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PROPTECH: THE OFFICE

INTRODUCTION

An increasing amount of demands are being placed on our office space. Beyond the need to be conducive to working, it also needs to attract and retain talent, provide a range of different styles of space and be flexible enough to deal with fluctuations in team size and technological evolution.

We worked with David Smith – Chief Executive of Global futures & Foresight – to look at the role of the office in improving team performance, supporting cultural evolution and underpinning the new relationship between owner/operator and occupier. PropTech is a significant enabler and change agent, facilitating these transformations and helping the physical structure become a flexible asset against a backdrop of continual disruption.

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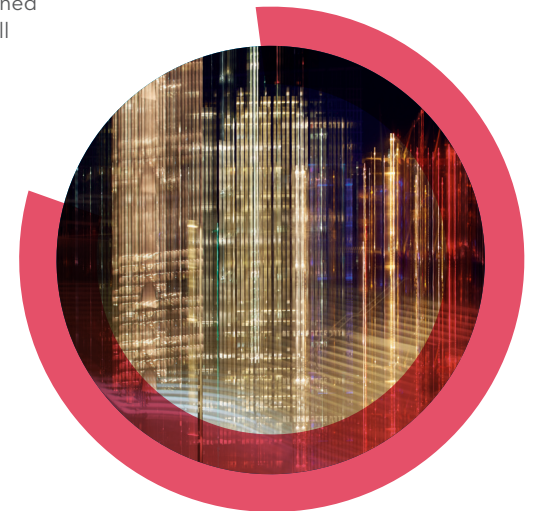DAC Beachcroft

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THE OFFICE AS A STRATEGIC DRIVER

44% of current employees do not consider their office to be smart enough; 70% of business leaders suggest that establishing new ways of working is an important factor in fully enabling their digital transformation[1]. Office design and the building's technological infrastructure can support new strategies, helping people adapt to new technology and evolve behaviour, routines and expectations. With PropTech, as with all technology, first we do things differently, then we start to do different things. In a 2018 survey, some 59% of the industry maintained that the incoming range of technology will have a positive impact on organisational productivity[2].

Data collected through the Internet of Things (IoT) and digital devices and wearables devices, subsequently fed into machine learning systems enables organisations to change how they operate both their buildings and their work. As smart buildings like the 'Edge' in Amsterdam are increasingly demonstrating, an awareness among business is taking hold of '…the link between the working environment and human capital, and ascribing value to a positive employee experience. Talent retention and recruitment and performance, are all affected by the building environment[3].'

1 Source: Bain, retrieved 2019 http://www2.bain.com/infographics/digital-transformation/enablers.asp

2 Source: Knight Frank, 2018 https://www.knightfrank.co.uk/blog/2018/11/12/next-wave-technology-will-force-a-rethink-of-business-models-and-real-estate-strategies

3 Source: McKinsey, 2018 https://www.mckinsey.com/industries/advanced-electronics/our-insights/laying-the-foundation-for-success-in-the-connected-building-era

As these systems increasingly adapt autonomously [4], new use cases will emerge from the personalisation of the occupant experience – whether the personalisation of space for companies or individuals, to the predictive awareness of individual needs[5].

Ultimately, the offices of the future, many of which are already built but not yet retrofitted, will be asked to do more than just co-locate a group of people and act as a 'defensive' balance sheet asset. They will need to help improve team performance, facilitate effective collaboration both within the company and with external third-parties, and provide personalised experiences for a changing array of workers and teams[6]. PropTech will also help give older office stock a new lease of life. Sensors can help identify areas of concern in the structure and layout. Building Information Modelling (BIM) can create a digital twin, allowing owners and users to simulate plans for improvement , resolving issues before they happen in the actual space.

CO-WORKING

The global number of co-working spaces is set to increase from around 1.6 million in 2017 to 3.8 million in 2020[7]. PwC predicts that co-working space could account for 30% of all commercial working space by 2030, from around 5% of all workspace now, and 8% in London[8]. The shift towards the gig economy, downsizing of many corporates to smaller permanent core teams, the rise of virtual working and an interest in entrepreneurship could all further fuel this trend. 1 in 4 students and 1 in 3 working professionals already want to start their own business[9], while 73% of all small business teams could have remote workers by 2028[10]. Automation and PropTech services will likely improve the management and use of co-working space[11], and offer opportunity for old offices or even vacant superstores to repurpose in a rapid and effective way[12].

PROPTECH'S IMPACT ON THE BUSINESS MODEL

The connected digital era, and the imminent intelligent era challenge the value chain that has underpinned real estate. Traditional practices are poorly aligned with future possibilities. Making infrastructure and design decisions years or even months before occupancy no longer appears sustainable. Cost, previously the driver of many building decisions, can no longer be the premier factor in an era where buildings are being asked to do more. Traditional roles are sidestepped, as new approaches and relationships are crafted in an altered ecosystem.

A Deloitte survey of investors revealed that over half of the survey sample aims to invest or increase investments in properties with flexible leases, and 44% plan to do so for flexible spaces[13]. This would seem to indicate an acceptance on investors' behalf of the need to tie investment to both tenant preferences and the changing work environment more widely. With demand flowing towards flexible space on short-term leases, this potentially makes PropTech an even bigger attraction for those with traditional holdings. It also places an increased emphasis on property management within the ecosystem, with companies like Re-Leased streamlining the processes of identifying space for occupiers[14].

The ultimate goal for developers, investors and owners is to identify and incorporate weak signals and trends before end users are even aware of them, requiring strong sector specific knowledge, an understanding of how change could shape future demands and sophisticated data analysis skills.

4   Source: Oracle, 2018 https://blogs.oracle.com/profit/in-the-future-buildings-will-be-autonomous

5   Source: McKinsey, 2018 https://www.mckinsey.com/industries/advanced-electronics/our-insights/laying-the-foundation-for-success-in-the-connected-building-era

6   Source: FM Link, 2019 https://fmlink.com/articles/will-facility-managers-still-exist-2030/

7   Source: Harvard Business Review, 2017 https://hbr.org/2017/12/coworking-is-not-about-workspace-its-about-feeling-less-lonely

8   Source: Pie Lab, 2018 https://www.pielab.com.au/whats-new-in-proptech/

9   Source: INSEAD, 2017 https://knowledge.insead.edu/leadership-organisations/making-the-workplace-work-for-gens-x-y-and-z-5171

10 Source: Small Biz Trends, 2019 https://smallbiztrends.com/2019/03/remote-workforce-trends.html

11 Source: Tap Key, 2019 https://tapkey.com/blogs/smart-access-control/coworking-interview-jean-yves-huwart

12 Source: ID Plans, 2018 https://www.idplans.com/2018/09/21/how-proptech-is-changing-the-way-we-work/

13 Source: Deloitte, 2019 https://www2.deloitte.com/global/en/pages/real-estate/articles/gx-commercial-real-estate-industry-outlook.html

14 Source: Unissu, 2019 https://www.unissu.com/proptech-resources/proptech-in-the-uk

The question of how to develop such propositions is currently central to real estate future outlook. In Its annual 'Global PropTech Survey,' KPMG found that 93% of respondents agree that they need to engage with PropTech, with 90% thinking that it would help their business. However, the distance between intent and action would appear vast. Only a third have a strategy for how to engage with PropTech and more generally, with digital innovation[15].

Without a clear sense of how to engage and with the distraction of a multitude of day to day problems to deal with, the danger is that the evolving ecosystem will be defined by others. Building management, data management and performance measurement are seen as the areas where PropTech will have the biggest direct impact on real estate[16]. Neglecting these considerations, is to ignore the future factors of growth and the concept of offices and buildings as strategic drivers of business.

15 Source: BisNow, 2018 https://www.bisnow.com/london/news/technology/trad-real-estate-knows-proptech-will-be-big-just-not-what-to-do-about-it-93168

16 Source: BisNow, 2018 https://www.bisnow.com/london/news/technology/trad-real-estate-knows-proptech-will-be-big-just-not-what-to-do-about-it-93168

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