



# THE WORKPLACE REVOLUTION:

Changing the Way We Work,  
Shop and Live



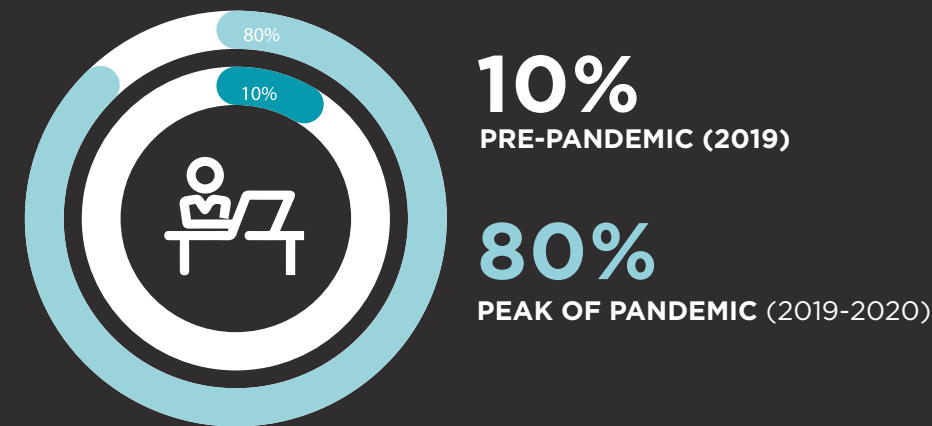
The next two to three years will be a transition period for organizations and the real estate industry as we embrace a hybrid way of working.

// Cushman’s global surveys consistently indicate that 78% of people prefer a hybrid workplace that would require coming into the office two to three days per week. //

This changes our notion of the workplace and how it will be used and how teams will function in a distributed arrangement when some people are working remotely and others in the office. Lots of lesson are being learned now.

The scale of this global untethering of employees from the shared physical environment is the single greatest workplace change that I have seen in my 30-year career. In 2019 (pre-pandemic), mobility ratios hovered around 10% in Canada. During the peak of the pandemic, mobility ratios for corporate office workers jumped to 80%.

MOBILITY RATIO



When you need to accommodate workers for the full spectrum of mobility preferences, the organizational puzzle has just gone from 50 pieces to 1,000 pieces.

We are facing a set of conditions, which has created the problems that confront us today. This perfect storm includes three main drivers: the great re-evaluation, organization operational changes, and demographic shifts. To explain:



**The pandemic caused the great re-evaluation.** Many people found out that life can change on a dime. They changed jobs, downsized, moved out of cities or took early retirement. They spent more time with their families rather than commuting into downtown. They re-prioritized. Reluctance to commute again is cited as the single biggest reason many people want to continue to work remotely.



**The pandemic has proved the need for operational changes.** For the first time in history, organizations that were built on traditional, hierarchical models, shifted to trust-based operations and flattened out. They trusted their employees to work and be productive while not under the watchful eye of a manager. This has had its challenges but has also produced many benefits. One is that some workers who have traditionally been marginalized found their voices while working remotely.

// The “future” workplace is very much in transition so there is currently confusion, discovery and planning involving real estate, HR, IT, Communications, Risk Management and, of course, executive leadership. Everyone, including building owners and city planners, are asking, “what’s next” and “how do we future proof?”

Samantha Sannella //



It seems that the digital screen is an equalizer and many workers felt more comfortable, less intimidated and more respected while working remotely. Of course, this tells us that we still have a lot of work to do with diversity, equity and inclusion (DEI) initiatives and every crisis presents a learning opportunity.



**Demographic shifts give employees the power.** Baby boomers retiring, delayed entry into workforce by young people and an increased death rate have resulted in labour shortage in countries around the world. In Canada and the U.S., our unemployment rates have hit a record low. This means that attraction and retention is the number-one priority for organizations today.

In this employee-led market, workers are in the driver's seat and can make demands, and our workplace strategies must respond to this shift in power. When it comes to real estate, this has led to two distinct trends: hybrid work and the flight to quality for buildings and locations. Think of the workplace as an extension of salary. Every square foot should be leveraged to provide an outcome that encourages employee engagement and well being.

## HOW THE U.S. AND CANADA DIFFER

There are a couple of major factors that distinguish Canadian and American office markets. Suburban office markets in the U.S., for example, are seeing positive momentum. This is primarily in the sunbelt areas: Atlanta, Dallas/Fort Worth, Nashville, Miami, Phoenix. Why? Some of these suburbs benefit workers in several ways: lower cost of living, free parking, space to social distance, more flexible lease terms – and, not surprisingly, many are more suited to a growing U.S. market for life sciences and health-related companies. They are also located closer to employee homes, which saves a tremendous amount of gas money for the average worker. With inflation nipping at our wallets, this is particularly important. Public transportation is scarce in secondary and southern cities and throughout the U.S., which is still dominated by the car culture.

In Canada, we have not seen nearly as much traction in suburban markets, however, I think this may change.

**// We are behind the U.S. in our return-to-work efforts and most Canadian companies have not made long-term decisions about their workplace. //**

There are several issues to weigh. Housing costs are pricing people out of Toronto and Vancouver, which is one of the reasons suburban and rural housing prices have surge by 25% to 30%. Montreal house prices have risen as well. While rate hikes may cool the housing market, the cities remain unaffordable for many people.

Recognizing the resistance to commuting and relocation to less expensive locations, companies may establish suburban hubs to attract workers. Suburban office buildings, in turn, may benefit from a quality renovation, which offers flex space floors marketed as a membership-driven workplace -- much like a luxury airport lounge.



Does this mean that our downtown offices will suffer? No, and that's because markets in Toronto, Vancouver and Montreal are being fueled by unprecedented tech company growth.

**// Tech workers are mostly young, have high salaries, tend to live in condos and are in a life stage where having a backyard is not as important as being next to the best restaurant and entertainment venues in the city. //**

They want to walk, cycle or take the streetcar to work. While big tech is lapping up space, so are smaller tech companies. There are many forces at play right now. While some companies downsized during the pandemic, others saw it as an opportunity to get into the real estate market by leasing sublets that needed little capital investment – perfect for incubating tech companies.

## CHANGING CANADIAN MARKET DYNAMICS

Each city has its own unique characteristics that determine the value of the real estate markets but, ultimately, availability, accessibility and desirability are the key factors. Toronto, by far, is the largest real estate market, and pre-pandemic Toronto and Vancouver benefited from the lowest vacancy rates in North America – both hovering around 2%.

As of Q1 2022, vacancy reached 10.2% in downtown Toronto and 8.7% in Vancouver, (some of the lowest in North America) but leasing in both cities was roaring ahead as companies adopted attitudes (and policies) aimed at “learning to live with it.” Both cities are desirable hubs for the booming tech industries. However, unlike Vancouver, where the city’s downtown growth is limited by natural barriers, Toronto and Montreal have lots of room for expansion. In Toronto, for example, extensive development activity is underway on the waterfront, which will ultimately change downtown office dynamics.

Toronto and Vancouver are also seeing record suburban residential growth, which may drive suburban office growth in the future. On a smaller scale, Montreal is experiencing its own tech boom and has the benefit of being a much more affordable city for companies relocating to Canada.

Calgary is working to reduce its dependency on the energy industry; its volatility in the last few years has seen office vacancy soar and rental rates plunge. However, Calgary also offers excellent quality office space and a lower cost of living than Toronto and Vancouver, making it a great choice for growing industries if the labour sectors are there to support it. The city is also offering incentives to re-purpose office buildings into residential. While an expensive endeavour, this would make downtown Calgary more vibrant long term.

## VACANCIES AS OF Q1 2022



10.2%

DOWNTOWN TORONTO



8.7%

VANCOUVER





# WILL WE EVER GO BACK TO THE WAY WE WERE?

People ask me this all of the time and my simple answer is no. Preferences and behaviours are shifted by life-defining moments. The pandemic has affected all aspects of our global society – from school children who had to learn on-line to university students who spent two years in dorm rooms, to essential workers who kept our hospitals and cities running, to people who saw their loved ones die from COVID. These defining moments have a butterfly effect. The adoption of new technologies during the pandemic accelerated our path toward the metaverse. The shift to work from home will change housing design and condominium sizing. The pandemic has caused all of us to embrace our health much more seriously. These real changes will have permanent, tangible effects on our economy and office markets.

## TRENDS: NURTURING FACE-TO-FACE INTERACTIONS

As for trends, as human beings, we benefit from face-to-face collaboration. The nuances of personal interaction have not been replaced by digital collaboration – yet.

// **Our research indicates that learning and collaboration fell by 30% from September to January of this year. We know that a learning organization is an innovative organization.** //

As well, serendipitous collaboration fosters culture and organizational knowledge. While the absence of these opportunities may not have affected the bottom line of a company in the last two years, over time, as organizations change and grow, they will.

// **Culture is a key driver in all companies – defining it and nurturing it benefits from face-to-face interactions.** //

Trendsetters know this and are investing in workplaces that foster collaboration and drive culture – social spaces, gathering nodes, learning spaces, and more. However, space is not enough. This space must be programmed with activities and communicated to employees so that they are adopted and utilized. For example, a yoga room, must have a yoga program – and a social space must have a group activity. If a company wants their employees on-site, they must give them reasons to overcome the inertia of working from home. An integrated strategy of change management is needed – one that is focused on maximizing the benefit to the employee and company.





# REAL ESTATE LEASING MODEL: READY FOR DISRUPTION

The real estate industry is overdue for disruption – and real innovation would accomplish several goals by addressing:



**1. Environmental Degradation:** Office building interiors undergo frequent replacement of fixtures, furnishings and equipment. This contributes to an enormous amount of tangible waste as well as expended operational and embodied energy. By shifting management of spaces to building owners/operators, who generally have expertise in construction and maintenance, we can streamline and improve processes that will benefit the environment. We don't lease cars without seats and dashboards; office space should be no different.



**2. Costs:** Many organizations, especially incubating ones, benefit from leasing a space that has no capital costs. Construction is expensive and complicated. It takes a team of experts to assess an organization, create solutions and build a space. Often, organizations must hire four or five (or more) consulting firms to create a suitable office environment. As well, it takes an astute real estate department to create workplaces that align with business goals and objectives – which is a luxury many companies don't have in-house. By providing this service through the building owner, the tenant saves money and achieves a better result.



**3. Time:** Everyone wants a solution that allows them to focus on their core business, whether insurance, banking, law, tech and so on, and this means outsourcing real estate functions. This streamlines the process for organizations that want a one-stop shop and don't have the expertise, time or energy to put into the leasing, designing and constructing a space. As well, our society has evolved to a 'just-in-time, subscription-based' sharing economy, which makes adoption of flexible office solutions more acceptable. If you can reduce construction time by offering solutions that use building standards, moveable walls and flexible systems that are part of the building management service, you can expedite occupancy. This directly benefits every potential tenant.

One of the challenges is that building owners need long-term leases from tenants to benefit their building valuation and financing models. Typical flex office offers short term leases. No building owner benefits from a short-term lease to a tenant. There is too much uncertainty. However, a building owner could dedicate a floor or two to a concierge-type model and consider a membership-based occupancy. Spaces like this might offer superior audio-visual solutions, video production studios, facilitated brainstorming services, or other creative amenities to make them desirable and facilitate payback. They could also offer workspaces that help companies flex up when employees are hired or swing space if an area needs renovation.

However, no solution is without drawbacks. Ultimately, the workplace is company's visually persistent culture. If the space is generic, every square foot is not being leveraged to an advantage.

**// An ideal solution is a space that is purpose built and furnished, cost effective, and leased. //**

In this scenario, the building owner has the greatest purchasing power, the most control and therefore can offer the best solution. A building owner/operator partner would also be a good solution.





# A WORD ABOUT RETAIL AND INDUSTRIAL REAL ESTATE

The industrial market is strong across Canada and was fostered by last-mile warehousing and distribution demand during the pandemic. Lessons learned during the pandemic, i.e, logistics and shipping issues, will continue to drive this sector forward.

**// Expect to see more investment in advanced manufacturing in Canada through robotics and AI. This is our future. //**

While retail stores have been upended by pandemic, our research indicates a strong return for retailers. Because this industry sees the effect of immediate consumer choice, it is also one of the most innovative and nimble. Retailers are used to adapting quickly to stay in business. The pandemic caused them to be even more innovative. Experiential retail is still necessary to draw people back to physical stores - whether that is through superior customer service, better designed environments or interactive product education.





# SUSTAINABILITY TRENDS: CONSTRUCTING BUILDINGS FOR TOMORROW, NOT TODAY

Sustainability – whether net zero carbon or net positive energy -- should be top-of-mind for everyone in the real estate industry. It is our duty to our children (and they expect it) and our planet to improve the ways in which we construct and operate buildings. Therefore, before we recommend renovating, refreshing or retrofitting a building, we should really examine what we can keep first. This is one reason, why having building standards, such as flooring or moveable wall systems, is important. The days of ripping out flooring to suit a colour whim or building drywall offices to accommodate employee promotions are thankfully over.

// A building that offers solutions that many tenants can use  
that are flexible, responsive and neutral benefits us all. //

We have many great examples of such solutions, including:

**Ontario:** The Hines Bayside T3 building uses a heavy timber structure, which reduces embodied carbon by 40%-50% compared to a traditional office building. The Evolv1 building in Waterloo is Canada’s first net-zero carbon office building - a good example of a high-performance, market-driven, cost effective building.

**BC:** The White Rock Operations Building used 99% of the materials from the old building it replaced, preventing almost half a million tonnes of waste from going to landfill. This is a great achievement for a town of 17,000 people! In Vancouver, the Van Dusen Botanical Garden Visitor Centre is water independent, using rainwater from its green roof and treating all of its grey/black water on-site.

**Manitoba:** Manitoba Hydro’s headquarters was the first tower in North America to receive LEED Platinum certification. It contains a solar chimney for ventilation, a geothermal HVAC system and waterfalls to humidify fresh air. It saves about 70% energy though natural light and high ceilings.

**Quebec:** The Bioliotheque du Boise, is LEED Platinum and most of the building can be lit naturally while a glass prism collects heat that is redistributed.

While we are giving more thought to some buildings, we are not yet innovative enough in how we are treating others. There is still a lot of work to be done to ensure that we do our best every single time we make a decision that affects the environment. Building owners should really be thinking 40 years in the future. We don’t construct buildings for today, but for tomorrow. There is no reason, with our technology and capability that a building shouldn’t be functional for 75-100 years or more. And, the best examples come from history. Sometimes the simplest of things are the best – operable windows, natural light, and robust long-lasting materials.

By bringing together the best ideas from across Canada – and the world, we can increase our innovation in the built environment and ensure our planet has a healthy future.



The White Rock Operations Building  
Photo credit: Sandra Cohen-Rose and Colin Rose



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Our capabilities truly reflect client needs, and client success reflects the strategic execution of this business model, our progressive world view, and the value derived from the industry's top talent worldwide.

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