

**strategy&**

*Part of the PwC network*

---

# Beyond COVID-19

Navigating the Imbalance  
in Corporate Real Estate

# Contacts

## Singapore

### **Winston Nesfield**

Partner  
PwC Singapore  
+65 6236 4078  
winston.nesfield@pwc.com

### **Yeow Chee Keong**

Real Estate and Hospitality Leader  
PwC Singapore  
+65 9675 0891  
chee.keong.yeow@pwc.com

### **Stuart Holywell**

Director  
PwC Singapore  
+65 9730 1064  
stuart.j.holywell@pwc.com

## About the authors

**Winston Nesfield** is a Partner at PwC Strategy& Singapore where he advises senior leaders across financial services, Government, healthcare and higher education fields on strengthening their digital capabilities, accelerating regional growth and improving market competitiveness. His particular areas of focus include launching public sector market infrastructure, making regional business models more productive, and acceleration of value from data driven partnerships.

Winston leads the regional Financial Services team and as 'People Partner' is responsible for the culture and growth of our Southeast Asia strategy practice. Winston holds a Bachelors and an MBA from The Wharton School. He lives with his family in Singapore.

**Yeow Chee Keong** leads the Real Estate and Hospitality practice in Singapore and he is a partner with more than 20 years of experience with PwC, providing audit and business advisory services in the financial services and real estate & hospitality industries.

**Stuart Holywell** is a Director at PwC Strategy& where he focuses on business model innovation & transformation - particularly in industries experiencing technology & digital disruption.

Stuart holds a BSc Computer Science with first class honours from Cardiff University.



# Executive Summary

The long-term consequences of the COVID-19 pandemic is expected to be more severe than anything we have seen before. More so, for the commercial real estate sector given the uncertainty around how many business tenants will survive the crisis, and what the future work space requirements will be for those that survive or prosper.

The crisis will continue to impact the short term utilisation of the existing commercial real estate. Increased virtual working will most certainly drive the changes to tenant requirements while reduced mobility trends led by long term travel restrictions will potentially lead to sustained adjustments in local daily population flows.

There will be profound permanent changes in the real estate environment amid:

- Behavioural changes in employer and employee preferences and associated work patterns, caused by social distancing and virtual working requirements.
- Disappearing workstations. The allocation of space assigned to individual workstations is increasingly being replaced by multi-purpose, dynamically reconfigurable zones, connecting virtual participants for a shared experience. Importantly, businesses are updating the Employee Value Proposition to cover physical and virtual environments, away from being location specific.

- Accentuated impetus for decentralisation and consequently, the conversion of Central Business District (CBD) real estate to mixed developments. In Singapore, the total office space is expected to continue growing, in line with the plans of the country's Urban Redevelopment Authority. Nearly two-thirds of the new office space is expected to be in the CBD with about 23% in the outer region and 10% in fringe (Central region) areas.

This publication puts into perspective the impact of COVID-19 crisis on Corporate Real Estate, and what responses the demand supply imbalance is driving across the value chain. It further aims to highlight how industry players can manage through these challenges to emerge stronger in the post COVID-19 landscape.



# I. Impact: Demand Supply Imbalance in Corporate Real Estate

## Decreasing Demand

The coordinated response to COVID-19, both globally and locally, is causing the Singapore economy to contract and enter into a technical recession. Based on estimates<sup>1</sup> from the Ministry of Trade and Industry Singapore:

- Singapore economy shrank by 41.2% in the second quarter of this year on a quarter-on-quarter seasonally adjusted annualised basis. On a year-on-year basis the contraction during the quarter was 12.6%.
- Construction sector took the worst hit as it shrank by 95.6% in the second quarter on a quarter-on-quarter basis, against 12.2% in the preceding quarter. The slide was 54.7% on a year-on-year basis.
- Highlighting the pressure on the commercial real estate, Singapore's services sector contracted by 13.6% on a year-on-year basis in the second quarter, and by 37.7% on a quarter-on-quarter basis.

It is envisaged that there will be profound permanent changes in the real estate sector propelled by the COVID-19 restrictions, including the social distancing requirements. It is not only bringing about dramatic behavioural changes in both employer and employee preferences, but also prompting businesses to relook at their current business plans.

**In PwC's COVID-19 CEO Panel Survey, three out of four respondents from Asia Pacific believe that there will be an enduring shift towards remote collaboration in working while 60% pointed at an enduring shift towards low-density workplaces (away from high-density workplaces). In fact, CEOs noted that business models are undergoing long term changes led by these trends around remote collaboration in working, automation, and low-density workplaces.**

Moreover, as businesses automate operations and downsize to stay afloat, a dramatic cut in workforce is inevitable. The Business Expectations For The Services Sector - Employment Forecast For The Next Quarter, (Q1 2020) is expected to drop by 38% across the Business Services sector<sup>2</sup>.



As a result, business expectations have rapidly declined in the first half of 2020 and the companies are now developing responses with increased focus on:

- Cash-flow, working capital & business cost profile
- Agility and adaptability to respond to volatility
- Evaluation of previously committed resources to strategic growth plan
- Employee Value Proposition around flexible working & employee wellbeing

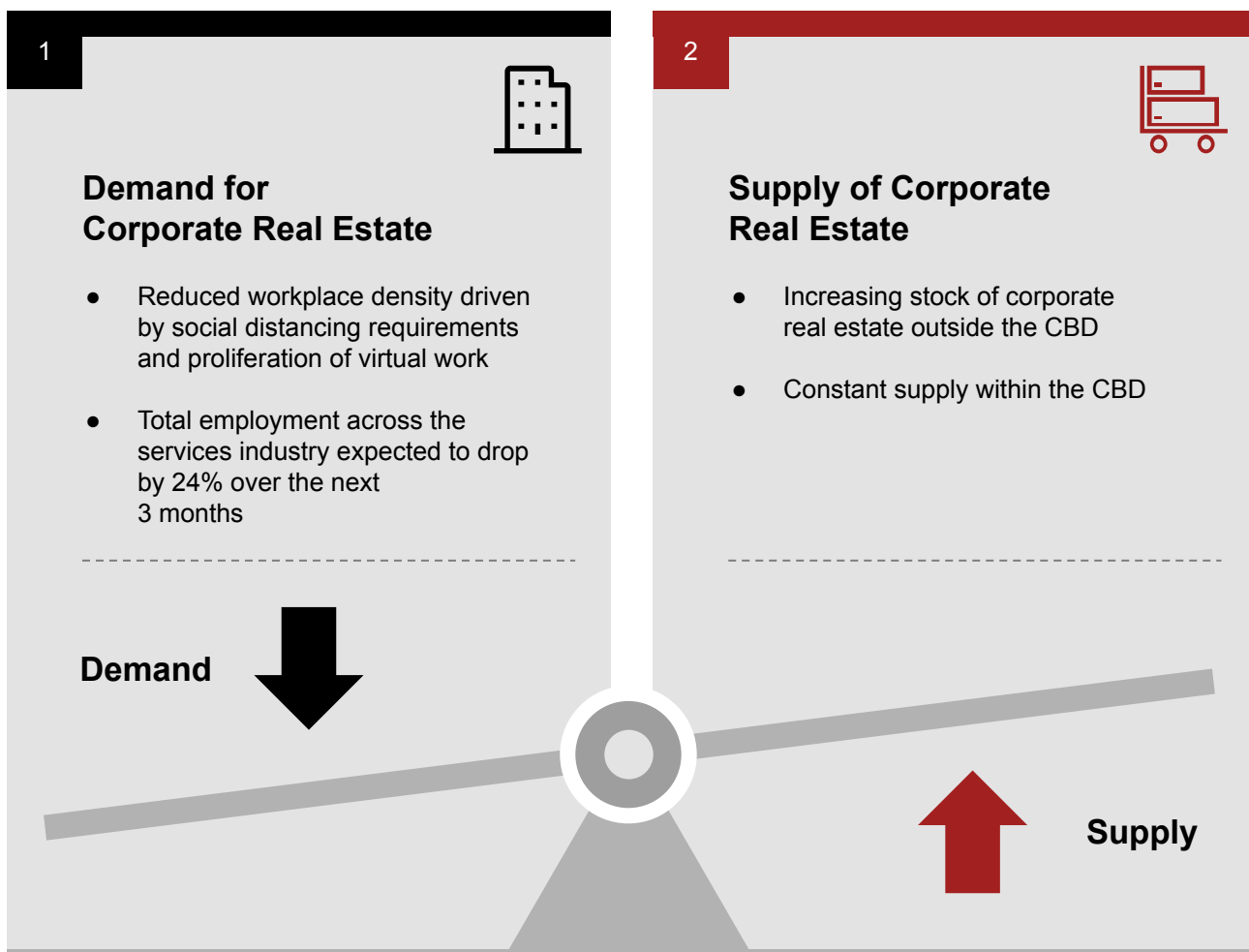
1. Singapore's GDP Contracted by 12.6 Per Cent in the Second Quarter of 2020, Press Release, Ministry of Trade and Industry, July 2020  
2. Data.gov.sg/Ministry of Trade and Industry - Department of Statistics



## Increasing Supply

The supply for corporate real estate continues to grow. As per the Singapore Master Plan developed to guide the long-term urban transformation, the pipeline for commercial real estate is forecast to grow until 2024 and beyond. The COVID-19 crisis may accentuate specific alterations in the objectives of the Master Plan, including diversification of office space outside CBD and the conversion of CBD commercial office to residential. The current Masterplan is expected to deliver increased corporate real estate outside the CBD aside from the constant supply within the CBD.

## Demand Supply Imbalance





## A: Slide in demand led by changing work patterns

The implementation of the circuit breaker, coupled with employer and employee concerns caused an immediate change in long-held work and movement patterns. This resulted in an almost instant behavioural change with nearly 50% reduction in community mobility, which is projected to last. As we progress through Phase 2, restrictions are expected to stay with most office workers continuing to work remotely. Also, with foreign cities opening up, businesses will further embed and refine their virtual working dynamic.

### Blended physical and virtual working

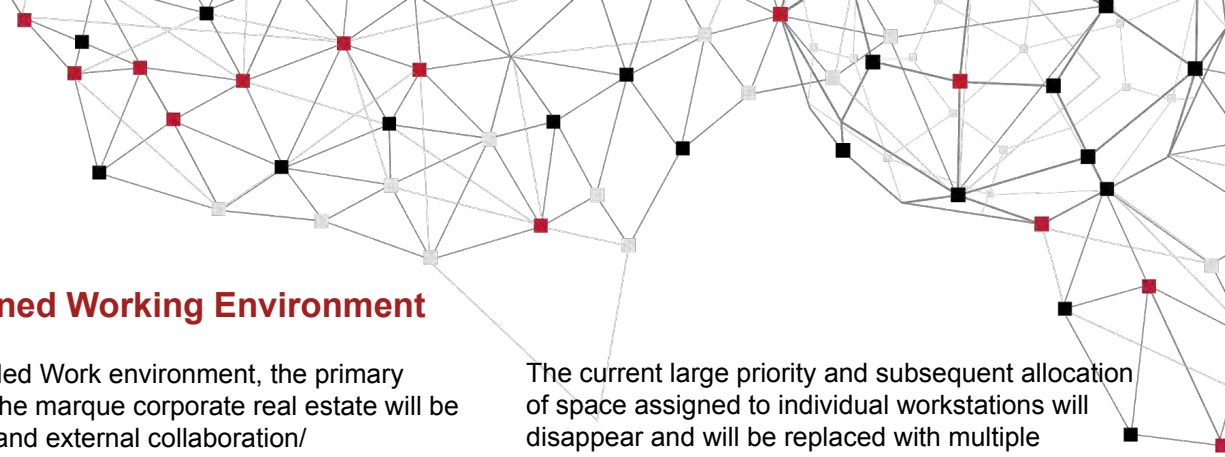
Virtual working has passed the 'stress test'. Technology, applications and infrastructure have all stood up to the broad, widespread and prolonged crisis scenario. This success has delivered short term benefits, albeit with some implementation issues, for both employers and employees.

This will drive **blended working patterns**. With the provision of flexible working opportunities in both location and working hours, employees will benefit from a work community, the culture & social interactions whilst maintaining access to resources and tools that are in the office.

While there are certain practical aspects around permanent virtual working that are yet to be addressed, such as workspace constraints, ensuring breaks, separating work and family time, managing distractions and importantly ensuring wellbeing, it is leadership capability and employee value proposition (EVP) that will need to evolve to reap all potential benefits.

This requires a refinement in corporate culture to support flexible & remote working, and the explicit assessment of how to align, motivate and engage a remote workforce. This reorganisation, and the likely rationalisation of roles, will be required to deliver "new normal" capabilities.





## Reimagined Working Environment

In the Blended Work environment, the primary function of the marque corporate real estate will be for internal and external collaboration/engagement. It will remain the key location to drive the corporate brand, culture and values.

Existing floor density ratios will drop. If we look at the figure (1) below, the circuit breaker forced virtual working for the majority of the workforce, moving the office density to Point A.

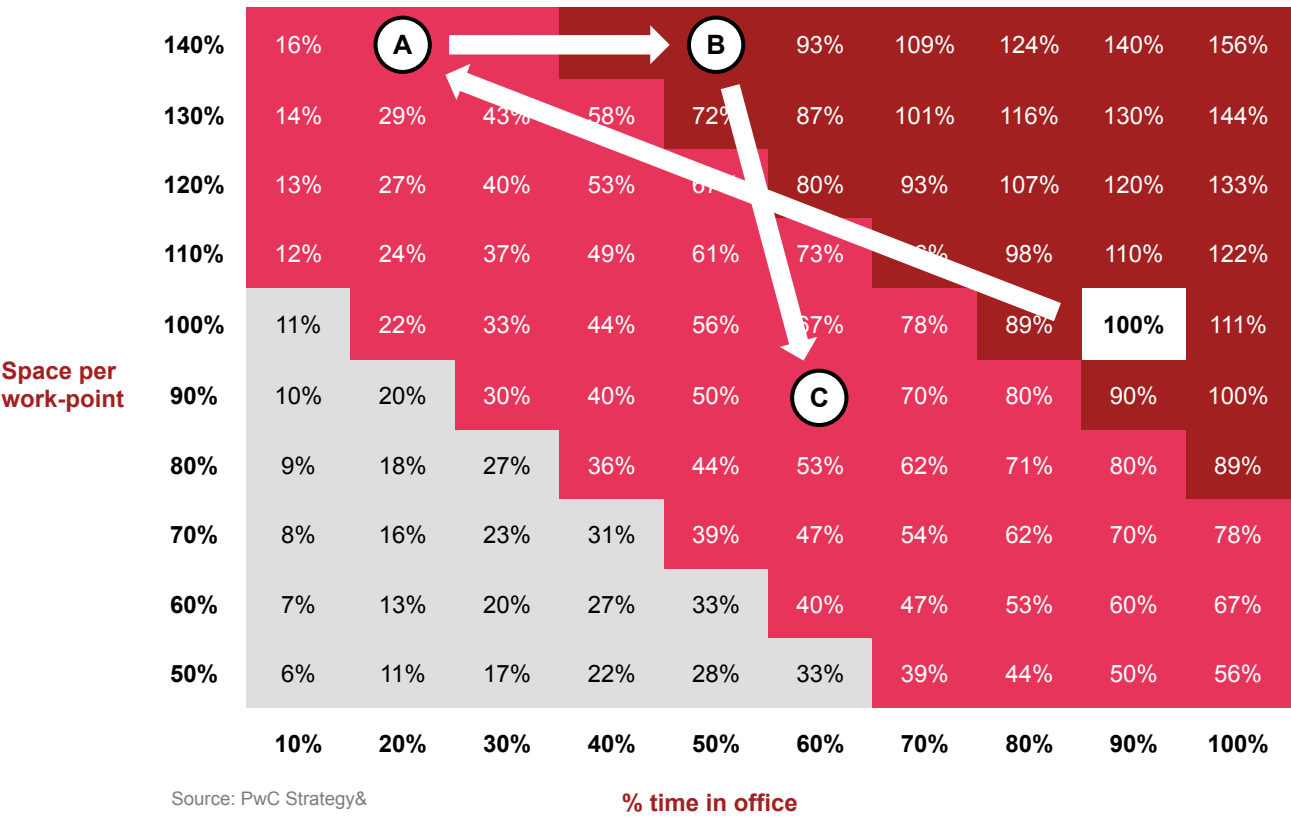
As Singapore reopens, employers and employees indicate preferences to maintain 50%+ virtual working which increases the time in the office to Point B. Finally as the ‘new normal’ stabilises, office design will focus on collaboration/engagement with a reduction in more traditional work-points with a possible result of Point C.

The current large priority and subsequent allocation of space assigned to individual workstations will disappear and will be replaced with multiple purpose, dynamically reconfigurable zones, connecting virtual participants for a shared experience.

“The current large priority and subsequent allocation of space assigned to individual workstations will be replaced with multi-purpose, dynamically reconfigurable zones, connecting virtual participants for a shared experience.”

Exhibit 1: Potential impact on the existing corporate real estate demand

Index of current scenario = 100%





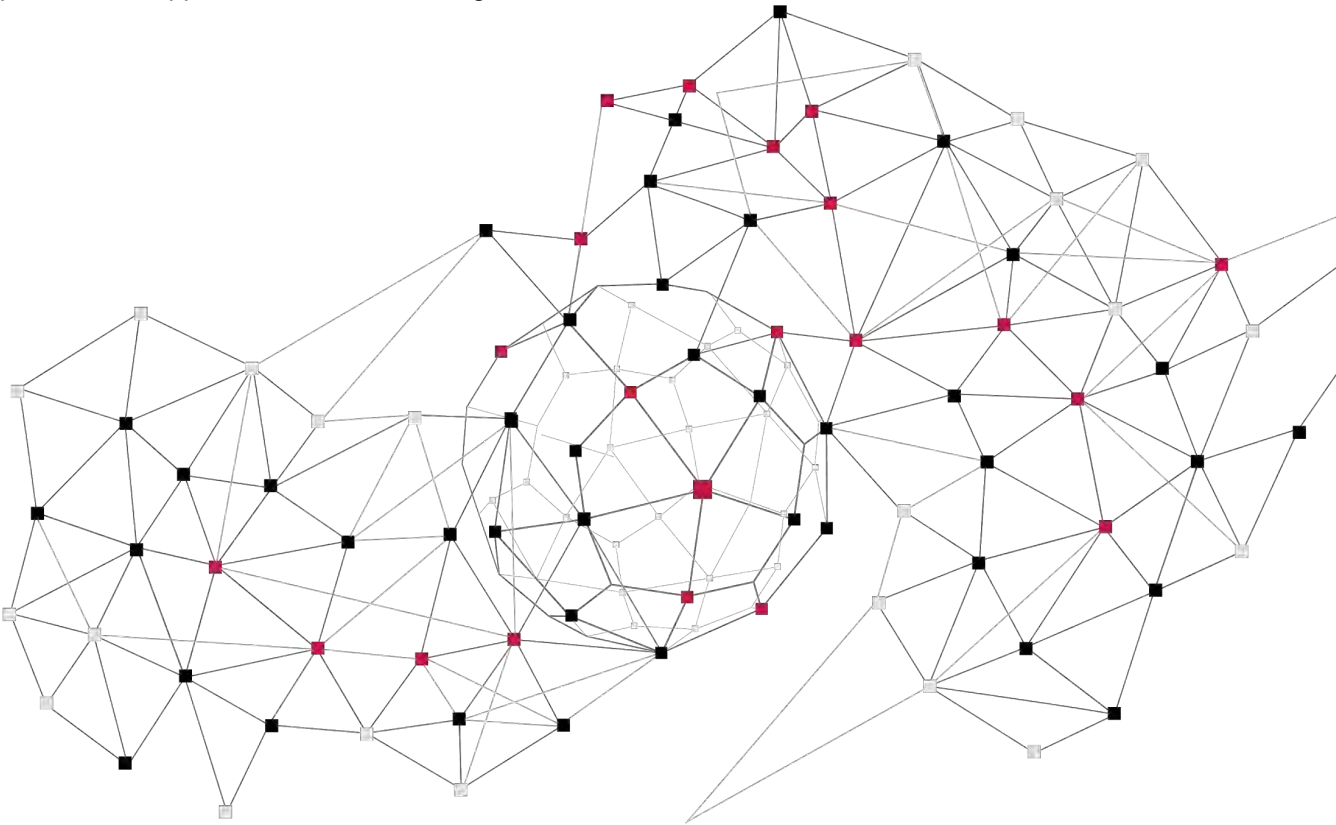


**Dynamic configurable zones will be used to drive brand, engage customers, staff and external stakeholders.**

Having a physical environment is much required, and businesses will continue to use the corporate office to drive how employees and external stakeholders perceive the brand and generate awareness.

Going forward, the reasons to increase space will be driven by business needs, such as client relationship building via face-to-face engagements.

The architecture & fitouts will continue to demonstrate and support the company culture. They will also hold the required capabilities to support new blended working.







## Employee Value Proposition critical in the New World working environment

Businesses need to update their EVP to cover both physical and virtual environments, and the benefits should not be location specific.

EVP will continue to vary by industries. Sectors with high demand for people will continue to incorporate a higher EVP. This could continue to translate into higher office density as those in demand are provided with multiple spaces for creative, delivery/output and wellbeing.

Moving away from the CBD areas provides a different EVP rather than a reduced EVP. Typically non-CBD environments will include a holistic offering of work and wellbeing.

The office environment will still be key in acquiring and onboarding employees to build a solid relationship with the company and colleagues.

“

Virtual working has passed the ‘stress test’. Technology, applications and infrastructure have all stood up to the broad, widespread and prolonged scenario.

It is the leadership capability and employee value proposition that will need to evolve to deliver potentially higher benefits.”

**Alignment** of company vision and strategy and values, driving pride in the employer

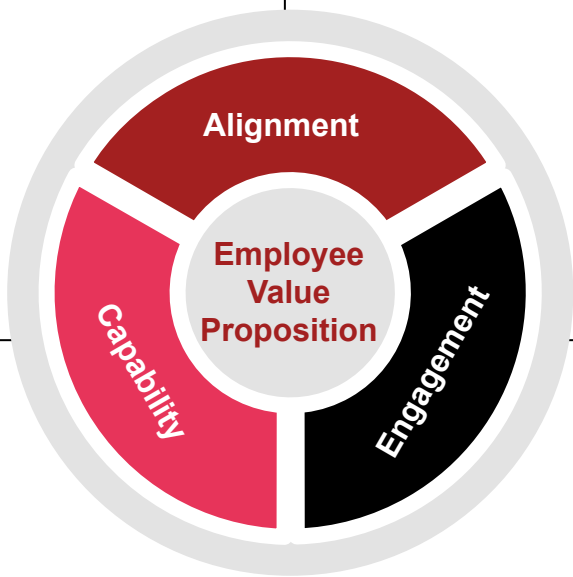
Alignment in physical environments representing the company

**Capability** to deliver group and individual work tasks in a productive and sustainable manner

Capability in virtual environment

**Engagement** of people to define their role within the organisation and to develop meaningful professional relationships

Engagement blended physical and virtual delivery



## B: Surge in supply driven by upcoming new spaces

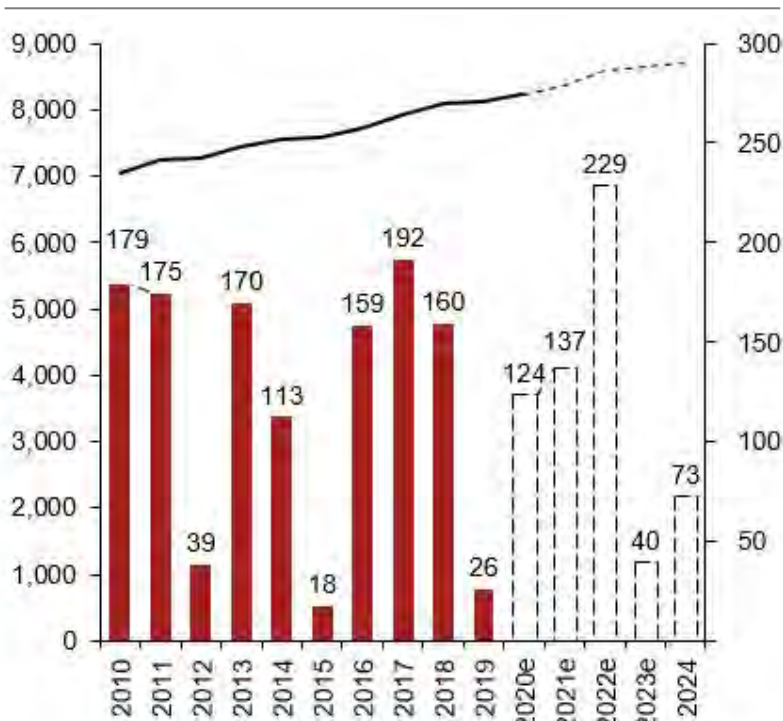
### New Commercial Real Estate office space is expected to continue growing

Despite the slowdown of economic conditions, the total office space is expected to continue growing, in line with the Urban Redevelopment Authority plans. Although the timing may be delayed due to the impact that COVID-19 has had on the supply of construction workers, the pipeline will continue to deliver additional office space until the foreseeable future.

In line with the original plans, approximately two-thirds of the new office space will be in the CBD, approximately 23% and 10% in the outer region and fringe (Central region) areas respectively. The impetus for decentralisation is now accentuated due to the new normal following COVID; the geographical urgency for CBD-based real estate is abating. Furthermore, conversion of CBD real estate to mixed developments may be accelerated.

Exhibit 2:

**Total Office Space<sup>1</sup> ('000 sq m gross)**



Source: Urban Redevelopment Authority, Singapore; PwC Strategy& Analysis





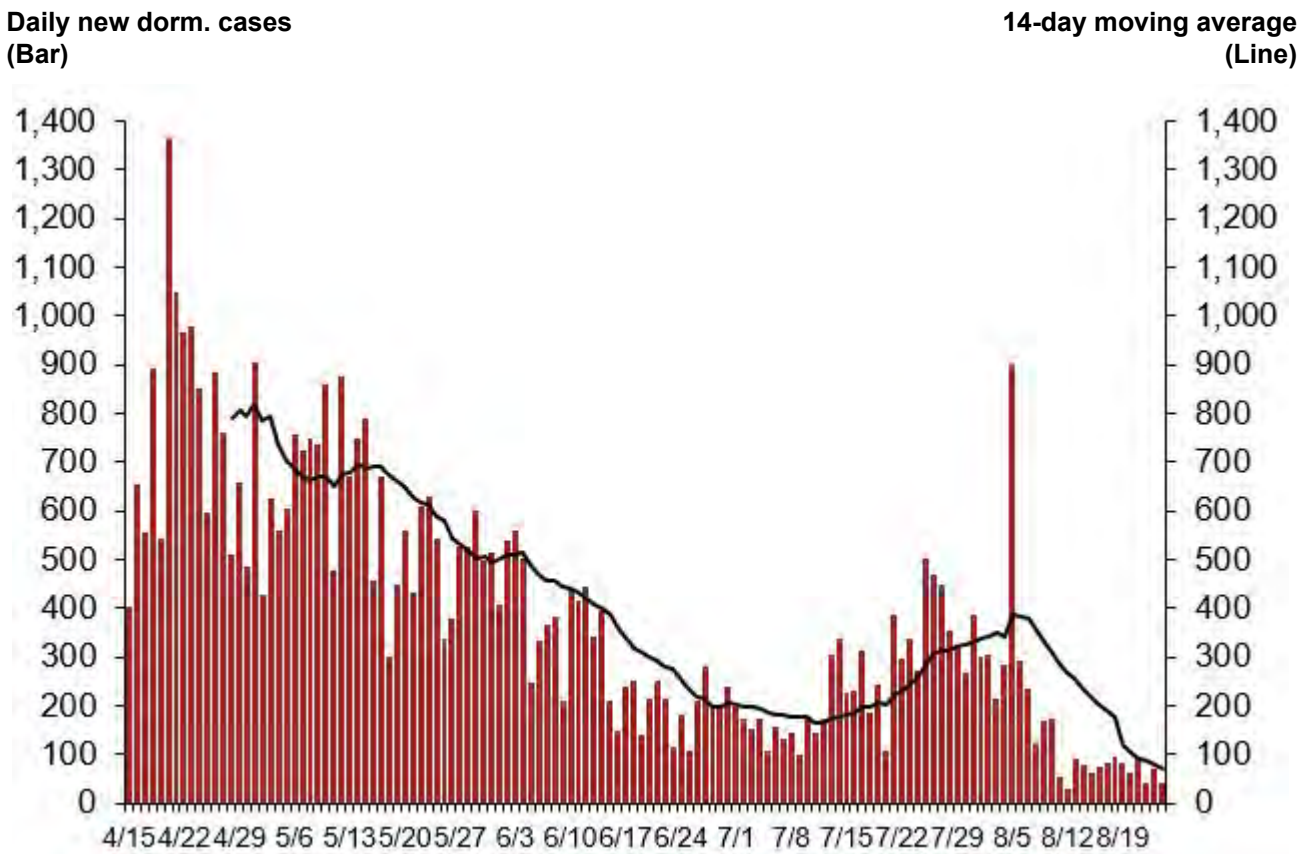
While Singapore's Master Plan has been drawn up, there are supply constraints that may potentially derail it, given its fulfillment depends on the availability of foreign workers and the innovations the industry is able to drive.

The spread of COVID-19 within the foreign workers' dormitories has significantly reduced the labour supply in the short-term, resulting in delays in the immediate fulfilment of construction plans. Although, the dormitory cases are on a steady decline, to avoid a second wave it is fundamental to continue with the strict safety measure while also learning lessons from other countries. Isolation practices both during & post dormitory lockdowns are still necessary to minimise further spread both within the dormitories and the wider community.

Any fresh spikes in foreign worker cases will further impact the ability to deliver against the current expansion master plans. Moreover, uncertainty continues around when the labour supply will resume in full force, as return to work is contingent on the country's Ministry of Health and Ministry of Manpower policies.

To keep on track with the Singapore expansion master plans, continued construction innovation (e.g. replacement of manual labour with automation & Artificial Intelligence/ machine learning), may help to minimise the schedule impact. Furthermore, construction companies should make contingency plans to maintain operational resilience, for example, finding alternative sources for workers including domestic options.

Exhibit 3:  
Foreign worker COVID-19 cases (15 April – 25 August)



Source: Ministry of Manpower





#### Exhibit 4:

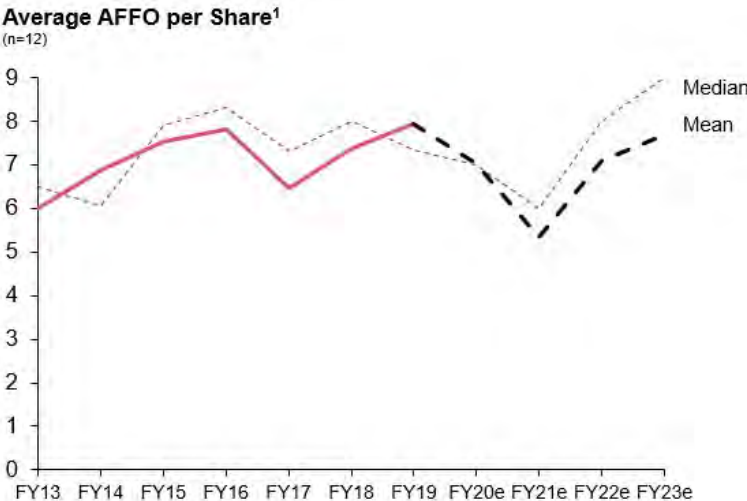
#### iEdge S-REIT 20 index, 2015-present



Source: SGX

#### Exhibit TBD

#### Estimated average adjusted funds per share



Source: CapitalIQ, as at 16 Jun

“

Despite losing market capitalisation and bleak short-term projections, continued supply commitments by the government will drive recovery in construction sector.”

The construction industry has been massively impacted by the pandemic - on a quarter-by-quarter basis the industry shrunk by 95.6%.

This is reflected in (a) the iEdge S-REIT 20 index, which fell 28% during COVID announcements; and (b) the Adjusted Funds from Operations projections of an 18% CAGR fell for FY20 and FY21, with a potential rebound expected in FY22.

The capital market adjustments were likely pricing sentiment as opposed to intrinsic value. **This is due to the fast adjustment before the impact of the pandemic were clear and that there was insufficient financial information released.** End of financial year reporting will provide the first robust fact base for valuation adjustments.

## II. Managing through the imbalance



**Demand & supply imbalance driving responses across the business value chain**



**Managing through the imbalance: Key Considerations**

1

Shift in demand will force pivoting back to value proposition

- Companies need to be agile and develop capabilities for blended physical & virtual work practices.
- Property services operators (including Lease & Sale management) must align their customer propositions with this rapid change.

2

Immediate action due to lag effect & lead-time to implement

- Developers and construction operators should engage with the Government to understand refinements to the Master Plan – keep fast feedback loops.
- Whilst impacts will be amortised over the long term, indecision now will increase the downside driven by the construction ‘time lag’ from proposals to occupancy.

3

Facilities Management (FM) need to satisfy short-term requirements and build a robust foundation for the future

- FM companies must deliver the return to workplace requirements.
- Use the ‘adjustment’ period to prepare for move to strategic repositioning by leveraging industry knowledge.
- Rigorous service delivery and shift towards value-based contracting.
- Engage agencies (design/technology) to form partnership for future services.



## What's next?



### Construction



#### Pivot and Adapt

- Understand the new normal of virtual working and the impact on the target commercial real estate footprint.
- Build technological capabilities to reduce operational cost.
- Align with new occupant value proposition.

#### Be Flexible

- Continue under the assumption that supply for new real estate will be backed by the Government, except where industries are significantly impacted (e.g. aviation).
- Keep flexibility & do not over extend during volatile times.



### Lease & Sale



#### Clarify & Challenge Value Proposition

- Operators develop a value proposition for businesses, which may include reducing expected revenues.
- REITs should evaluate strategy and portfolio as required – understand the impact on funds from operations & set shareholder expectations early
- Companies should evaluate existing leases & understand requirements against a target employee value proposition

#### Where & How to Play

- REITs should model the impact on continued supply on your portfolio, based on scenarios
- Companies should evaluate the geographical location options, and consider moving outside of the CBD, if suitable



### Asset and Facilities Management



#### Deliver Core & Innovate

- Understand the new requirements & vertically integrate with the building operators as much as possible
- Focus on value and not cost

#### Build an Ecosystem & Integrate

- Understand the new supply of real estate, and the target tenants





# Strategy&

Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you. As part of PwC, every day we're building the winning systems that are at the heart of growth. We combine our powerful foresight with this tangible know-how, technology, and scale to help you create a better, more transformative strategy from day one.

As the only at-scale strategy business that's part of a global professional services network, we embed our strategy capabilities with frontline teams across PwC to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that gets an organization through the changes of today and drives results that redefine tomorrow. It's the strategy that turns vision into reality. It's strategy, made real.

# strategy&

*Part of the PwC network*

[www.strategyand.pwc.com/s1](http://www.strategyand.pwc.com/s1)

© 2020 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. Mentions of Strategy& refer to the global team of practical strategists that is integrated within the PwC network of firms. For more about Strategy& South East Asia, see [www.strategyand.pwc.com/s1](http://www.strategyand.pwc.com/s1). No reproduction is permitted in whole or part without written permission of PwC. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.