2021, No. 1

BOMA International

# DEEP DIVE

# CHARTING A PATH TO THE FUTURE OF THE OFFICE

Moving from uncertainty to flexibility in commercial real estate

*By John Salustri*

# THE OVERVIEW

The COVID-19 pandemic is changing things for commercial real estate, from our perceptions of social gatherings to how—and where—we work. And, it seems to be doing so in stages.

Stage One found tenants and property managers alike scrambling to make practical sense of quarantines and lockdowns. Conversations revolved largely around hastily constructed work-from-home (WFH) protocols and the placement of plexiglass and hand sanitizer stations.

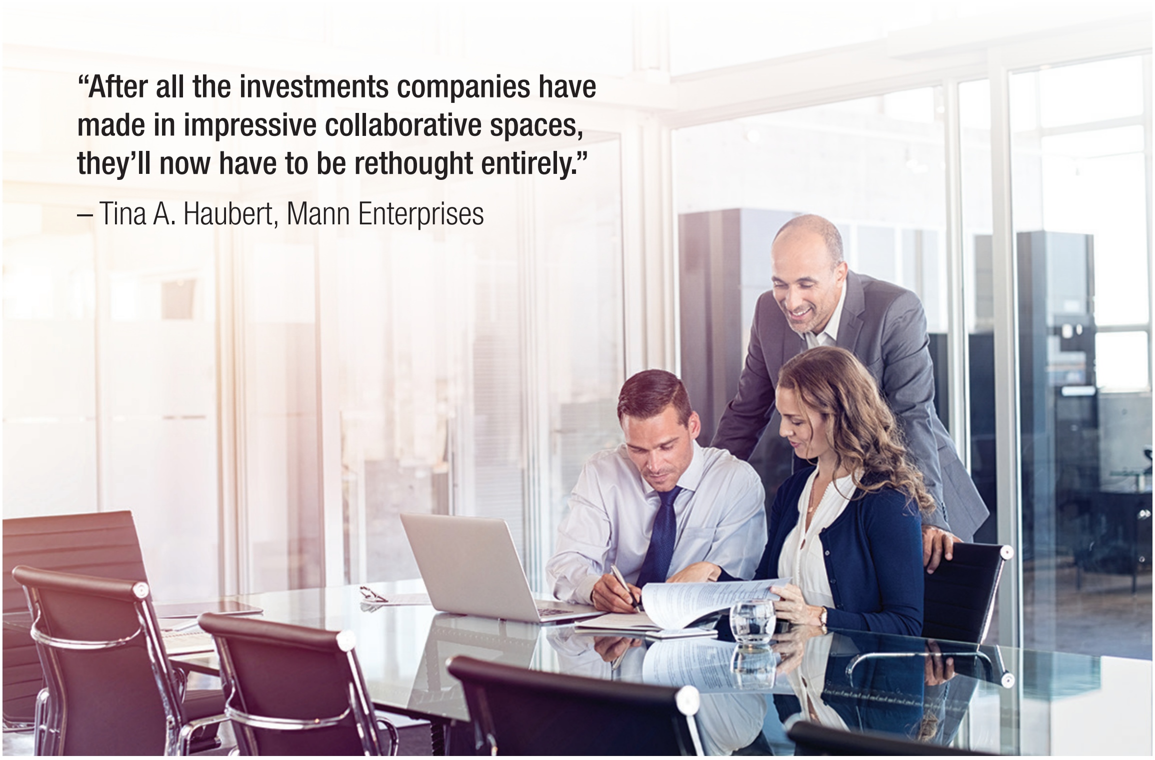
In Stage Two, the office space industry normalized under new—but often changing—rules of engagement as we grew accustomed to wearing masks and adjusted (at least somewhat) to working mostly in solitude.

We are currently in Stage Three. Decision-makers at the tenant level are at least planning for a return to work, albeit in fits and starts and in numbers still greatly reduced from the days of full occupancy. And property managers stand at the ready to support that return. It comes at a paradoxical time when vaccines are becoming more widely available, which would bode well for occupancies, but cases of the virus remain high in many markets.

Stage Four is yet to come. How will the office of the mid-term future look both in physical appearance and in the protocols that will ensure tenant confidence? More importantly, how will decision-makers at both the tenant and property levels adjust to new definitions

**"For at least the next three to five years, if anyone thinks the office is going to look the same, they're doing themselves a disservice."**

– Tom Gille, REAL Systems

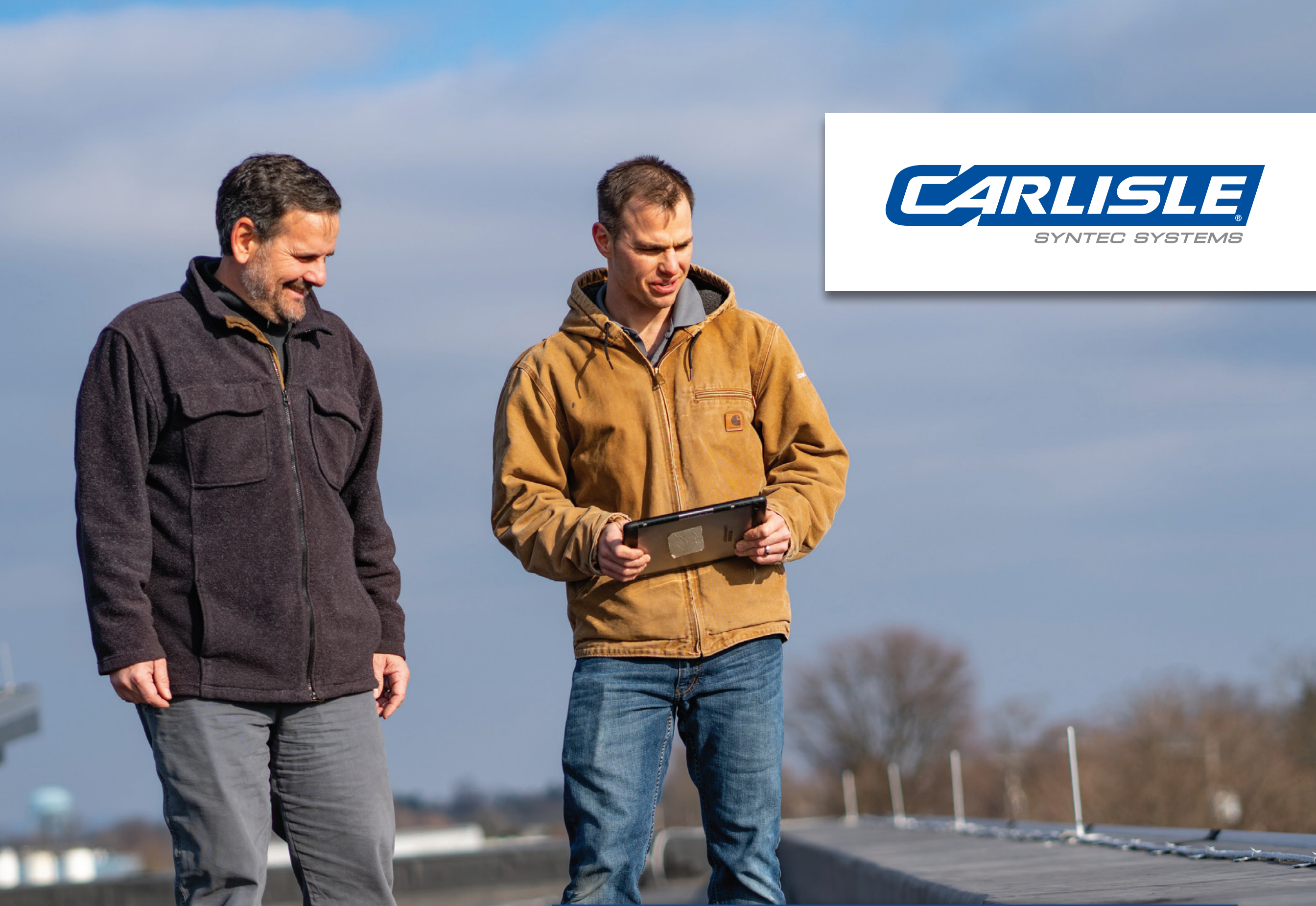



of how their businesses operate? Will they recognize, embrace and instill throughout their organizations the new-age culture that such dramatic changes in layout and operations will bring? The answer to these questions will make or break a transition to the new reality.

These last two stages are the focus of this Deep Dive, incorporating research from a number of trusted industry sources as well as interviews with practitioners. Many questions remain. And, if the future is anything like the recent past, the answers are bound to change.

So, consider this the first chapter in a book that is still being written. For those invested in corporate tenant performance and engagement, whether you are a tenant or a property professional who services them, the chapter will be chock full of cliffhangers.

The Deep Dive will tackle the issue from the following angles:
- Back to Work Part 1: Beyond PPE
- Hurdles to Come: Knowing What We Don't Know
- Technology as an Adaptation Tool
- Back to Work Part 2: Flexibility Comes to Commercial Real Estate



CARLISLE
SYNTEC SYSTEMS

# Don’t Delay. Request a **Roof Condition Report** Today.

Responsible building owners know that regular preventative maintenance is a crucial part of owning a building. The rooftop endures more abuse from the elements than any other part of a building’s exterior, so routine preventive maintenance is critical in prolonging the roof’s service life and saving money for building owners. When a roof system is maintained properly, it performs better, lasts longer, and provides more reliable protection of a building and its occupants.

Carlisle offers roof condition reports* performed by a trusted local Carlisle Manufacturer’s Representative or Authorized Applicator and include a thorough examination of:

- Building exterior, interior ceiling and roof deck, roof perimeter and field of the roof
- All details, penetrations, and flashings
- Overall roof condition
- Identification of necessary repairs
- Re-roofing options available
- Recommended next steps

** Carlisle can refer a design professional when necessary.*

**For more information or to request your roof condition report, scan here or visit *www.carlislesyntec.com/Tools/Professionals/Proposal-Writer***

Re-Roofing Redefined

**EXPERIENCE THE CARLISLE DIFFERENCE**

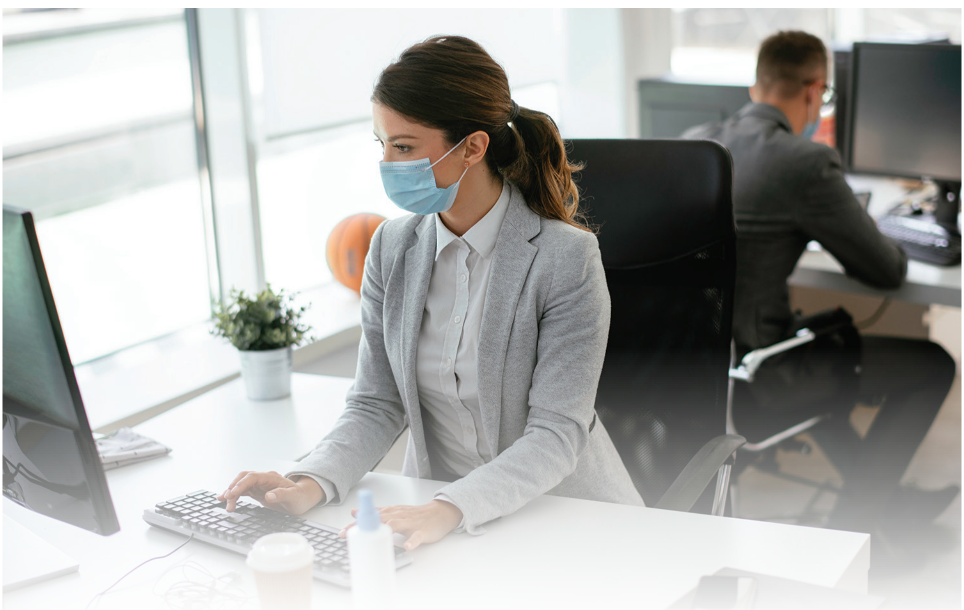
800.479.6832 I www.carlislesyntec.com

## BACK TO WORK PART 1: BEYOND PPE

"Uncertainty." That is how one property professional we talked to sums up our mid-term future. Little wonder. At the time of this writing, vaccines have been rolling out for months, but distribution is already being challenged, hampering the economic recovery that would flow from a healthy, working population. In fact, that very health was challenged earlier this year when a resurgence of COVID-19 cases surpassed last year's first deadly wave.

This all takes place just as the office industry—property professionals and tenants alike—begin to define protocols for ramping up returns to the office. Uncertainty? Indeed.

Of course, a return to the office calls up images of masses of workers streaming back to their cubicles, the novelty of working from home long grown old. The reality is different. At least so far. Moody's Analytics projects national office vacancies in the United States rising to 19.9 percent this year and 20 percent in 2022, both years passing historic highs.



This aligns with the uncertainty expressed by more than 3,000 U.S. office space decision-makers in the recently published *BOMA International COVID-19 Commercial Real Estate Impact Study*. As the study found, 54 percent of respondents expressed plans to reduce their office space—a decision that clearly stems from economic and safety concerns, since 74 percent of respondents also expressed their belief that the in-person office is operationally vital to their business success.

The industry wrapped up 2020 with only 36.7 percent of occupiers planning a return to the office at that point, adds CBRE. Aggressively optimistic, the firm forecasts this number to steadily grow quarter-by-quarter, from Q1's anticipated 59.2 percent to an eye-popping 98 percent by the third quarter.

No matter the volume or rate of return, property managers have to be prepared. More than personal protective equipment (PPE), plexiglass and hand sanitizer—all now a standard part of any building's arsenal—the savvy property managers are leading with communication.

"Your communications should thoroughly and effectively detail your property's new and enhanced operating protocols so tenants and building personnel feel more confident that they will be returning to a safe working environment," said BOMA International's most recent guidance on return protocols. Emails work just fine for this purpose, but this should also include ongoing conversations, touching on everything from tenant concerns and questions to changes in leasing strategies. Such face time (whether behind screens or in-person behind a mask) with your constituents will go far toward getting everyone on the same page while underscoring your engagement in their well-being.

**74 percent of tenants said the in-person office is operationally vital to their business success.**

By the way, before the occupancy percentages start to climb, take advantage of the currently low traffic. Building engineers are still on duty, suggested another property professional. "If you were going to change a chiller or boiler route, now's the time," he says. Capitalize on the opportunity low occupancy creates.

Of course, now is also prime time to keep both your insurance agents and legal representation close at hand. We are all treading new ground here, and a misstep in policy, product or procedure will cost you. As BOMA International's guidance states, "Remain vigilant."

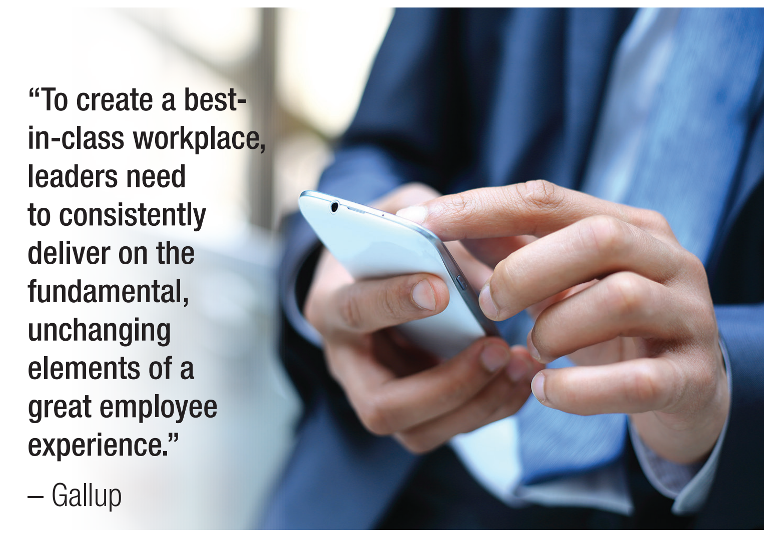

MAKE A STAND
AGAINST COVID
Bradley touch-free hand sanitizer dispensers and portable stand encourage hand hygiene anywhere in your facility. And it's easy to fill and refill with universal liquid or foam sanitizer options.
100 Bradley YEARS
bradleycorp.com/sanitizers
Bradley

## HURDLES TO COME: KNOWING WHAT WE DON'T KNOW

Two key areas in the Great Unknown part of the conversation swirl around 1) worker long-term comfort in the office as populations grow, and 2) the shape, size and timing of leases to come. Forty-eight percent of respondents to the aforementioned COVID-19 impact study put a higher value on flexible, shorter-term leases (two to four years). Nearly as many (42 percent) put a premium on longer terms, but with clauses and covenants to address the other great unknown: health emergencies and office restrictions.

Part of the challenge for property managers in firms with widespread assets is the changing nature of those restrictions based on local and state mandates. "We're trying to stay on top of the different notification groups and Authorities Having Jurisdiction (or AHJ)," says one practitioner. "And they change overnight, which is frustrating." Trust your local team members to monitor those variations and report back up to HQ, which only then can formulate a cohesive yet variable plan.

Of course, what is not so good for the goose works much better for the gander. "The hesitancy of tenants to commit to longer terms underscores the uncertainty [there's that word again] related to the pandemic and the recession," says a recent Cushman & Wakefield analysis. "Short-term renewals provide occupiers more flexibility to manage their portfolios as they use this time to strategize, scenario plan and gather feedback from employees and other stakeholders."



> **"To create a best-in-class workplace, leaders need to consistently deliver on the fundamental, unchanging elements of a great employee experience."**
>
> – Gallup

Many reports have folded into that scenario an abandonment of central business districts (CBDs) in favor of the relatively open spaces of the suburbs. That might prove to be an overstatement. Property professionals we spoke with report little real-world exodus from downtown, at least completely, and at least not yet.

Asks Cushman & Wakefield (rhetorically): "Does it make sense to abandon office space in the CBD or center city? In most cases, no. Would multiple locations around a market, including suburban outposts, be a benefit to employees? Yes. Are suburban coworking locations—with the proper social distancing in the short term—a potential part of this strategy? Yes." We will get back to this last point shortly.

If the suburbs hold any appeal, it will likely be in a hub-and-spoke arrangement, with tenants keeping a prestigious downtown headquarters address and moving staff to satellite offices. The BOMA study hints as much. Included in the five services that property managers can offer tenants that would positively impact their business, "Office relocation services and assistance (e.g., temporarily relocating operations to different flex spaces, or moving employee offices and equipment to work-from-home sites)" was selected by 46 percent of respondents.

"We're working with a few tenants who are considering pulling back space and exploring options, but I can't say it's across our portfolio," says one practitioner, adding that, just like nine percent of surveyed decision-makers, some tenants may flip the script and increase their space to allow for distancing measures of mission-critical employees. "But at this point, this is just everybody's speculation."

**Hub-and-spoke arrangements, with tenants keeping a prestigious downtown headquarters address and moving additional staff to satellite offices in the suburbs or even in up-and-coming cities, could become more popular.**

The hub-and-spoke model isn't confined to downtowns and suburbs, and here COVID-19 may feed a trend that was growing before 2020: relocations to up-and-coming cities. "Tenants might leave Chicago or New York for Denver or Nashville," one advisor said. Lower taxes, better weather, a newer infrastructure and a university setting feeding local business with talent are all draws of such relocations. "COVID has refreshed some of those conversations and accelerated those decisions."

How will the headquarters strip down? Shrinking the size of common areas was on the radar for 36 percent of survey respondents, and private office size would be the first to go for 28 percent of decision-makers. The number of private offices and the number of conference rooms tied at 27 percent. Going to full open floor plans and reducing the size of conference rooms also tied, this time at 24 percent.

Clearly, the office we return to will look different than the one we left. In what ways and how that will affect how we work and communicate are the great unknowns. What is known is the growing importance of technology.

## TECHNOLOGY AS AN ADAPTATION TOOL

Where there is an issue with building performance post-COVID-19, technology solutions cannot be far behind. Given the stresses of the past year, the main job of building software applications should be to ease the return to the office and workers' flow through the building. As one property professional commented, "No one wants to deal with multiple badges."

The ebb and flow of tenant employees into and through your building will demand more flexibility on the part of tenants and managers alike. Apps are there to ease that process as well. Assuming a landlord has a vacated corporate space that can transition into an on-demand conference area, there are Bluetooth-enabled technologies available now for reservations and, as necessary, auto chargebacks to the corporate user. (See *"Better Workplaces Through Technology,"* on page 12.)

Your phone can even save an unnecessary commute if too many of your colleagues get to the office before you. As Cushman & Wakefield's Doug Stewart told BOMA International in an article last year, "I'm getting ready in the morning, I pull up the app for my building, and it says, 'Bad day. Don't come in.' Fine. I take my coffee and go log in downstairs. Or it says, 'We're fully open. There's a 30 percent capacity, and space is available.'"

Automation is no longer an option. Neither are seamless connections between coworkers, between workers and decision-makers and between tenants and building management. Likewise, real-time building data and predictive analytics. "It's really about automating the entire process," says one advisor, "about turning a traditional office with no automation from a leasing perspective to a fully automated machine."

Even within the confines of the tenant space, technology is being developed, as one advisor stated, "to blur the edges of the physical and the virtual." Indeed. We have all been on the receiving end of

**"Whether I'm working at home or in the office, my experience with my colleagues, my projects and my organization must be seamless. I shouldn't feel less engaged."**

– Natasha Luthra, Jacobs

faulty connections, lowering trust and productivity and raising the angst level. "Whether I'm working at home or in the office, my experience with my colleagues, my projects and my organization must be seamless. I shouldn't feel less engaged."

The advisor's firm is in the midst of developing just such an integrated application, and it is the start of a process with no end game. "We'll roll out some of these technologies as we get back to the office, and then define others as we go along. I don't think we'll ever be done because so much continues to change around us."

Technology of course can be a double-edged sword. One property manager we spoke with, who also served on the task force that drafted BOMA International's building re-entry guidance documents, attested to the flood of new applications that are swamping the market. There are those that are proven and those that are not. While such applications as destination dispatch and visitor check in via phone have won their stripes, there's also a lot of "newfangled stuff," much of which has not yet passed muster in the field. "We don't want to be on the bleeding edge. We all need to calm down a bit to see what really makes sense at a property."

## BETTER WORKPLACES THROUGH TECHNOLOGY

In *Emerging Trends in Real Estate, 2021*, Eigen10 Advisors describes a technology-augmented reality for office tenants in the not-so-distant future. This day-in-the-life begins with a tenant waking up and measuring their vitals through their mobile device.

"Your daily health screening is sent to your employer by the device . . . . You check into the workplace command center app and find out that two of the 12 people who were working in the Northeast section of the floor where your group usually works have come down with a fever. The integrated building management system (BMS) redirects you to work on the Northwest side of the floor today, which has space open."

Facial recognition will get you into your office building and a touchless elevator takes you to your floor. At your assigned desk, sneeze guards provide some privacy as well as sound dampening. Meanwhile, the BMS will handle airflow and temperature for you, and a highly efficient HVAC system—with UV sanitation—has you covered.

"After working at your desk for the morning," says Eigen10, "you stop in the kitchen to pick up a packaged food order that you had ordered earlier and grab a glass of water through the touchless appliances."

At the risk of sounding indelicate, you stop at the bathroom on your way back to work. Touchless fixtures and self-cleaning toilets raise its sanitation level, as does the automated cleaning robot.

But that is not all. "The hand dryer has UV and air purifying blowers," says Eigen10, "You check your hands on the [hygiene scanner] to see whether any pathogens remain on your hands.

"You check your mobile device after lunch to see which conference room was reserved for your group meeting. The two people working from home are attending the meeting via [a collaborative online platform,] which allows you to poll the group on a few topics and also transcribe notes." Of course, the tech group has installed layers of cybersecurity to keep your meetings and data safe. "All conference rooms have self-cleaning handles . . . ."

Welcome to the Office of Today.

## BACK TO WORK PART 2: FLEXIBILITY COMES TO COMMERCIAL REAL ESTATE

If uncertainty ruled the industry in 2020, flexibility will vanquish it in 2021. The world is simply changing, and the winners in property management and ownership will be those who turn to the new reality. Is it a lasting reality? Only time will tell.

Flexibility is as much about mindsets as it is about readjusting space. The future is packed with changes that go deeper and farther than real estate. “How will the face of the company change as a result of the events of this past year?” asks one property professional. Who are the mission-critical people who must be in the office? Who can work from home and who needs to do both? Who might need to be managed out due to a lack of flexibility or productivity? And how will the culture change when those questions are answered?

“The office demand model is likely to be more complicated after COVID-19,” says *Emerging Trends in Real Estate, 2021*, the Urban Land Institute and PwC’s annual industry temperature check. “Office demand will now be dictated by the number of workers who will be in the office each day, how much space will be required to allow them to be productive and still meet any health safety concerns, and whether companies will reduce their existing real estate footprints as they move to more remote work models or choose to use flexible office space to meet fluctuating space needs.” Decisions such as these are not made without a disruption to the entire fabric of corporate culture.

Flexible space providers, some of whom have made very public stumbles in the recent past, may emerge this year as the key to a nimbler industry. Described by one property professional as “the ultimate in flexibility,” coworking in all of its forms provides the best of both worlds: tenants taking advantage of shorter-term space agreements, and doing so on an as-needed basis, and building operators signing longer-term leases with the providers.

Do not be surprised to also see more so-called white-glove, on-demand spaces, forged in partnerships between building owners and flex-space providers and, as indicated above, facilitated by tech. “Through technology, there can be a connection between the people occupying, the people managing and the people owning the space,” comments one property professional. “All of these players need to adapt, because we’ve never seen a disruption like this before.” JLL’s Ben Munn wrote in a recent article for BOMA International that, by 2030, nearly a third of all office space could be flexible.

**Flexibility is as much about mindsets as it is about readjusting space.**

But the addition of flex space is not a cure-all. “The culture of real estate decisions must change to support the business goals of today and the unknown strategies of tomorrow,” says Cushman & Wakefield in new research. “This shift will require agile development in portfolio management and require organizations to build out spaces with a minimum viable-product mindset and an ‘update culture.’”

**“We talk about three Cs: coaching, collaboration and connection. Those are often missed when we’re working from home.”**

– Brian Sutherland, Yardi

And culture means people. Polling organization Gallup points to business success in tandem with “the employee experience.” The prediction (from Cushman & Wakefield) is that, once the pandemic has ended and hybrid WFH/office options become the norm, workers will average between one-and-a-half to three days a week at home.

That indeed points to a more flexible approach from corporate leadership, especially those who formerly embraced a rigid butts-in-chairs philosophy. At the same time, it will challenge everyone in the hierarchy, from front desk staff to CEO, to adjust to different ways of communicating, collaborating and camaraderie. Essentially, the stresses of last year—which have been documented as through the roof—have been replaced with new, post-COVID agita.

Gallup recommends a few questions leaders need to ask themselves:

- Are managers taught to focus on the whole person when they engage, manage and develop their team members?
- How are leaders helping employees fight their COVID-19 fatigue and find work-life balance? What are they doing to prevent and fix burnout?
- What is management doing to create a culture of well-being? How are they addressing the five essential elements of well-being?

Those five essentials start at the front door–hiring—and proceed pretty much through an employee’s corporate trajectory: onboarding, performance, development and well-being itself. And while these are mostly concerns for within the confines of the tenant's (now flexible?) workspaces, they also have significance for building managers.

First is the care and development of your own teams. Second is the provision of amenities and services that will support the tenant's cultural goals. Of course, this starts with a clear and obvious (read: well-communicated) plan for sanitation, social distancing (especially in lobbies and common areas) and the thoughtful re-opening of amenity spaces, such as fitness centers. It may extend to having on hand a list of services, including mental health resources, that can be shared with still-anxious tenants and staff.

In terms of hard assets, members have mentioned increased requests for outdoor gathering spots, an understandable want in these post-lockdown days, but not much beyond that in terms of new, COVID-specific amenities. The collaborative and congregation spaces were all a part of the picture prior to the pandemic. If anything, they've only risen in their importance.

It is interesting to note then, on the above list of tenant space cutbacks, that shrinking the size of common areas ranked second for decision-makers taking BOMA International's COVID-19 impact survey. Does that not fly in the face of Gallup's warning to create wonderful employee experiences?

Not necessarily, especially when coupled with another plan in the layout scenario, namely, that decision-makers are also seeing full open floor plans as part of their future designs. Done right, of course, therein lie opportunities for workers to coach, collaborate and create culture, the treasured Three Cs of office design. And they will not have to walk so far.

No matter where the pound of flesh is coming from, a smaller footprint will lead to smaller and (in the name of flexibility) shorter-term leases. But here, too, lie opportunities for creative building owners and managers. Vacated spaces can be converted to the above-mentioned on-demand conference or break rooms, turning a liability into a potentially profitable amenity.

COVID-19 has been a major influencer of office change, but certainly not the only influencer, and WFH strategies and a greater emphasis on open, collaborative spaces were already common conversations before, much like the rise of second-tier cities. The pandemic only accelerated the pace of those conversations.

Yes, the mid-term office will look different from the environments we left when the pandemic hit. But that will not be the biggest change. That will be evident in the approaches to health, safety, well-being and a sense of community on the part of savvy property professionals. ■

# ACKNOWLEDGEMENTS


**Generously sharing their time and expertise were:**

**Marc Gille**, Executive Vice President, Rockhill Management, LLC, San Francisco

**Thomas W. Gille, BOMA Fellow, RPA**, Founding Principal, REAL Systems, San Francisco

**Tina A. Haubert**, Vice President, Mann Enterprises, Chicago

**Natasha Luthra**, Director of Emerging Technologies, Jacobs, Philadelphia

**Brian Sutherland**, Vice President of Commercial, Yardi, Santa Barbara, California


**Research work contributing to this paper includes:**

- From BOMA International:
  - *Getting Back to Work 2.0: Building Re-Entry Best Practices in a COVID-19 Reality*
  - *BOMA International COVID-19 Commercial Real Estate Impact Study*
- CBRE's 2021 U.S. Real Estate Market Outlook
- From Cushman & Wakefield:
  - Workplace Ecosystems of the Future, Part 3
  - Workplace Trends Accelerated and Reversed by COVID-19, by David Smith
- The Urban Land Institute and PwC's *Emerging Trends in Real Estate*®, 2021
- Gallup's "(Re)Create a Winning Employee Experience in 2021" by Kristin Barry, Nate Dvorak and Ben Wigert
- Moody's Analytics


**Thank you to the following sponsors who supported the creation of this Deep Dive:**

Shortridge Instruments, Inc.

carlislesyntec.com
Page 4

bradleycorp.com/sanitizers
Page 7

shortridge.com
Page 10