



THE Clark Report

Whatever the Future Holds, How We Use Real Estate Will Change

BY JOHN CLARK, BA, AACI, FRICS

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There is a certain desperation in the air these days for evidence that speaks to any kind of return to normalcy in the near future. As I wrote last time, it promises to be a long, dark winter.

The only thing that can make it more bearable is some glimpse of light in the distance.

With this in mind, I listened in on the recent 2020 **Ottawa Real Estate Forum** (virtual edition). It featured a lot of talk, but not many facts to hang your hat on.

Other articles on the RENX site offer a recap of the Forum's highpoints, so I won't repeat them here, beyond the following:

- * A hybrid model of work from home and work from the traditional office is likely to prevail versus one becoming overly dominant at the expense of the other;
- * The pandemic (as I have noted before) is not a harbinger of doom for most segments of commercial real estate. Rather, it is an accelerant for those paradigm shifts that were already underway – such as the federal government already looking to reduce its real estate footprint across the country by about 25 per cent over the next couple of decades;
- * Issues previously present in a large urban market, such as Ottawa's pressing need for new residential rental stock, haven't disappeared and will remain a factor. The fix for the issue, however, may now take a modified form thanks to the pandemic-driven shifts in how people will choose to live and work.

I don't profess to have a crystal ball, but if these conclusions prove true, I see the following consequences:

Middle managers redundant?

Those management types who like to keep a constant eye on everyone haven't been able to do so with remote working.

We've had more than enough time now to gauge the true impact on productivity, creativity and team cohesion of a dispersed team. It works well for some and not so for others.

Why? There are two reasons – how any one person's brain is wired and what *type* of work they do.

What the surge in remote working may prove for many workplaces is that if you have in place a proper workflow and communications structure and performance metrics (to flag underachievers), along with competent people in the right positions, middle management may prove to be an unnecessary layer of the org chart that just doesn't add much value for the money.

Demand for more flexible housing designs:

Working from home from the kitchen table or the edge of the bed loses its lustre rather quickly, particularly if the kids are attending school remotely.

Families need the flexibility of a housing design that may offer two segregated spaces for a proper home office, without having to purchase a home of 4,000 square feet or more to get it.

Upward pressure on salaries:

But even so, incorporating this additional space into a design will still mean a somewhat larger home than what a family would have normally required if the breadwinners worked away from home at an office. Larger homes, of course, cost more.

This may mean that remote workers may come to demand higher salaries and jump ship as needed to find an employer willing to accommodate.

Standard office designs will no longer cut it:

The recent trend of packing more people into a smaller footprint likely will be at an end. Either because it's a government-mandated requirement or because people will demand it, there will have to be more square footage assigned to an individual.

If a large proportion of the workforce is working from home full-time or even part-time, this may not be a problem.

But . . . people will have new expectations and awareness around personal hygiene now, too. They say it only takes about 30 days to develop a new habit and we are now seven months and counting into the pandemic.

This means things like the traditional office bathroom design may have to go.

Demand for more space between sinks and urinals, and the replacement of standard entry doors with the kind of barrier-free entrances we see in airport and shopping mall bathrooms, may become the norm. All this will increase space requirements and demand a reno.

What the dollars and cents say

Regardless of what the next year or two holds for us, this much is certain – people continue to buy, sell and invest in real estate.

This is a highly speculative industry, after all, driven by two things – most of our lives are spent under one kind of roof or another, and how we design and use space has never remained the same.

I track commercial transaction data in Ontario and the numbers continue to suggest resilient levels of activity. Looking at transactions worth \$10 million or more, we have seen 261 transactions across the province from the beginning of March 2020, versus 353 in the same period in 2019.

The total dollar value of these transactions is down almost 18 per cent – from about \$10.6 billion to \$8.7 billion. While there has been a decline, there are still transactions taking place.

Meanwhile, fuelled in part by bargain basement interest rates, housing markets in many regions continue to be on a tear. **Ottawa is a prime example.**

Some anecdotal reports **attribute this to a flight to safety**, as people flee the urban core for the perceived safety of more space in the 'burbs or even adjacent rural areas – why continue to live in a congested city if you're going to be working from home?

This may account for some of the activity and price inflation we have seen in, for example, Ottawa and nearby rural communities. But, it by no means accounts for all of it – bidding wars on properties are happening even in old central urban neighbourhoods like mine.

It remains to be seen how sustainable these current spikes and patterns in residential resale activity will be, but these price increases are not just in the large cities. In recent data from across the country, the greatest percentage increases were in New Brunswick.

Whether it's the commercial or the residential end of things, we can only continue to wait and see and let the markets speak for themselves.

To discuss this or any valuation topic in the context of your property, please contact me at jclark@regionalgroup.com. I am always interested in your feedback and suggestions for future articles.

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