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WeeklyTAKE

Off to Work We Go: The Future of the Office
W/ JULIE WHELAN AND BRANDON FORDE [07.31.2020]

Spencer Levy

I'm Spencer Levy and this is the weekly take on this episode. We're doing something that many of us haven't done in months. We're heading into the office.

Julie Whelan

There is a lot of confidence that the future of real estate strategy is going to be different.

Spencer Levy

That's Julie Whelan, one of CBRE Thought Leaders on Workplace Insights and the lead author of an expansive new survey on office space trends.

Brandon Forde

The real challenge, I think, is going to come for companies to figure out how do I drive innovation, how do I drive new ideas? How do I drive the next breakthrough thing?

Spencer Levy

And that's Brandon Forde who heads up CBRE Occupy Accounts Group, which is bringing the data from that survey into play for office space tenants. Time to go to work and to look at the future of the office. That's right now on The Weekly Take.

Welcome to The Weekly Take, and I'm delighted to be joined by two friends of mine, Julie Whelan, the head of Occupier Research at CBRE. Julie, welcome.

Julie Whelan

Thank you, Spencer.

Spencer Levy

And Brandon Forde, yet another friend of mine. And we grew up only a few miles down the street from each other in Westchester County, New York, Brandon Forde the President of Client Solutions at CBRE. Brandon, welcome.

Brandon Forde

Thank you.

Spencer Levy

And Brandon has moved on from that. He is now in Atlanta. And Julie is in Boston. Julie, you are the primary author of our terrific new global occupier's sentiment survey called The Future of Office. What's it tell us about that survey?

Julie Whelan

Sure, Spencer. So we surveyed about 126 of our global clients and we were able to reach out of those hundred twenty six. Fifty percent of them were Fortune 500 firms. And we covered 20 percent of the Fortune 100. Now, the reason that I mentioned that is not to tout ourselves, but to say that these are not five and ten thousand square foot clients. These are clients that have tens of millions of square feet around the globe that they are managing and making real time decisions on. And so this was a very insightful survey for not only us, but for clients to understand what their peers are doing in terms of the

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decisions that they are making right now.

Spencer Levy

In terms of those decisions that the clients they are making right now, Brandon, you're familiar with the survey. How are they using it and how are their decisions being impacted not just by the survey, but by the COVID-19 crisis today?

Brandon Forde

Number one, they're using it to really understand what's happening. Every single company is going through this. And this is the first time for everybody. No company has been through a global pandemic like this. So there is just some surety and some comfort understanding what our clients are doing. How are they making decisions? Every decision that companies are making right now are risky. So understanding what's happening out there in the world I think is valuable for them.

Spencer Levy

So let's get to the core findings of that survey. And I'd like to just if you can give a little bit more detail, Julie, about some of the key takeaways.

Julie Whelan

I think that the key takeaways were absolutely that flexibility is here to stay, which we can get into in a little bit. Another key finding is that a cyclical portfolio adjustments is what I would say is are happening right now. So although our leasing activity is clearly down, there are certain actions that are being taken by occupiers that are very reminiscent of what happens in typical recessionary times. And I would say the last key takeaway is really that there is a lot of confidence that the future of real estate strategy is going to be different. So there is a vision right now out there that the future is different. The tactical steps of how we're going to get there are what's up for question right now. Now, to go back to that flexibility discussion, any narrative that you had seemed to open up over the last three months talks a lot about work from home and how that is going to impact office demand. And I would say that what we learned from this survey is that yes work is a factor. But more importantly, what is the bigger factor is this idea that there is going to be a more hybrid workforce. Sixty three percent of the companies that answered said that they were going to allow their employees much more choice in the future over where they chose to work on a daily basis. Now, what's an important nuance to that? Is that only 25 percent indicated that their employees were going to have choice over whether they could work in a full-time remote status. So what that indicates to me is that companies are keeping the reins on what functions they are going to allow to be put into a full time remote bucket, because there is a certain amount of culture, there's a certain amount of productivity, innovation and also individual employee performance that needs to go into that decision that employees alone can't drive.

However, the trust factor between employees and employers in having choice when you wake up of where you're going to go, any given day is certainly going to be highlighted. And so that's what we have learned through this survey.

Spencer Levy

Well, Brandon, there was a lot of words that I totally agree with Julie that she took away from that survey trust, choice, flexibility. She didn't use the word agility, but I'm sure she was thinking it. Which of those key words are our clients thinking about today?

Brandon Forde

I think most of our occupiers, first and foremost, is trust. They're making decisions, first and foremost on the safety of their employees, the health of their employees. And that that really does come first. I think they're actually doing a really good job in making decisions that are hard. But are there to earn

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the trust and support the well-being of their employees. I think that's the number one right around the corner. She didn't mention it. Cost is also a really big factor for a lot of our clients right now because this is an unprecedented pandemic and it's putting unprecedented stress on many companies, you know, core business models. So that balance right now is really tough. But people are making really good, really thoughtful responsible decisions right now.

Spencer Levy

Now, let's talk about that cost factor, if we can, for a second, because it's always up there as the number one reason that people get involved in agility, in flexible strategies.

Julie Whelan

So I think from an occupier standpoint, obviously, they're very cognizant of the costs that go into their build out, the costs that go into their technology, the costs that go into the types of building systems that they want. And I think that right now what I am hearing is that occupiers are starting to have a bit of a push and pull with costs of what their physical footprint is costing them and costs of what the technology to support this hybrid workforce is costing them. And so they are going to have to be even more prudent than ever before in terms of what they are outlaying. And so I think that there will be discussions moving forward about this sort of shared nature of costs between landlords and occupiers. Absolutely in the future.

Spencer Levy

What about the cost of the employee at home and the increased electrical costs and other costs that they are incurring? Brandon, has that issue come up yet with our big occupiers?

Brandon Forde

It has. And this is maybe a little bit more prevalent in Europe. I'm assuming we're going to see it at some point here as well. Allowances for more ergonomic chairs at home, better fit out for a home office. That is absolutely going to be no more important. I think we're going to see this evolve. If you're spending less money on your core real estate footprint and people are working from home, I do think that progressive companies are going to be looking at, you know, do you provide a stipend or a subsidy to some extent, think the market is going to play out here. So a couple of points. Number one, I think there will be more of an importance on wellness. So therefore, as companies are looking at, you know, building A versus building B, things like the core HVAC systems are going to be important. And that could be one of the deciding factors as companies are evaluating different, different locations. When you're looking at the capital markets side, you know, long term lease underwritten by a mortgage. All right. I do think what you're going to see is I think there is going to be a premium for flexibility. And I think we've already seen that. And when I look at real estate, you know, as if from a financial perspective. Real estate options are underpriced. The option to expand the option to contract or give up space are underpriced in the current market. All right. We really have a very strong anchor around long term leases. And the other bits of flexibility that we provide around the edges are generally underpriced. I think when companies actually do the math, there is more of a premium that they could or should be willing to pay for more flexibility. So this tradeoff, I think a shorter term, you know, is it just going to be impacting and put in more of the risk onto the owner? I think we may see something different there in that premium for flexibility may be better understood. And that's at least where we see the market going a little bit.

Spencer Levy

Well, I think that premium for flexibility speaks directly also to coworking space, where it costs more dollar for dollar on day zero, but maybe not over the long term. So, Julie, what your point of view on the future of coworking space?

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Julie Whelan

I have the view that from a flexible office space perspective, this is potentially the best thing that could have happened because there was so much speculation coming into COVID before we even knew COVID was right around. Is flexible space here to stay? How much can it possibly grow? Is the business model correct? And this pandemic has created a situation that is the worst case, quite literally, for flexible office providers. Overnight, their occupancy dried up. The very model by which they were built on sharing is at the core bad, right? It's just something that we're not doing. And so I think that what comes out of this, the business models that come out of this, the players that come out of this, where the geographies are, that these guys are is going to be stronger than ever and investors are finally going to have some meat to be able to say. Now, I have some history to this. We've been through a recession. We know what has worked. We know what didn't work. We know how fast occupancy came back. And that is ultimately going to position this industry to just fly after this, I believe.

Spencer Levy

So Brandon, you agree?

Brandon Forde

Coworking was actually born in the last downturn, so I think that comes back. But for bigger companies, I think the word coworking and a lot of it came with that. The culture, the amenities, the community, all of those sorts of things. I think that becomes a lot less important. I think the core of great space, flexible lease terms with less capital outlay, that is more plug and play that those, you know, check all of the boxes for lots and lots of occupier's. I think it may be a good thing that we've lost a bit of the focus and the emphasis on the community side of it. I think that's a winning recipe. And I do think that comes out stronger. I don't think it's going to be called coworking.

Julie Whelan

I would totally agree. And I said flexible office space. Right. Because that's what I think we're moving towards. And I would say that the survey told us that the three elements of choosing a flexible office provider that are most important to our enterprise clients right now are health and safety principles, privacy and security principles and reputation.

And that is very different from what it probably would have been just 12 weeks ago.

Spencer Levy

Two areas I want to explore here for the moment is, one, the future of the city, the CBD, and the second is the suburbs and the third, I guess, is moving to another market. Did our survey pick up any of that? And if not, what do you think those trends are going?

Julie Whelan

So from an urban perspective, even before the survey, I think that we would have all said as real estate professionals that the city is not going anywhere. The city has existed for thousands of years for a reason. It's a place that has energy. It's a place where people can connect with each other. It's a place where businesses have a great ecosystem in order to be able to thrive. And that's not going to go away. What the survey did was confirm that belief for us in actually under 10 percent of the occupiers that we surveyed actually indicated that they wanted to disperse away from the urban core, indicating that most of them wanted to stay put. That's number one. Number two, from a suburban perspective, I think there's a lot of narrative out there. I think that there are a lot of different opinions out there about what people feel about the suburbs. And personally, I believe that it is very geographically driven. So I live in Boston, and the brokers that I talk to here in Boston wholesale believe that there are going to be a lot of occupiers that are interested in the suburban markets. Now, from a Boston perspective, we are

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heavily dependent on mass transit. There are historically very long commutes that it takes to get into the city and we are heavily financial services driven. And so I think that given all of those factors, it makes sense that there may be some more interest in the suburbs. However, the suburban campuses of perhaps the 80s are not what we're envisioning. We're envisioning more satellite type hubs that people can touch down in when maybe they don't want to go to an urban core office. But they also might not want to work from home because there's a number of distractions that happen at home. And so they might rather touch down at a satellite location. So I would be very surprised if we didn't see some types of demographic shifts that are accelerated coming out of this into the markets that have lower cost of living, higher quality of life, perhaps less dense. But again, I don't think in a way that is going to damage what's happening in the primary urban core markets.

Spencer Levy

Well, Brandon, Julie's not saying that the CBD is dead, but she's pretty bullish on the suburbs. What's your point of view on CBD versus the suburbs? Moving forward?

Brandon Forde

Yeah, I believe in cities full stop. And I think what we've got here may be a temporary or a short-term dislocation. I think what I would argue for more than anything else is the urban environment and cities in general are where innovation takes place.

The real challenge, I think, is going to come for companies to figure out how do I drive innovation, how do I drive new ideas, how do I drive the next breakthrough thing? And I don't know if that's as easily done through dispersed working, working at home. I think we're Julie and I agree is. Are we going to move towards a state where employees have more choice of where they can work and how they can work? Absolutely. But I think there is that additional element. I don't know, maybe I'm old fashioned, but I think cities are here to stay.

Spencer Levy

Well, I'm with you on the cities, but I am not with you on one thing, Brandon. You used the term there productivity. I believe that work from home is highly efficient, but is not productive, certainly for the things that we're talking about here, for higher value add work. So I disagree with your definition, but what do you think, Julie?

Julie Whelan

So I fully agree that we need to get to a place where we are better able to measure productivity, number one, because we are a data driven world right now and decisions are made based on data. And I think that when you ask occupiers, how are they measuring the efficacy of their space. They are going to the places that are efficiency driven.

What they're not saying in droves is that I know that I can link my employee engagement with my workplace. I know that I can link better revenue with my workplace. And those are difficult to do because they are not very easily math driven with a denominator and numerator that you can pull very easily. And so that is where I see the future going, is being able to understand where productivity is based on the workplaces that we're providing. And at that point, when we can link those two, I really do believe that the workplace is all of a sudden going to catapult and importance because of the reasons that Brandon said, which is that part of the time you have to come together in some way, shape or form not to do individual work in an urban core that's 80 dollars a foot, but to actually collaborate and drive the innovation, the productivity of your company.

Brandon Forde

I think that's so important.

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And I think what we're going to find is we're going to use different spaces to accomplish different things. And we'd already been on this trend. We've been going down this trend for quite some time. The workplace has to be something fundamentally different than what it has been in the past. And the workplace has to be a destination. You know, we are now competing for our employees time in the office because they can now work from anywhere. And I think more and more companies are going to give them that choice. So if you want to be a great company that drives incredible innovation and leading edge thought and the most talented people, you have to have a workplace that compels them to come in where there's a desire for them to come in, because I mean, really, otherwise, I've got a desk I can do work just about anywhere. And if you travel a lot, you get pretty good. I could. I'm actually most productive sometimes on an airplane seat with no distractions. So it's going to change the nature of the office. The office is going to become more of a destination to get key things done as opposed to, you know, where you plug in every single day.

Spencer Levy

I want to now go deeper inside the space itself. So I guess starting from the survey perspective, any changes to the work place, configuration, open office or activity based learning because of COVID, Julie? And then then Brandon, what are our clients saying about workplace design?

Julie Whelan

So the biggest change is honestly the sentiment towards uncertainty and what I mean by that is we asked two very distinct questions.

Number one, are you pre-COVID? Were you more open or enclosed environment? Post-COVID were you going to a more open and closed environment? And then what are you doing in terms of seat sharing? So unassigned versus assigned. And what we found is that largely most corporations are moving towards obviously a more open plan environment. But not to say that it was open plan at the at the implication of private work. Right. We knew that we were building in private focused environments into that space because we were building an activity-based workplace environments. And where the sentiment is going is to uncertainty. And the way that I read that is that we are in the middle of a pandemic that is being driven by proximity of people to each other in enclosed shared spaces. And so naturally right now, without understanding the science truly behind how this truly is transmitted and how it's going to be solved, it is hard for occupiers to make a leap in a decision where they have to invest a lot of capital and they have to make a long term change to their workplace design. That being said, I think there is a very clear understanding that there will be a more hybrid work model. So uncertainty around design, but there seems to be an understanding that we are moving towards an environment that's going to be more shared than ever.

Brandon Forde

Julie really did hit the nail on the head. Companies are trying to figure it out today. They're mostly kicking the can. I have not seen a lot of our clients taking big, bold moves because there's a lot of uncertainty. So what we're seeing instead is they're going to get short term renewal of an existing lease.

We're not seeing as many companies making big retrofits, big moves to retrofit their spaces right at this moment because capital is dear.

The markets are uncertain. Who knows where rents are going to be? We're going to make that commitment today or we're going to make that commitment in two years. And so on. So forth.

So right now, I would say the general consensus is hedge.

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But longer term, I do think that this is a continuation of the trend that we have been on, which is companies are going to fit out offices that allow them much more agility. It allows them to actually flex up and flex down in that office. If you take any utilization study, if a company got over 60 percent of their space utilized during working hours, that was a phenomenal result.

So instead moving towards, you know, much, much higher levels of amenities, more choice, more flexibility in terms of what space you can use. Where do you need an office? Use an office for a day. You need a conference room use and a conference room. You need to open workstation open to the sunlight. Use that open sunlight. Use that open workstation. If you want to work from a couch know so-and-so forth.

So we're going to see more of these activity based workplaces that provide more of that of that choice.

Spencer Levy

I also want to talk about this dynamic between wellness and sustainability, green versus well. And do you think that, number one, that wellness will rise to that same level of importance to employers as sustainability? Number two, other areas where they might be in conflict.

Brandon Forde

Well, that's a whole lot in one question. I do think it would be a tragedy if out of all of this we wind up kind of, you know, locking the doors and rolling up the carpet. And we're living in our own little bubble in these, you know, glass towers in cities. If that happens, then I absolutely think the cities could be at risk if we go back to office towers being fortresses, you might as well go to the suburbs. That's kind of my opinion. But I think people's memories, and I may be an optimist, I think people's memories are short after the 1918 pandemic. You know what was next? It was the roaring 20s. Right. There was no social distancing happening in the roaring 20s. So that need for people to be social, I think, is innate. So that's the amenities. I got off on a tangent there.

Spencer Levy

But do you agree with that, Julie?

Julie Whelan

So I think that from a wellness and an amenities standpoint, it's going to be more important than ever. Right. And I think that what was an amenity yesterday is no longer going to be an important amenity tomorrow. One of the probably most popular ones is a foosball table. I don't think that that's going to be so popular in the future and that's going to be on anybody's agenda. However, what maybe is the ability to get access to really cutting edge technology in order to better connect with a more hybrid and remote workforce. The ability to have outside space, even if you are on the 20th floor of a building. Those might be the amenities that become a lot more important to moving the needle to people wanting to come into the office. From a sustainability standpoint, I mean, I think sustainability is certainly on the agenda. I mean, we clearly, with this force from our work experiment, have done a lot for the planet. Right. And so I think that when we go back into the office, this idea of sustainability is only going to continue to rise up the agenda. And although at times it could be in conflict. I think that largely it will win out.

Spencer Levy

So let's take out our crystal balls now. What's coming next in the survey? Where are we going to be improving it, changing it, moving forward? And what do you hope the clients get out of it?

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Julie Whelan

We already understand that there is a vision for change. And I think that what the survey results will begin to show is what the tactical steps are to getting to work towards that change. Right now, there's a lot of inaction happening. People are only taking action where their hand is absolutely forced because there is a market timing thing to take advantage of or because they have a lease catalyst activity. And I think that over the months, what we're going to see is action towards what is happening with long term decisions around relocations, around expansions, around where they're moving around the United States, if not the world. And I think that's the biggest change that we're going to begin to see is action being put to the sentiment.

Brandon Forde

Yeah. I think from the client's perspective, none of us really knows what to expect as we look forward. And I think everyone or a lot of the folks that we're talking to, they are all asking the same sorts of questions. So it's interesting to kind of see the trends of the questions evolve.

Three months ago, every single discussion was around rent abatement. We're past that. Right. That's taking care of. The next set of questions are how on earth can we go back to work? And people still haven't figured out the timing of that. But they generally have a plan of how they're going to make that happen. You know, when that ultimately does kind of come to fruition. What we're seeing in these client surveys is now folks are starting to look ahead. And that to me is, I think, the most optimistic piece. I'm a little confused about how certain they are about their ability to forecast long term. That still confounds me. But the fact that they're looking ahead and now trying to set the course of what will my portfolio look like? What will my workforce look like? How will I need to accommodate them? I see that as a very positive thing.

Spencer Levy

On behalf of The Weekly Take I want to thank two friends of mine, two industry leaders in the future of office, Julie Whalen, the author of the survey, along with another colleague of ours, Travis Deese, did a great job as well on the Future of Office survey. So, Julie, thank you for joining the show.

Julie Whelan

Thank you, Spencer, for having me.

Spencer Levy

And Brandon Forde, fellow Westchester guy, President of Client Solutions at CBRE. Another friend of mine, Brandon. Thank you for joining The Weekly Take.

Brandon Forde

Thanks Spence.

Spencer Levy

For more information, go to [CBRE.com/theweeklytake](https://www.cbre.com/theweeklytake). Until next time, I'm Spencer Levy. Be smart. Be safe. Be well.