Workplace Must Adapt Or Die, But Evolution Was Never Optional

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News

Although the widespread and sudden shift to remote work early last year was a shocking change, a pre-existing movement toward more flexible work options was already well underway, making some companies better positioned to weather the upheaval.

The short-term outlook for the future of workplaces, particularly offices, is marked by uncertainty as the recovery from the coronavirus pandemic continues. Recent data paints a dim picture of market strength with a national office vacancy rate at 14.2% in December 2020, according to a Yardi Matrix report. All cities tracked were above 10% vacancy, with Houston topping out at 22.1%. Bay Area office vacancy was 14.3%. With market turbulence expected to continue at least through midyear, questions swirl about what the future holds for office product.

A focus group of 32 office owners, occupiers and placemakers conducted by Cushman & Wakefield along with George Washington University's Center for Real Estate and Urban Analysis, revealed that above all, flexible and adaptable work environments are the defining feature of future workplaces. In their report, Workplace Ecosystems of the Future, the authors found that though the focus group participants rated the work-from-home experience as "better than expected" with high productivity levels, many workers are missing the culture and collaboration that drives innovation in in-person environments.

Courtesy of Matthew Millman

CBRE's San Francisco office located at Salesforce Tower.

"These testimonies and research findings provide further evidence that people still need a space to collaborate, innovate and stay connected — and the office provides that," Cushman & Wakefield Global Head of Occupier Research David C. Smith said in a press release. "The pandemic has given us the opportunity to test remote work. Moving forward, occupiers will need to strike the right balance between remote and in-office work, and our research indicates a need for fundamental change in the culture and flexibility of the real estate industry in order to remain relevant in a post-pandemic environment."

Hybrid work ecosystems are in development among companies like Google and Salesforce, with occupiers' expectations of movement toward hybrid models increasing from 29% pre-COVID to 81% post-COVID, according to a survey by CoreNet Global and Cushman &

Wakefield. The Workplace Ecosystems of the Future report forecast that office workers, on average, will work remotely between one and a half and three days per week post-COVID.

Such flexible work environments aren't new for some companies. Unlike Yahoo, which made headlines for banning employees from working remotely in 2013, CBRE had already opted for a different approach by launching its Workplace360 initiative in 2011. Over the past decade, CBRE has turned 90 of its global offices into "free-address, flexible, collaborative, technology-enabled destinations of choice for employees." The heart of the initiative gives employees greater control over where they work, whether it be more space options in physical offices or technological upgrades that facilitate remote work. Internal research showed that 93% of employees were satisfied with the changes and didn't want to return to the assigned desk model.

The flexible model enabled employees to be better prepared for the pandemic's onset as they were already trained on how to access and share files when working from home, according to CBRE's Corporate Real Estate Global Lead Peter Van Emburgh. As some CBRE employees return to offices, investments made in amenities and technologies like Liquid Galaxy, an immersive multi-screen presentation tool powered by Google Earth that can't be used remotely, have paid off, he said.

"The key driver for any space is choice, and our future Workplace360 enhancements will shift some space allocation from individual spaces to collaboration spaces, and we'll introduce new space types and technologies that support the distributed workforce," Van Emburgh said. "For example, the conference rooms, enclosed focus rooms and reservable offices will be equipped with video capabilities to provide a balance for in-person and virtual attendees in meetings."

Expectations for office amenities like flexible workspaces, dining options and recreational areas were high in the Bay Area pre-pandemic, which resulted in competition between companies to attract the most talented employees with luxurious campuses. Post-pandemic, the expectations will likely continue to be high and come with added demand for safety and wellness elements.

Fitwel, a healthy building platform and certification developed by the Centers for Disease Control and Prevention and now run by the Center for Active Design, had experienced an 80% year-over-year increase in the use of its services pre-COVID, according to Fitwel President and CEO Joanna Frank. Last year, despite hardly doing any business in Q2, Fitwel experienced a 140% increase in the use of its services during 2020. In response to the pandemic, Fitwel developed a Viral Response Module that established best practices for mitigating respiratory diseases in buildings. Frank said it is crucial for the commercial real estate industry to gain trust from users.

“We just did this survey with a huge swath of investors globally,” Frank said. “They are all planning to continue to prioritize health as they are looking for investment in real estate. If the investors are looking to invest in properties that are prioritizing health and are measuring how they are supporting and promoting the health of stakeholders within their properties, [the CRE industry as a whole] will continue to prioritize health.”

Healthy workplaces have far-reaching implications for the productivity and mental and physical health of employees. They pose a host of equity issues as significant disparities exist regarding access to healthy work environments for different demographics. Frank said one of the essential facets of a healthy work environment is giving employees choices about how and where they work.

However, these issues are hardly limited to traditional offices. The pandemic posed grave challenges to health care facilities maintaining safe environments for staff and patients alike. A lack of both space and flexible spaces resulted in hospital beds lining hallways and overall capacity maxed out. These outcomes will likely result in more overflow areas and multifunctional designs incorporated into future facilities, according to HOK Regional Leader of Healthcare Hunvey Chen. Chen also said that the rise of remote work would impact the real estate assets of health care systems with an increase in outpatient and clinic-style facilities for treating a broader range of conditions while hospitals may increasingly be reserved for the sickest of patients. This will, in turn, give rise to more medical office buildings that are more suited to the needs of telehealth services.

“The surge in telehealth service beginning last March caught many of our providers off-guard,” Chen said. “Our medical office buildings weren’t prepared for the sudden influx in telehealth needs. In future buildings, we will need to incorporate carefully designed, private spaces that can accommodate society’s new comfort with telehealth treatment.”

Technology, in general, is expected to feature more prominently in buildings moving forward in the recovery. For example, a 125K SF Class-A office project by developer SteelWave near completion in Sunnyvale named Central Station, features UV light air purification in the lobby and touchless fixtures throughout. MERV 14 filters in ventilation systems and more access to outdoor space will likely become commonplace.

Courtesy of Matthew Millman

Cove, which began as a coworking space company, has more recently launched a building technology platform as a way to modernize existing buildings. Established on the East Coast, the company plans to expand to three office buildings in San Jose this month. The platform includes an app that allows building occupants to unlock doors, reserve amenity spaces and schedule cleanings of conference rooms, among other functions.

“I'm very bullish on the notion of the evolution of the office and how the office can modernize to meet that demand,” Cove CEO Adam Segal said. “That doesn't mean that there's going to be an increase in demand for space, but there's an increase in demand for solutions. This is an opportunity for ownership to differentiate and really capture that demand.”

Cove is one of many companies trying to address the rise of a hybrid work model and demand for healthy spaces. Food ordering platform Sharebite recently partnered with HqO, a commercial office building tenant operating system platform, to facilitate contactless lunch delivery services to office workers. URBN Playground is an amenity management firm that operates lifestyle and wellness programs in commercial and residential buildings. Another company, Essensys, has a software platform geared to enhance the overall experience of office dwellers. Among other things, it provides collaboration tools for employees and asset flexibility pathways for landlords.

While all these tools may help with efficiency, Navitas Capital Managing Partner Gary Dillabough, who has helped develop office and mixed-use projects in the South Bay, thinks that making offices desirable places to return to is a multifaceted equation. He said that live-work-play environments in dense downtowns that allow for short commutes would create the kind of flexibility that is in demand. Such urban environments would enable employees to, for example, leave work briefly to attend their child's school play and then quickly return to the office afterward.

"I think the best tools are the things that are inspiring and help keep you healthier and help keep connections to nature, being able to walk outside your door, fresh air, having sunlight coming in, just feeling healthy," Dillabough said. "Those are going to ultimately make you more productive and make a better experience. That's what we're really fascinated by and it's a little harder to deliver."

Such momentum toward flexible work options may help kick-start a thriving office market once again. However, the anticipated hybrid models will likely diminish the total square footage of offices in general. The Workplace Ecosystems of the Future report forecast decreases in annual net absorption for offices due to remote work. Market simulations revealed an average change in net absorption by -0.28%, with -0.18% in San Jose and -0.4% in Austin.

"Demand is going down; there's no question, as a whole, the sheer absorption of space is going to go down," Segal said. "The question is where is that demand going to go and what's the willingness to pay. Quite frankly, I think there's a high willingness to pay for the right solutions. How are you positioning it, so you're solving problems instead of just offering people space."

CORRECTION, Feb. 18, 10:45 A.M. PT: A previous version of this story had a caption for the first image that referred to it as a rendering when it is an actual photograph. The caption has been updated.

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