As we prepare for a return to the office, there is a growing sense of optimism.

While we may not know exactly when we can put COVID-19 behind us, the commercial real estate industry is focused on recovery. Together, stakeholders are viewing the challenges of this past year as opportunities to emerge more resilient and innovative than ever before.

Colliers Real Estate Management Services surveyed a sample of our tenant base to understand how asset classes have fared and the anticipated changes to physical office space, in-person and remote work, and employer expectations following the pandemic.

This report is the first of a three-report series on the recovery of each asset class: office, retail, and industrial.
Key takeaways

1. The great hybrid work experiment is beginning, with most companies (58%) saying they will implement a hybrid model of work.

   Employers are largely undecided on how to manage a combination of in-person and remote work, with 66% unsure on the number of days employees will be expected to be in the office and 33% unsure on how this will be managed across the various parts of the organization. We expect a lot of experimentation with in-person and remote work that may impact usage of space in the near future.

Methodology

To analyze our portfolio, we surveyed a stratified sample of tenants out of our 31 million square foot national office portfolio based on geography, business size, and industry. The survey contains responses from 156 companies, with a 95% confidence level.

This is the third survey that has been issued to office tenants since the beginning of the pandemic. The first survey was issued in June 2020, the second in November 2020, and the third in April 2021.
2. In this experiment, flexible office spaces are expected to make up about 6% of future total office space in the market.

One in almost four tenants indicated their desire to make use of flexible office space in the course of their operations. Flexible office space could refer to designated space in an office building that is shared by all the tenants in the building, such as bookable boardrooms and co-working spaces, short-term leases of turnkey space, or other models. This trend is likely to be prominent as businesses experiment with the hybrid model of work. The ability of landlords to anticipate and respond to this trend, based on the tenant mixes in their buildings, could drive both the success of the return to office and the hybrid work experiment.

3. Office vacancy is predicted to increase by another 5.7% over the next few years, a forecast that is holding steady from our June 2020 report.

As more companies expect to adopt hybrid and fully remote models of work, they will reduce their traditional office leasing footprints, leading to increased vacancies. Alongside the 2.15% increase in vacancy we have seen over the past year, the additional 5.7% increase expected within the next four years will bring the total vacancy impact close to the 8.5% we forecasted in June 2020.

4. When making decisions on office space, employers rank employee productivity, culture, and collaboration as more important than operational savings.

Although safety remains the most important decision-making factor, employers indicated that productivity, culture, and collaboration have all deteriorated during the pandemic. For building owners and managers, the communication of
health and safety protocols remains paramount. At the same time, finding ways to enhance the productivity, culture and collaboration on behalf of occupants through creating building communities, rethinking usage of shared spaces, programming, and other initiatives will add to the office experience.

Findings

1. Remote work is negatively affecting office culture, opportunities for collaboration, and employee productivity and well-being.

Maintaining a strong office culture has been notably difficult to achieve through remote work, with employers feeling like that sense of culture has diminished by 28%. Furthermore, opportunities for meaningful collaboration, employee productivity, and employee well-being have declined by approximately 20%.

“Employers feel that a sense of culture in their organization has diminished by 28% during pandemic.”

Figure 1: The impact of remote work during the pandemic

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Employee well-being</td>
<td>-21%</td>
</tr>
<tr>
<td>Productivity</td>
<td>-20%</td>
</tr>
<tr>
<td>Collaboration</td>
<td>-18%</td>
</tr>
<tr>
<td>Culture</td>
<td>-30%</td>
</tr>
</tbody>
</table>
2. When it is deemed safe to return to the office, employee productivity, collaboration, and culture are more important than operational savings.

When making decisions on in-person or remote work, employers rated employee safety as their top consideration. Once it is deemed safe to return to the office, the results indicate that employee productivity, opportunities for collaboration, and office culture will play a more significant role in decision making, over and above factors like operational savings.

![Figure 2: Employer considerations when deciding between in-person or remote work](image)

3. The hybrid model of work will feature prominently in the future, next to fully in-person work. Only 2% of companies plan to have employees work remotely full-time.

When employers were asked about their future workforce, 58% indicated they would be implementing a hybrid model, where employees will have an option to work remotely for a percentage of the week. 40% of employers will expect employees to be in the office full-time and only 2% said their workforce will be entirely remote.

“58% of employers indicated they would be implementing a hybrid model of work.”
4. For companies anticipating a hybrid model of work, two-thirds are undecided on the number of days employees will be expected to be in the office and a third are uncertain on how it will be managed across the organization.

At this time, only a third of employers who indicated that they will use a hybrid model could identify how many days they will expect employees to be in the office. 66% were undecided, while 14% said two days per week, 12% said three days per week, and only 8% said one day per week.

“In their hybrid model, 66% of employers are undecided on the balance between in-person and remote work.”
Companies are largely undecided on how they will manage the hybrid model of work, and much of it will vary across the organization. For example, 26% said they would leave the choice to individuals and departments/teams, 18% said they would preassign days for departments/teams to work in the office, and 17% indicated it will depend on levels or positions.

5. **The need for physical human presence is the main driver for companies requiring employees to return to the office full-time, with tech companies being the exception.**

Companies planning to return to the office full-time indicated their business needing physical human presence as the main factor in their decision. This trend was uniform across all industries, with the exception of tech companies, who indicated the ability to foster innovation as the primary driver.

One outcome of this could be that tech companies require a different office layout compared to other tenants; one that promotes innovation and collaboration rather than having static desks for all employees.
6. Almost half of the tenants surveyed indicated they want to keep the same amount of office space, with 29% saying they need less space than what they currently lease.

Tenants are feeling more optimistic about their need for office space. In June 2020, 46% of tenants surveyed were looking to decrease their office space compared to 29% in April 2021. Furthermore, in June 2020, 32% of tenants were looking to keep the same amount of office space compared to 49% in April 2021.
7. Office vacancy is set to increase 5.7% nationally from current levels, totaling close to the 8.5% increase we predicted in June 2020.

Tenants who indicated they would like to reduce their office footprint would like to do so by an average of 41%. This would drive vacancy rates approximately 5.7% higher than current market levels, not accounting for new construction or economic growth.

Our report in June 2020, “Office Recovery: Productivity, Working from Home and Space Demand” forecasted an increase in vacancy by 8.5% due to remote work. Since then, the market has seen an average rise of 2.15%, according to research by Colliers. Following an additional 5.7% that we expect will be added in the next few years, the market will start to rebound after absorbing the shock of the changing work environment.

The majority of companies (73%) indicated they see this change happening as soon as possible or in 2022. This could lead to an intensification of an already present trend of more subleases becoming available in the market.

“Over the next few years, office vacancy will increase by an additional 5.7% from current levels, but it will rebound.”
8. Higher quality office buildings are in demand for all tenants, yet additional priorities differ depending on whether they are returning to the office full-time or operating on a hybrid model.

Regardless of whether tenants are choosing to return to the office full-time or operating a hybrid model, the desire for higher quality office buildings increased by 6% and 3% respectfully. That said, the choice of operating model shaped other priorities. For those returning to the office full-time, walking access to amenities and access to a dedicated parking lot were deemed more important than before the pandemic and less important to those operating a hybrid model. Access to public transit remained unchanged for those returning full-time, while decreasing 9% for those planning for a hybrid model.

One outcome of this could be that companies on a hybrid model start relocating to the suburbs as their employees do not need to rely on public transit every day. In contrast, companies who plan to return to the office full-time will continue to see public transit as an essential criterion in the office they choose.

“For employers anticipating a hybrid model of work, the importance of access to public transit decreased by 9%.”

Figure 9: How the pandemic has shifted priorities for office space

Companies returning to office full-time
Companies returning to a hybrid model
9. Almost one in four tenants can see their company using more flexible office space, outside of their core leases, in their current or future office building.

Flexible office space is a unique arrangement between tenants and the space required for their operations. It could refer to designated space in an office building that is shared by all the tenants in the building, such as bookable boardrooms or co-working spaces. It might also refer to short-term leases of turnkey space.

The supply of flexible office space outside of a tenant’s core lease will be a consideration for almost one in four tenants as they decide where to lease space in the future, which they anticipate could encompass an average of 30% of the office. 31% of tenants are unsure about the future use of flexible office space and 46% saying they do not see that change happening.

Figure 10: The demand for flexible office space as an amenity in office buildings

“We flexible office space, in addition to a traditional lease, is a growing consideration for tenants.”
10. For companies expressing a need for flexible office space outside of their core leases, the amount of space varies according to business size, for an average of 6% of the market.

The percentage of flexible office space required by each tenant varies according to business size. Small businesses were more than twice as likely (2.25x) than international businesses to indicate they require flexible office space as part of their total space needs. Small businesses anticipate needing approximately 9% of flexible office space, while international businesses anticipate needing 4%.

“Small businesses were more than twice as likely (2.25x) to indicate they require flexible office space as part of their total space needs.”

**Figure 11: The need for flexible office space varies according to business size**

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Flexible Office Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>National/International</td>
<td>4%</td>
</tr>
<tr>
<td>Regional</td>
<td>5%</td>
</tr>
<tr>
<td>Small</td>
<td>9%</td>
</tr>
</tbody>
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- Flexible office space
- Space within traditional lease
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