Team Topic and Number:

Space Utilization & Metrics – Team 20

Team sponsor/chapter (if applicable):

Whitney

Team Lead:

Rick Joutras

Team Members:

CoreNet Staff: Becky Binder

Michael Casolo, Amy Fobes, Scott Phillips, Michael F. Guerin, Michelle Myer, Natasha Rankin, Natasha Segreto, Nicole Ventura, Nigel Kelly, Noah H KrugerInput your submission below.

Please remember that you have 1500 words to share your insights.

Question / Problem statement:

Will COVID-19 reverse the trend of reducing square footage per employee, and shift the focus from space-centric measurements to human-centric measurements? Or will companies place greater priority on reducing expenses? Further, will the significant business disruptions and prolonged uncertainty ushered in by COVID-19 bring transformational change in companies' leasing strategies?

Executive Summary

Pre-COVID-19, our industry was seeing a decline in the average square feet per employee (average range in 2019 was 175 RSF per person, see figure 1.0 of ppt), which was seen as a real estate strategy to increase efficiency and reduce direct costs. At the same time, executives were finding low utilization rates of their square footage. Our team contends that the space-centric measurement of square feet per person is not necessarily an indication of how space is being utilized post COVID.

That said, the demand on the total occupant load within a space will decrease as Work From Home (WFH), centers of excellence, and other strategies become more prevalent post COVID-19. Additionally, new distancing requirements, increased circulation, and hoteling/drop-in locations will drive up per-person ft^2. Thus, while at a national/regional scale the total footprint of the corporate office will contract, at the per-office scale ft^2-per-person will expand. Taking these trends together translates to an increase in ft^2-per-person by an estimated range of 10-20%, dependent upon the classification of office use. Call centers, customer service, document processing may see a greater reduction of 20-30% due to WFH strategies.

Space-centric measurements, while still an important influencer of workplace strategy, should not be the basis of a company's strategy. The focus on how basic human needs relate to the workplace will evolve post COVID-19, and have elevated the importance of space utilization. As human-centered metrics drive a company's business objectives, they will also become a more accurate indicator of the ROI in a company's real estate strategy. Therefore, how stakeholders weight the human factor will become the touchstone for whether national ft^2-per-person contraction overcomes, or is overcome by, local expansion. Based in these assumptions, we have identified three main drivers that may influence the utilization of space up or down. Our predictions center on where we think we will be in two to three years, and the assumption that we will never be a 100% virtual workforce. (see figure 1.1 of ppt)

Shifting trends in how and where we work

Black swan events force companies to focus on data driven solutions. Between the Great Recession and Pre-COVID-19, many businesses recognized the need to blend location- and people-based analytics to inform real estate decisions. In the last ten years, silos within organizations have been breaking down walls to make better and more informed decisions. It is now common for CHROs, CFOs, and workforce/talent teams to ask important questions—regarding real estate portfolios, employee locations, and new labor strategies—before seeking buy-in from their CEO.

Example questions are:

1) Where can I find the appropriate labor to support our growth objectives?
2) With the rising cost of living in major metro areas, should we consider moving components of operations into centers of excellence to less costly but accessible markets? If so:
- *a) Which business units, executives, or technical expertise would benefit by living and working in the same markets?*
- *b) How can we save operational costs without disrupting our corporate culture?*

c) How do we find new markets to attract talent that will match and support our culture?
d) If we can tap into specialized talent across markets, who can and should work remotely, why?

As businesses decide when and how to return to their offices, space utilization metrics are moving front and center for all real estate decisions. In order of priority, here is how major CRE clients are considering new uses of space:

1) Redesign for safety to meet government policies at existing locations.
2) Pause on new leases or acquisitions to consider workplace utilization.
3) Consider new hybrid uses of space. Centers of excellence could be placed in a less costly, central location to reduce the need for commuting and limit cost and exposure.

The commercial real estate industry is known for its mantra of "location, location, location." The "new usual" brought on by COVID-19 will require us to reimagine and repurpose office metrics, while increasing their use to measure and validate location decisions. In the wake of COVID-19, CRE brokerages and their clients must make a priority of data-driven research of all human-centric metrics—talent attraction, WFH, retention, and colocation of expertise into new centers of excellence—to streamline operations and achieve optimal success.

<u>Employee perception of safety</u>

History will keenly remember how companies reacted to the COVID-19, as will their most valued asset—their employees. While traditional key metrics within corporate real estate have emphasized space occupancy and utilization (*i.e.* per-person ft^2, cost per employee, square feet per workpoint, etc.) the post-COVID-19 environment could see a paradigm shift vis-a-vis the ongoing relevancy of this data. The companies that come out ahead will clearly make a priority of the human factor over the spatial factor. The human factor will likely be weighted toward the employee's perception – *i.e.,* "Is my employer doing their part to keep me safe and healthy?" With occupancy costs as one of the larger line items on the P&L statement Pre-COVID-19, a company's real estate decision makers' job has always been to find a balance between optimal space and price. COVID has the potential to shift this thinking now and for years to come.

While each industry and company will adapt differently, the greatest challenge that CRE will face is how to compromise between the practical requirement for in-person collaboration, and the new safety requirement of distancing. Just as much focus will be put on health and welfare as on company culture. Employers looking to hire should be ready to answer questions about their contingency plans for a possible "second wave" of the virus, and future pandemics. Increased spending on new construction will be necessary to cater to and attract high-value tenants, who themselves are looking to cater to and attract high-value talent. Existing buildings will see new capital operating expenditures to account for safety and well-being measures. Employers need to pay attention to the variables that determine employees' perceptions of their health and safety (physical and mental), morale, and productivity.

Once a vaccine is developed, utilization will return to more typical numbers. Yet until then, we can expect future periods of quarantine, accompanied by behavioral changes and expectations. Ultimately trust and confidence in building owners, operators, and employers will help drive results. A company's approach to projecting the amount of space they should plan for—to meet the real and perceived needs of employees' health, morale, and productivity—will be more difficult. Employees will inevitably continue to use the built environment as a place to focus and conduct business, but how we use these spaces will change, effectively optimizing utilization and increasing square footage to accommodate employees' perception of safety.

Optimization of office efficiency

How a company caters to different work styles—working from home, at a nearby office or co-working space, or at a company-leased or owned space—will drive structural change. "For most companies, being in the office or being remote is not an either/of question – it can be a blend, and for most companies it is," says CoreNet Global Senior Vice President Tim Venable.

In the "new usual" office, RSF/headcount or RSF/workstation will increase due to social distancing requirements. Emphasis will be on optimizing utilization, and one can expect to see companies move to 100% flex-work environments. Many corporate facilities pre-COVID-19 did not have utilization statistics greater than 60%. With more personnel choosing to work remotely for safety, convenience, or productivity concerns, the need for dedicated space (sometimes also considered a perk), will significantly decrease. Average in-office time will likely fall to one to two days weekly.

Web conferencing solutions have experienced greater adoption in recent months. Superior technology has enabled collaboration that previously needed to occur in an office setting. Electronic signature software has eliminated the need for "wet signatures" on most internal company documents. iOT & sensor technology will also influence the new office by automatically confirming the number of pp in a building, a given room, etc.

The flexibility a company offers in terms of work setting will be a key differentiator for top talent. Companies will re-think the necessity of the office as a place. Utilization will not be about the time or length someone used a space on a daily basis, it will be about how many people frequent a facility, even if the use is for a short period.

All in all, we expect a decrease in office utilization, but greater personal choice in how to get the work done. This trend should result in an overall reduction in gross square footage from fewer occupants, but greater ft^2-per-person within that footprint.