Pandemic impacts on real estate

New challenges for business clusters

The past half of the year has interrupted most of the world's economic and social activities, bringing many changes to well-established business processes in companies of all sizes. In the midst of the general decline in mobility, mono-profiled business areas experienced the greatest decrease. Some of them were temporarily closed, while others lost the majority of its visitors – office workers switched to remote work and local residents tend to stay off deserted business clusters, which became an uncomfortable and isolated space.

Observations of people's mobility before and after the quarantine highlight the crisis of the business centre's traditional model – often being tied to transport corridors and not integrated into the surrounding context, they become highly inefficient during the economic crises, which opens the ground for the future discussion on the reconception, redevelopment and reinventing these areas.

Moscow business areas after the lockdown: case study

PwC and Habidatum conducted a joint study on changing key aspects of corporate work in the main business clusters of Moscow: Moscow City, Belorussky, Leningradsky and Paveletsky. These areas were analyzed in terms of:

- Tennants' distribution by profiles;
- Changes in the daily "life" of business areas: footfall, transactions dynamics, people's activity in the cluster;
- Assessment of potential vacancy rate volumes, resulting from the transition to new workweek schemes – a combination of office and remote ("home") working days.

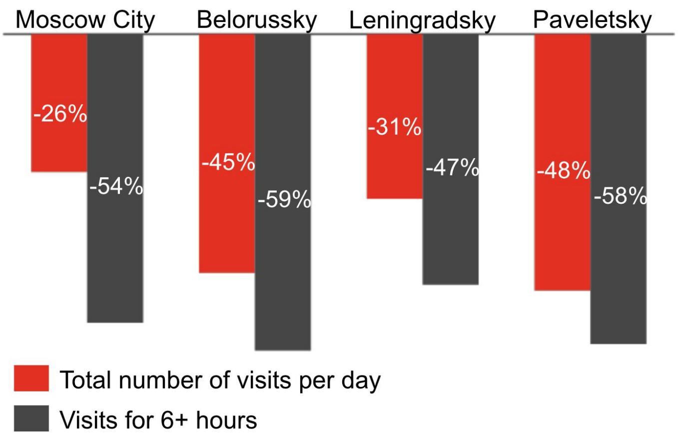
Business clusters have a distinct tenant profile

Analysis of the tenants structure showed the dominating industry in each cluster: financial sector for Moscow City, B2B companies prevail in the Belorussky cluster, manufacturing companies are located in the Leningradsky area, and TMT companies in the Paveletsky cluster.

Removal of self-isolation restrictions did not lead to a rise of activity in business clusters

The recovery to pre-crisis levels is going slower than it was expected. The main reason is employees who switched to fully / partly remote work. The drop in activity in business clusters can be analyzed through the lens of cell phone data: we looked at the change in the amount of time people spend in the area, mostly long visits (3+ hours), in July compared to early March.

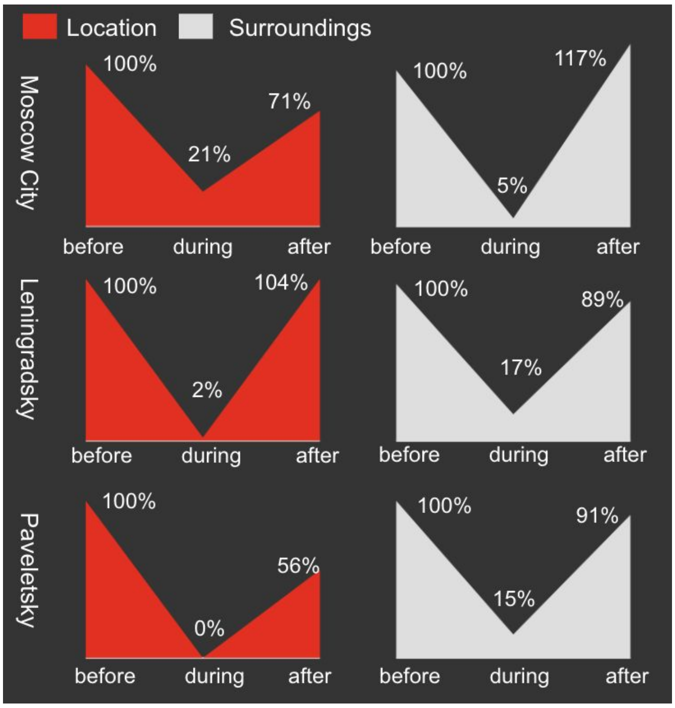
Affected by the quarantine measures, business centres experience a significant decline in visitors, not only office workers, but also locals, students and transit passengers. What is more, clusters with a distinct "office" profile show the most noticeable traffic decrease — up to 60% to the pre-crisis level in Belorussky and Paveletsky areas. The lowest decrease is observed in Leningradsky business cluster (–47%), but that is mostly due to its favorable location by the metro station and large shopping mall.



Change in the amount of visits in business clusters (%, July compared to early March)[1]

Another factor indicative of the clusters' recovery is sales volume during the lunchtime, which can be associated with spendings of office workers.

The one that most quickly returned to the pre-crisis levels is Leningradsky cluster: it shows full recovery in sales in the location (+4%) and a relatively small decrease in the surroundings (–11%). In this case, such rapid growth is associated with the transit of metro stations and shopping malls, generating a large flow of visitors after the quarantine. Moscow City has an isolated location and thus slower recovery: sales volume in the location is 71% (–29%) compared to pre-crisis values, while the surroundings show 17% growth. The largest decline in sales is observed in the Paveletsky cluster (–44%), while due to the highly developed transport infrastructure its surrounding area has almost reached the pre-crisis level (91%).



Change in sales volume in business clusters (%, July compared to early March)[2]

The mix-scheme of "home" and office days can lead to a short-term release of 250-332 thousand square meters in business clusters

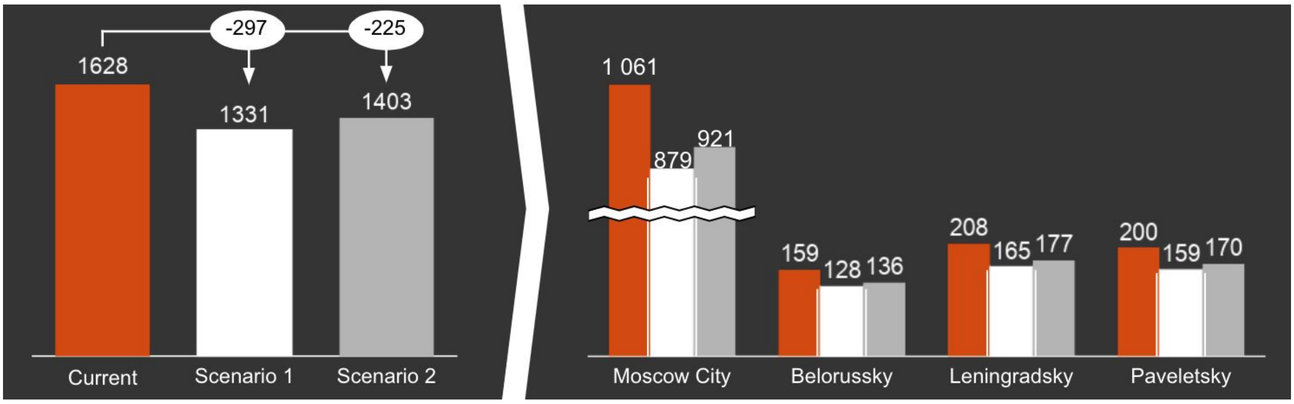
[1] Based on cell phone data analysis, data provided by "Beeline Business".
[2] Based on fiscal data analysis, data provided by IT-company "Platform OFD".

Remote work will allow companies to reduce the amount of square meters they occupy. Given that, PwC and Habidatum predicted the potential volume of short-term vacancies. We considered two scenarios[3] for potential changes in the Moscow office market. Both scenarios show the amount of vacated space depending on the changes in the workweek – the distribution of office and non-office days. The key difference between the scenarios is the proportion of employees moving from office to remote work.

▪ Under Scenario 1, companies will support the maximum of telecommuting, allowing all the employees to determine their own work schedule. In Scenario 2, the share of “remote” employees is reduced by 50% compared to Scenario 1, admitting work from home for 1-2 days a week.

▪ Based on the conducted analysis of the office market, PwC notes a possible decrease in the volume of leased premises by 14-18% – to 1.4-1.5 million sq. m. The reason for that will be the transition to partially remote work, involving a combination of office and "home" working days. The decrease in the volume of office space in real terms will be from 250 to 332 thousand sq. meters depending on the scenario.

▪ At the same time, given the high level of demand for the city's main business locations, PwC and Habidatum expect business clusters to recover in 4-7 months due to the high rate of absorption of office space.



Scenario forecasting the volume of office space to be released, thousand sq. m (leased space)

Office property: new growth possibilities

It is clearly seen that for a business cluster *the stability* means the ability to interact with different audiences, not being limited only to the business community. Even the most sustainable business areas disappear as important local centers when their main function

[3] Each scenario was based on the aggregated results of a global survey (US and Europe) of employees and leaders from various sectors of the economy. In the course of the survey, respondents reported their attitude to remote work and the most optimal work schedule in terms of a combination of office and “home” days. The survey results made it possible to determine which industries have more opportunities for transferring employees to partially remote work, and where they need to spend significant time in the office.

is interrupted – locals-oriented commercial services and public spaces turn out to be more popular. Now, during the second phase of the crisis, it's time to think about various social functions business spaces may take on.

Even an ordinary local business or shopping center can be useful for citizens and property owners in new conditions. For example, in Britain, introducing a clinic, fitness and several educational courses in a shopping center increased the footfall by several million people a year which affected the turnover and the average purchase size, resulting in the value increase of the entire object.

Given the proven effectiveness of remote work, a new challenge for the business cluster will be to improve its environment and rethink what they offer – quality, accessibility and range of commercial services. These are the factors that will determine the desire of employees to return to the office when there is no necessity but just an opportunity.