Team Topic and Number: Space Utilization and Metrics, Team 24

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COVID-19 has put the inextricable link between public health and economic issues into sharp focus on a global scale in a truly disruptive manner. The way in which organizations everywhere utilize space in the future is a microcosm of a larger conversation about how they will balance taking care of their workforce, their business and the communities that they serve. Our team approached the questions of how space utilization and metrics will be changed in the post-pandemic landscape by focusing on industry trends in the manufacturing and corporate office sectors. We categorized these trends on a near term, intermediate-term and long-term basis as follows:

> **-Near-Term: the 3-6 month period of the return-to-work process for most organizations**
>
> **-Intermediate Term: the ensuing 6-12 months during which new workplace protocols, practices and designs will be instituted**
>
> **-Long-Term: the period beyond one year when organizations will either adopt permanent changes or opt out of a 'new normal' approach and return to a version of the status quo**

Industrial Sector: Balancing the Labor, Product and Consumer Equation

Increasingly, the biggest challenge of space utilization in the industrial sector is the delicate balance between labor and product. Trends around labor are similar to those in office, retail or healthcare--keeping a safe distance inevitably becomes more critical in space utilization as well as trying to stagger shifts as much as possible. For essential businesses like food production, where demand has remained steady, or increased, moving from one or two shifts to three, four, or sometimes five shifts is under consideration in order to keep safe distances between employees while maintaining steady output. The trend of increasing hours of operation also supports safer space utilization opening seven days a week instead of five.

On the other side of the balancing equation is product. Product input, throughput and output has to be measured in combination with labor. For non-essential businesses, labor may not be as challenging; however, inventory becomes increasingly difficult to maintain as it weighs down the balance sheet as added cost. Instead of asking landlords for rent relief, the industrial sector is better served reconfiguring their network design and negotiating space requirements to adjust levels of inventory and product, whether they are increasing or decreasing. Once the industrial business realizes what their new footprint needs to be for the near term, network design becomes critical for both short and long term. Companies must contemplate new outbound strategies and reconsider how and where they are moving product. To the extent that geography is dictating demand, companies in the industrial sector will need to deactivate and ultimately sell off certain buildings and move more active products into more productive geographies—this would constitute a marked change in business models.

Some manufacturers will change their customer base altogether. Instead of B2B relationships, they will find B2C may be more beneficial to their profit. This shift in customer base also changes space utilization. It is conceivable that the amount of individual SKU's (stock keeping units) will decrease and therefore space utilization would change again to focus on fewer, more profitable SKU's. It is also possible that, in the wake of COVID-19, some businesses will come to see more value in shifting from direct to customer to e-commerce as a primary means of transacting business. This efficacy of this trend, however, could be limited by the fact that the cost per unit of e-commerce transactions is going up as it directly ties to volume of product that isn't moving which can tied up capital that business might want to redeploy elsewhere.

Given the many factors the industrial sector has to consider, it has a unique opportunity to fundamentally change its space utilization and metrics. The ultimate differentiator between the companies that prosper in a post-COVID-19 marketplace will be will be how quickly they are able to rethink their footprints, realign their business models and implement changes that improve their operations. Companies that do not respond in this way may be forced to consider contraction and, in severe cases, their future viability might be at stake.

Commercial Office: The New Math?

The level of disruption resulting from the impact of COVID-19 on corporate offices will be dictated by the type, size and geographic location of the business. Size and location aside, the need to return to some semblance of normal operations and profitability will compel businesses to focus on employee safety and wellbeing as a condition precedent to a reopening of any kind. Organizations will need to address social distancing requirements which will likely reverse the established trend toward reducing square footage per employee. In fact, the need to maintain appropriate distances may result in a fuller utilization of their real estate square footage as the business will need to spread associates over their existing space to ensure proper social distancing. As a result, businesses should expect a realignment of expenses with the implementation of new workspace designs and safety measures which will introduce costs for which they did not budget before COVID-19.

A reassessment of lease agreements will need to be a fact based justification before businesses can confidently approach brokers and landlords regarding changes to existing agreements. As organizations reassess the effectiveness of their previous work space versus their new normal, it will require a set of metrics to accurately capture costs associated with their operations. The metrics implemented to measure the success of the steps taken post COVID-19 should be fact based and driven by technology that captures site utilization by employees and visitors, HVAC, lighting and plumbing cycles as well as cleaning and janitorial expenses. Until the financial and operational realities of this changed environment are properly quantified and assessed within the context of a company's financial capacity, executing new leasing strategies with the intent of reducing COVID-related expenses will be challenging. For companies of all sizes, and particularly those with large lease footprints, flexible rent structures that allow for deferments or other specialized payment arrangements during periods like the current one are more likely to appear as evidence of what will be seen as "the COVID effect" in the marketplace.

With an emphasis on changes in the work environment, we offer the following trends and recommendations:

- Short term
    - Support for work from home policies and acknowledgement of the increased need to prepare/train the workforce for working and managing remotely
    - Identify spaces which are "out of service" to support physical distancing with existing products and configurations
    - Significantly reduced density (and potentially desk sharing)

- Intermediate Term
    - Reconfigure spaces for distance, orientation, separation
    - Utilization metrics: Trading more space per attendee with fewer attendees on site
    - Balance presence disparity (mix of attendees in person and remote)
    - Reduced co-working at sites with high density, low individual space ownership

- Long Term
    - Implementation of touchless design (i.e. restrooms configured to not require doors) and sensor guided solutions
    - Change materiality for cleaning and wellness
    - Location selections (urban / suburban / rural and low-rise/high-rise) may change
    - Housing implications for long term expanded work from home
    - Increase satellite locations

Trends / Forecasts / Recommendations	
(R) C-Suite will expect more options than ever before for the built environment, and CRE must respond and be prepared to address: • Real Estate Portfolio Management • Workplace Design • Workspace Operations	**(T)** Across the board current space utilization and metrics have tied down space so tightly that there is insufficient swing space to accommodate all short-term requirements at full staff with current social distancing measures, no one has carried surplus space.
(F) Cost pressures and assumptions on remote working drive some smaller companies to go 100% virtual	**(F)** Significant increase in C-Suite level CRE Leadership roles at F500 Companies
(T F) Expense management will not pause	**(F)** Increased demand for tech stack deployment
(T) Manufacturing drivers that CRE is focusing on are: Inventory, Transportation, Customer segmentation changes, and 3PL.	**(F)** Back office departments and call centers highest likelihood of permanent remote work
(F) Some companies with a lot of cash decide asset control is key and dial down leased portion of portfolio.	**(R)** CRE drives conversation around importance of Place and Culture, i.e. the corporate compact.
(T) Urban Office occupiers struggling with facility choke points (e.g. building ingress/egress, elevators, restrooms)	**(R)** Post Vaccine CRE Strategy and Portfolio plans will be very different than they are today.

Summary: Solving for the 'New Normal'

COVID-19 will have immediate, intermediate and long-term effects on the corporate real estate industry. From implementation of staged occupancy plans for a return to work to adoption of new technologies that help manage a changed relationship with space, how this 'new normal' will be experienced will be influenced by sector, geography and most of all, by time.