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A COVID-19 Virtual Ideation Experience

Team Topic and Number: Space Metrics Team 29

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Corporate real estate (CRE) metrics have traditionally focused on cost and efficiency. Yet an organization's most valuable resource is its people. How do we develop key forecasts and recommendations for corporate real estate professionals as they address how the pandemic will impact space utilization and metrics going forward?

The current pandemic conditions require us to reexamine our industry standard Space Metric of Area (SF/Person) and Cost (\$/SF). These metrics have been used across CRE to advise business on how to best manage their Work Space. These metrics for the near term will be dependent on the curve of the health of the population, the emerging science associated with keeping people safe and business decisions based on employee wellbeing. The long lasting effects shaping these metrics will be the inclusion of employee health and comfort levels into the space and cost equation, classification and regulations regarding essential work that must take place in the work space and ultimately how businesses choose to invest in employer provided work space versus work from home. A few definitions below are offered to be helpful in this discussion.

Work Space: Employer-supplied location

Near term: Day One to Operating at Capacity. "Day One" is the date the company opens their site/buildings to occupants. "Operating at Capacity" is the date their site/buildings are ready to run at the company's determined full capacity.

Long term: Stabilized work patterns exist. This could be defined by data such as the targeted % of the population has been immunized.

Will COVID-19 reverse the trend of reducing square footage per employee and shift the focus from space-centric measurements to human-centric measurements?

Before COVID-19, we were seeing reductions in area per employee (SF/Person) as the floor plate became more densified. We are now experiencing a dramatic increase to follow the CDC 6 foot guidelines as companies plan their re-entry. In the long term, we expect a balance of space-centric and human-centric measurements. While many companies are having success with remote work, many employees want to come back to the work space on a human-centric basis. The near and long-term changes to the work space need to increase the human connection, choice and wellbeing.

Space centric measurements:

In the near term, space per occupant will increase to adhere to CDC 6 foot distancing radius, thus reducing allowable occupancy to approximately 40%. Also, there will be fewer workers occupying the space as Work From Home (WFH) is leveraged. Long-term metrics will be informed by both an enduring need for increased space per occupant for employee health and comfort and an increased acceptance of remote work resulting in lower demand for individual work stations. This indicates that work space will include increased common space, group meeting and gathering spaces and fewer individual space. Buildings and floorplates will have larger core and shared space per individual work space /occupant potentially changing the calculations for Usable and Rentable space.

Human-centric measurements:

We are all now part of a WFH experiment which will have near and long term effects on space and human centric measurements. Productivity has increased for many, but decreased for others due to distractions at home (childcare, distance learning for kids, elderly care). Pre-COVID, Gallup discovered that remote workers are more engaged to a point. See Fig 1. The optimal engagement occurs when employees spend 3 to 4 days (of a 5-day work week) working off-site. This shows people are looking for balance and need some face time to be most engaged. For the long term, it is vital to avoid disconnection with company culture when working remotely. Companies need to measure engagement regularly, continue to invest in technology at the work space and in employee homes for sustained productivity and create spaces for community and working in larger groups in-person to encourage people into the workspace. Also, providing choice for people to select the space or location to complete their work consistently ranks high among the employee satisfaction. This is the time to take advantage of that.

Fig 1 Reference: Gallup State of the American Workplace Report, 2017



Will COVID-19 shift the focus to have companies place greater priority on reducing expenses?

Many companies will be seeking to reduce expenses to buffer losses suffered during this event. As safety and wellbeing of the employees is critical, there will be continued increased costs associated with Work Space for cleaning, PPE and equipment such as temperature gauges, signage, security and a desire for greater focus on air purification and touch-free doors, buttons, etc. Due to the reduced allowable building and floor occupancy, there are questions about reducing electricity and other building costs. There may be minimal reductions, but unless you are prepared to mothball a building or can physically separate a floor, there is little expense reduction achievable near term. Another type of necessary expense increase is likely for additional investment in WFH technology, equipment and furniture.

A long term expense reduction strategy is well served by critically examining best use of space. As we have said in previous topics, more space per individual work space and a priority on health and safety in workplace design are reality. Fostering a strong WFH program would allow companies to focus on leasing smaller spaces for multipurpose usage while incorporating workplace furniture that allows for personal distancing such as mobile partitions/tables should the need arise. Being flexible and prepared is the best way to adjust real estate expenses.

Will the significant business disruptions and prolonged uncertainty ushered in by COVID-19 bring transformational change in companies' leasing strategies?

Office space may never be utilized in the same manner as prior to the outbreak of COVID-19. Thanks to modern technology we have access to worldwide connectivity at our fingertips from practically anywhere. While home offices work fine in many situations, there will always be a need for work space. Companies need to evaluate their current floor plans to ensure distancing protocols are met or if a reconfiguration is needed. It may be possible to avoid reconfiguring by having staff adhere to alternating schedules. There will be a greater focus on employee wellness and safety and a need for flexible, shared spaces. Companies that can leverage significant WFH may desire to shed space to reduce expenses. While fulfilling existing lease obligations, renegotiation and subleasing may be possible. Keep in mind the significant subleasing costs that include incurring the cost of legal fees, commissions, and in some cases, tenant improvements. Ultimately space condition, market demand, rental rate and remaining lease term are among the considerations that will impact how long it will take to dispose of a space.

Long-term there will undoubtedly be more people working from home than we have seen historically. For those working in the work space, the densification trend of reducing the amount of space per occupant will likely return. Workspaces must remain vigilant and prepared for a recurrence or similar viral outbreak occurrence. As new leases are negotiated, there will be a greater focus not only on flexible space utilization, but also on the landlord's responsibilities for cleaning, access controls, technology, safety, and, of course, force majeure. Tenants may have less desire for common area amenities. Termination options will become a greater focus. Firms will need to take a closer look at the class of building they're considering. Class A properties typically have a greater ability to provide increased janitorial efforts and security protocols than Class B or C properties.

Challenge: Develop key forecasts and recommendations for corporate real estate professionals as they address how the pandemic will impact space utilization and metrics going forward.

This is all new turf for everyone and guidelines will grow/adapt/change as the industry gathers feedback for quantified decision making. The following will provide a guide to develop metrics for the points discussed in this report:

Metric	Near Term	Long Term
Lease Type	Track/report on full service vs non full service leases and strategize for change post COVID	Integrate determined full/non strategy
Utilization	Monitor attendance to ensure too many people aren't in the office at once	Aim for higher utilization of seats due to spacing requirements - those w/lower than 30% attendance may not be assigned a seat
Cost per SF	Determine if Cost/SF is a driver to real estate decisions or a shift towards employee experience	Implement determined strategy, likely will remain a key decision factor
Densification	Temporarily ignore density to follow CDC guidelines and local guidelines for reopening (i.e. 6 FT or 12 FT spacing)	Reach new balance for densification as health and safety guidelines formalize
Occupancy	Little to no push to increase occupancy while seats are kept empty to maintain healthy distance - only critical staff and those needing a better working environment than at home will be in the office	Stabilized occupancy in newly designed/redesigned spaces following post-COVID health and safety guidelines

Additional considerations

- What new best practices will emerge?
- Who bears responsibility for tracking metrics and adapting strategies based on behavior shifts?
- Will we reach a point where some changes will revert/no longer be needed?