

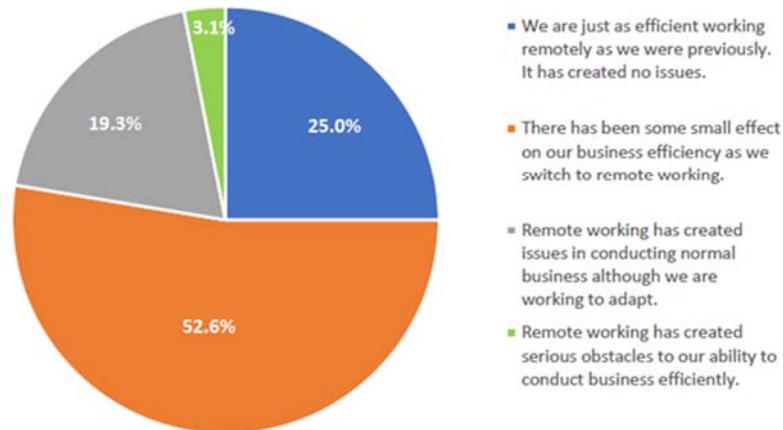
## COVID-19 & Office: A Grand Scale Experiment

More than one-third of world population is now on coronavirus lockdown. Hotel and retail, which have taken an immediate hit, have garnered most investors' attention. However, people may not fully realize that a grand-scale socio-economic experiment of working without physical office space is underway globally, and the results can be especially consequential for office real estate.

In a recent survey by the Pension Real Estate Association (PERA), only 3.1% reported that remote working had created serious obstacles.

Sooner or later, the coronavirus will be behind us and this remote working experiment will conclude. Social scientists and behavioral researchers alike will find it a gold mine. Tech entrepreneurs and venture capitalists may have already been in the war room planning a strike. Corporate real estate planners will take

**QUESTION: If some or all employees are working remotely, has that impeded your organization's ability to conduct business efficiently?**



Source: Barings. As of April 7, 2020.

a hard look at these weeks and months and modify business-resilience playbooks accordingly. And individual office workers will have had a rare opportunity to find out whether working from home full-time is a good idea for them. For the office sector, there could be three likely outcomes.

- 1) **No significant changes.** At the end of this pandemic lockdown, we find out that we, as humans, truly are social animals. We will greet our colleagues on the first day back in office with joy and tears, we will throw pizza parties and we will celebrate at happy hours.
- 2) **Working remotely gains widespread acceptance.** The forced work-from-home during the COVID-19 pandemic may just be the tipping point that fundamentally alters demand similar to the way that e-commerce has shifted demand from retail to industrial. As seen in the chart below, retail REITs

significantly outperformed the total REIT index, as well as industrial, through 2015. The coronavirus pandemic may very well become a tipping point for wholesale remote working, leading to a significant reduction in aggregate office demand.



Source: Barings. As of April 7, 2020.

- 3.) The third possible outcome, and most plausible to us, is that **we will still need physical office space, but how companies use that space and where offices are located may see significant changes.** The confluence of rapid technology advancement, heightened business-resilience needs and heated competition for talent will compel companies to become more flexible. While that might imply the adoption of agile working practices (e.g. hot-desking and its variants) to some, the drive for talent means companies might be more likely instead to offer more customized individual work spaces to suit individuals' lifestyles and preferences. Also, to manage the more elevated risk concerns in a post-pandemic world, companies may feel more comfortable that technology now allows them to decentralize significant parts of their workforce. That would be a significant benefit to secondary cities like Charlotte, Nashville, Salt Lake City and the regional and "B-cities" of Europe.

Only time will tell, but be prepared to embrace changes.



**Ryan Ma, CFA**  
 Managing Director

Ryan Ma is a member of Barings Alternative Investments, a global real estate, private equity and real assets platform. Ryan is a Managing Director, Real Estate Research and is responsible for developing the proprietary research database and forecasting models as well as providing research support for mortgage and equity investment activities. Ryan has worked in the industry since 1995 and his experience has encompassed commercial development, project planning and architectural design. Prior to joining the firm in 1999, Ryan worked for over four years with one of China's leading full-service commercial real estate firms. Ryan holds a Bachelor of Architecture from Tsinghua University in Beijing, China, a Master of City Planning,

**8 April 2020 | Research Note**

*Barings is a \$327+ billion\* global financial services firm dedicated to meeting the evolving investment and capital needs of our clients and customers. Through active asset management and direct origination, we provide innovative solutions and access to differentiated opportunities across public and private capital markets. A subsidiary of MassMutual, Barings maintains a strong global presence with business and investment professionals located across North America, Europe and Asia Pacific.*

#### IMPORTANT INFORMATION

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents, if applicable, for the details and specific risk factors of any Fund/Strategy discussed in this document.

Barings is the brand name for the worldwide asset management and associated businesses of Barings LLC and its global affiliates. Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate").

**NO OFFER:** The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction. Copyright and Trademark

Copyright © 2020 Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings' consent.

The BARINGS name and logo design are trademarks of Barings and are registered in U.S. Patent and Trademark Office and in other countries around the world. All rights are reserved.

\*As of March 31, 2020

20-1173766