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Tech companies revamp real estate strategy to prep for future growth

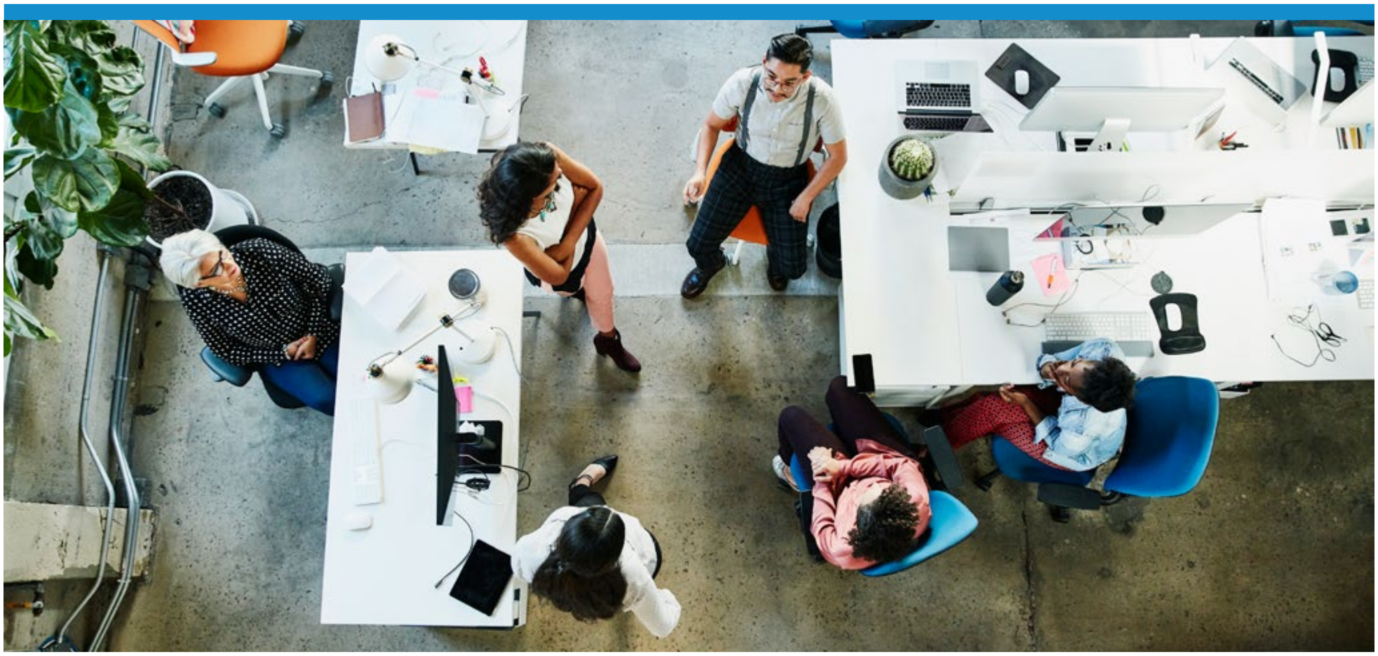
BY ROB KOLAR | JUNE 2023

Driven by innovation and changemakers, technology organizations grew at an unprecedented rate for 30 years. With dynamic leadership, high demand, expanding automation capabilities and the rise of cloud computing, technology companies reached the scale and market capitalization that other industries took 50, even 100 years to achieve.

To accommodate this velocity of growth, tech organizations have invested in space – and a lot of it. In the pre-pandemic era, it was not unusual for big-tech companies to acquire much more office space than they needed to position themselves for expansion. But new economic headwinds and fundamental changes in office use have rerouted this course.

Pre-2020, many tech organizations were hyper-focused on growth and scale throughout their real estate portfolios, creating highly amenitized, well-located offices that drew in talent and spurred innovation. Today, tech's real estate strategy needs to equally account for efficient operations and effective hybrid work.

Now, tech business leaders are cautiously optimistic about their growth, preparing for a brighter future by aligning their real estate strategy to the current market. Through portfolio optimization, customized spaces,



and human-centric design and experiences, tech companies are tapping real estate resources to support their teams in maintaining high performance in this new world of work.

Portfolio optimization

In the last decade, technology companies amassed significant real estate portfolios, often taking on new space in highly desirable markets to accommodate anticipated growth. Challenging market fundamentals have slowed and, in some cases, paused anticipated expansion efforts altogether. Today, even the most well-capitalized tech organizations are focusing on their core business and reducing capital burn to restore investor confidence. Simultaneously, the widespread adoption of hybrid work has reduced space demand.

Real estate portfolio optimization is helping rebalance workspace needs to better align with business objectives. In the current market, this means right-sizing the corporate real estate (CRE) portfolio and utilizing it efficiently. With the help of seasoned real estate advisory teams, tech companies are assessing how much space they need, reviewing lease terms and opting to downsize when available, subleasing underutilized space, or, as occupiers, even choosing not to renew leased spaces.

Creating modern workspaces

Tech leaders are eager to get their teams back in the office but continue to face challenges motivating employees to make the commute. Simply put, there has to be a value proposition for the remote or hybrid workforce to leave the comforts of home. Creating an exceptional experience in a high-quality workplace setting is a top incentive for employees, and therefore a top priority for leadership. But a return-to-office strategy will only succeed if there is a *continued reason* for people to make the trek into the workplace.

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Particularly as tech companies operate within a condensed portfolio, quality space is integral to creating a positive in-office experience where employees want to spend time and are both inspired and productive. Creating workspaces that include amenities and environments that foster community, connection and collaboration is paramount. Workplace features that were novel before the pandemic – like innovation hubs, focus rooms and work cafés – have now become an *expected* baseline among many leading tech workplaces. Tech companies are leaning into workplaces with strong hospitality or residential vibes, creating environments similar to that of a boutique hotel, clubhouse, or even a personal home office, with emphasis on beautifully designed, efficiently managed community spaces that promote social connectivity.

Human-centricity is key

Company culture peaks when people are in the workplace. In an office setting, people have the opportunity to collaborate and form spontaneous connections. A virtual environment is an imperfect substitute for the person-to-person engagement that occurs naturally when people work together in the same space. For tech organizations in particular, innovation happens at a rapid and sustained pace in-person. With hybrid or remote-only work, the speed and consistency of innovation are less reliable. Finding the unique formula of hybrid scheduling is still a process for many businesses across industries, but employee well-being must rank as a high priority to attract and retain the best talent. Best practices indicate this might need to be determined on a case-by-case basis for some offices or teams.

Finding the right balance between portfolio optimization when growth slows and planning for the next up cycle is crucial to thrive.

Research shows time and again that people want to come into the office to connect with others. In JLL's *Human Experience Digest*, 51 percent of respondents said socializing was the main reason to come to the office, followed by 37 percent who came in for team brainstorming. While other office amenities are important – above all else – connecting with others is the leading draw. *People truly are* an organization's best asset. Aligning return-to-office strategies for each team while also creating spaces for collaboration ensures peak experiences in the office for employees and employers.

Preparing for business growth

The last business cycle was an exceptional period of prolonged growth. For younger tech organizations, it was the only market cycle they have ever known. In a reflexive effort to gain control, tech companies with little experience navigating a down cycle might make the mistake of cutting too deep and too fast. Finding the right balance between portfolio optimization when growth slows and planning for the next up cycle is crucial to thrive.

When best utilized, real estate supports business growth intentions and goals through targeted strategy that equally responds to current needs while considering future objectives. Organizations are defining where they want to be and structuring leases to include options to expand in the same location when they need to absorb more space. Finding that perfect middle ground comes from partnering with an advisory team with experience navigating through downturns and understanding the cyclical nature of the market.

JLL's *Tech Outlook* found the next-gen tech workplace will have five core characteristics: *intention, agility, protection, balance* and *creativity*. In other words, the office will be a place for intentional work, where employees meet and collaborate. It will easily adapt to changing needs, offering private, disruption-free spaces to focus and balance high- and low-sensory experiences to serve a diverse range of employees and types of work. The tech office must also provide space for teams to display their work and ideas, and to collaborate across departments and work functions. Most important, workspaces must seamlessly integrate these features to meet employee demands in this new era of work.

Technology businesses delivered with excellence when scaling up was the code for success. Now values have shifted to focus on efficiency – but leaders don't need to figure out how to navigate this sea change alone. Experienced real estate advisory teams with a deep understanding of the industry can guide tech leaders through this recalibrated environment to develop a real estate strategy that meets the varied needs of businesses today and in the future. The key is to build the skills and team now to navigate inevitable slowdowns and lean into the efficiency that supports business goals and the bottom line, and that can catapult growth when the industry is again on the rise.

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