flexible Office Space segment is also included. This, in turn, suggests an increasing number of square metres per employee and so, in the end, it is not only a question of how many employees will

<sup>5</sup> e.g. J.P.Morgan Cazenove: European Property: DATA-Driven: The Disruption Series: The Future of Work.

<sup>6</sup> PwC COVID-19 CFO Pulse.

<sup>7</sup> Corenet Member Survey.

(simultaneously) work remotely, but also how the office with all its types of space will be designed. It will only then become clear whether more or less total space is required at user level.

Across all scenarios, the effect of the experiences from the Corona crisis on the user side, as well as investors, developers and financiers will initially be that they act more cautiously. Most users will prefer shorter and more flexible lease contracts, investors and financiers will increase their risk premiums (for example, through yields, margins and LTVs/LTCs), and developers will build less speculatively or require a higher pre-letting rate. Additional collateral such as letters of comfort will be required for some leases.

Even if there are catch-up effects from the second half of 2020 onwards, letting, investment, project development and financing volumes will remain at a lower level than before Corona, at least in the short term, not least because global trade and the overall economy are also likely to develop with less dynamism after the acute Corona period.

## Conclusion

1. In all scenarios, the office will retain its great importance as a place for people to meet. Meeting and communal areas will be further expanded in terms of quality and quantity. More than ever before, the office must be a place where employees feel safe and comfortable and are supported in their productivity in the best possible way.
2. However, this "quality offensive" will be countered by reduced quantity in Scenarios 1 and 2: for most office users, the space required will decrease in both scenarios, as more office staff than before will work remotely from the office, and the quantitative expansion of common areas will not outweigh the reduction in the actual work space.
3. There is no such thing as a "one-style-fits-all". Most likely, the "Back to business" scenario will prevail. Numerous surveys have shown that remote working (and especially home office) will increase among office workers in vastly different sectors and become an integral part of office culture.
4. Quantitatively, the result will therefore be a moderate reduction in office space. Qualitatively, significant catch-up effects are required for many offices and work concepts. In terms of time, these changes will not only be of a short term nature, but will lead to sustainable change, provided that remote working fits the corporate culture. This will enable companies to make themselves more crisis-proof and future-proof in this respect.

## Further Information

### **Back to the Office:**

#### **Back to the Next Normal.**

The doors to the office are open again in many places. But the everyday life behind it is different and is no longer buzzing as usual. Those who move back in need a step-by-step strategy. Strict guidelines must be implemented, and complete working methods reviewed. But there will also be completely new opportunities created.

<https://www.jll.de/de/coronavirus-resources/zurueck-ins-next-normal>

(in German)

### **JLL-Thermometer:**

#### **Just under half of the investors are sticking to their plans**

Interviews with landlords and tenants.

<https://www.jll.de/de/presse/jll-thermometer-knapp-die-haelfte-der-investoren-haelt-an-plaenen-fest>

(in German)

### **The future of global office demand:**

Increased working from home doesn't equate to less demand. Our research identifies four key factors that will play a major role in shaping future office spaces.

<https://www.jll.co.uk/en/trends-and-insights/research/future-of-office-demand>

## Contacts

**Helge Scheunemann**  
Research Germany

+49 (0) 40 350011 225  
[helge.scheunemann@eu.jll.com](mailto:helge.scheunemann@eu.jll.com)

**Stephan Leimbach**  
Head of Office Leasing Germany

+49 (0) 69 2003 1245  
[stephan.leimbach@eu.jll.com](mailto:stephan.leimbach@eu.jll.com)

## Author:

**Christian Ströder**  
Director Research

+49 (0) 69 2003 1074  
[christian.stroder@eu.jll.com](mailto:christian.stroder@eu.jll.com)

[jll.de](http://jll.de) Informationen regarding JLL and our services

[jll.de/research](http://jll.de/research) All Research reports on current market figures and special topics

[www.jll.de](http://www.jll.de)

**Jones Lang LaSalle**

Copyright © JONES LANG LASALLE SE, 2020. No part of this publication may be reproduced or transmitted in any form or by any means without prior written consent of Jones Lang LaSalle. It is based on material that we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.