



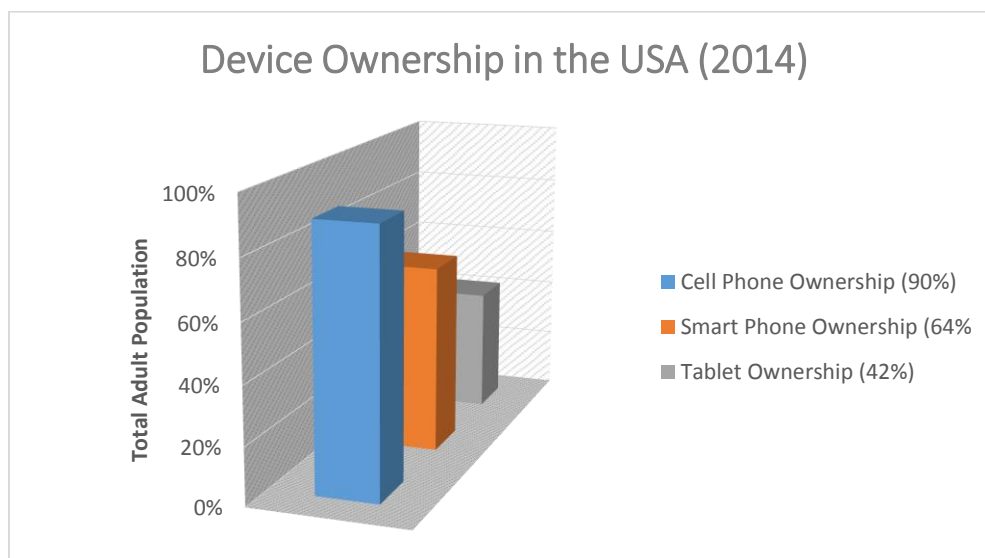
THE MODERN OFFICE PARADIGM An AOR perspective

Cloud-based software applications, smartphones and other mobile devices have unplugged and revolutionized the modern-day workforce. This is having a profound effect on office owners, occupiers and employers, and will challenge the existing paradigms that platform the entire commercial office real estate industry for years to come.

The Wired-In Workforce

Today's workforce is fundamentally unplugged, yet at the same time wired-in! Their access to information, analytics, resources, and connections is unprecedented and it has expanded the realms of human interconnectivity and changed the relationship "people and data" have historically had with "place". This reality was never thought possible before, and as technology evolves, so does the empowerment of today's workforce-and the companies that hire them.

By the end of 2013, 6% of the global population owned a tablet of some kind, 20% owned at least one PC or laptop, and 22% owned smartphones, tablets and other mobile devices. Compare that to the US where in 2014, 90% of all American adults owned a cellphone, with 64% owning a smartphone and 42% owning a tablet*.

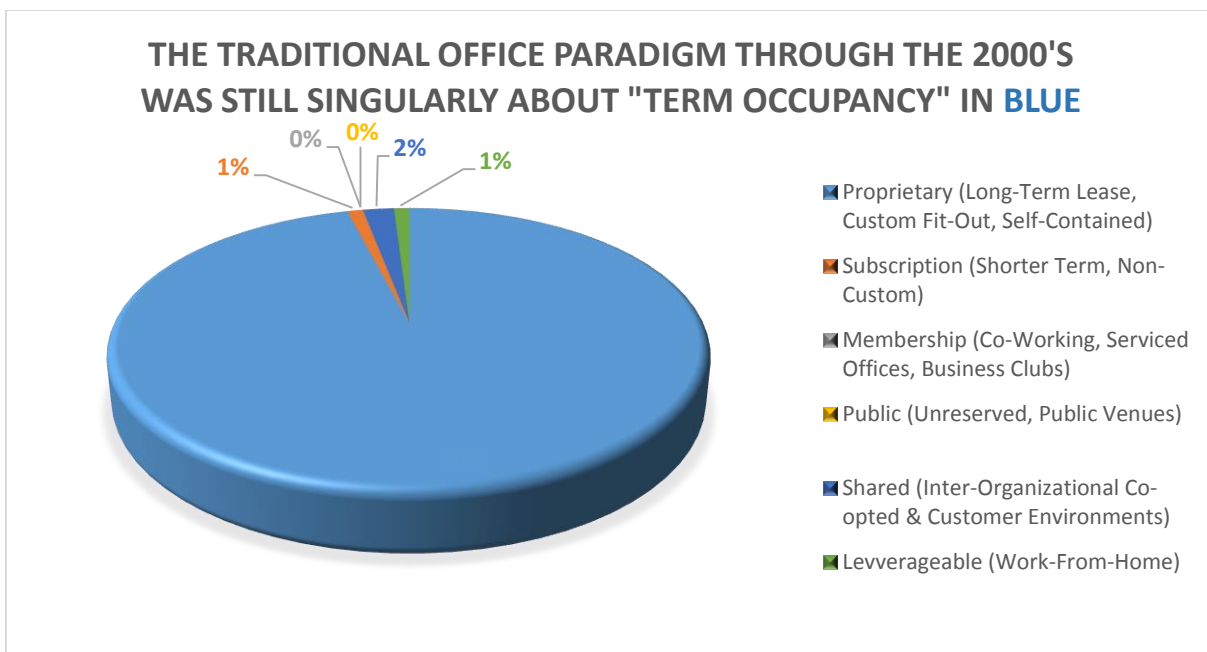


* Pew Research "Mobile Technology" Fact Sheet 2014

Today this trend has grown to even higher numbers and utilizing mobile and cloud-based technology in support of operations has become the norm in almost every business.

The Traditional Office Paradigm

The influence of these technology innovations on our everyday lives is still a matter of debate, however it is clear that it has changed, and is continually changing the way companies and their employees do business. The profile and makeup of traditional office space has changed forever, and without innovation, organizations will find it harder and harder to remain relevant and competitive when it comes to attracting and keeping talent--witness the “traditional office paradigm”:

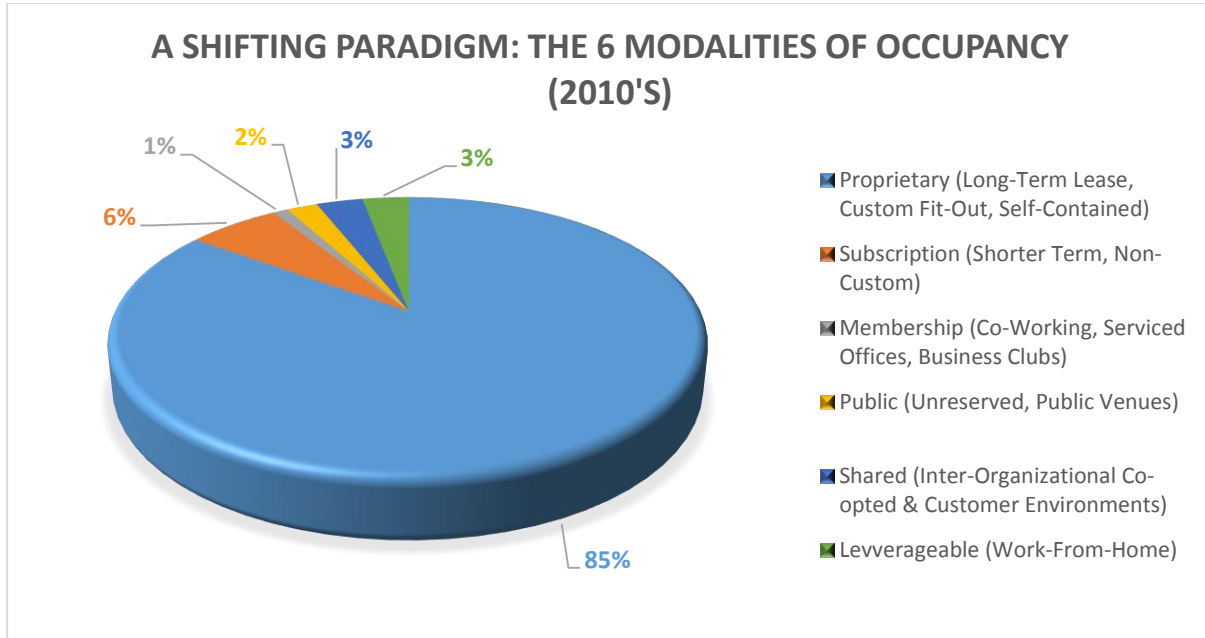


In this traditional view of “office”, almost all knowledge work was performed in a singular proprietary environment that was leased or purchased by a company to warehouse both workers and company data/information. Since “data and people” needed to interact to produce “work”, this singularity survived for more than 75 years, and it underpins all of the investment and operational fundamentals of office space supply-side mechanics.

Legitimizing 6 Modalities of Occupancy

Over the last few years, national office vacancy rates hovered around 17%, compared to around 12% by the end of 2007. There is little doubt that the perception of traditional office space is becoming less relevant to today’s workforce, and occupiers are thinking in new and innovative

ways about how they house, engage and support their workforce--witness the legitimizing and growing use of “the 6 modalities of occupancy”:



Some of these modalities were already there, but technology enablement, culture changes and connectivity has unlocked a workplace truly disaggregated from the traditional office environment. Many employers/occupiers can now legitimately consider more than just part-time work production from places other than the traditional office. Importantly, these modalities are being made easier and more available by the day--and will only increase in importance, relevance, and use going forward into the connected future.

What the “Modern Office Paradigm” Means to an Occupier

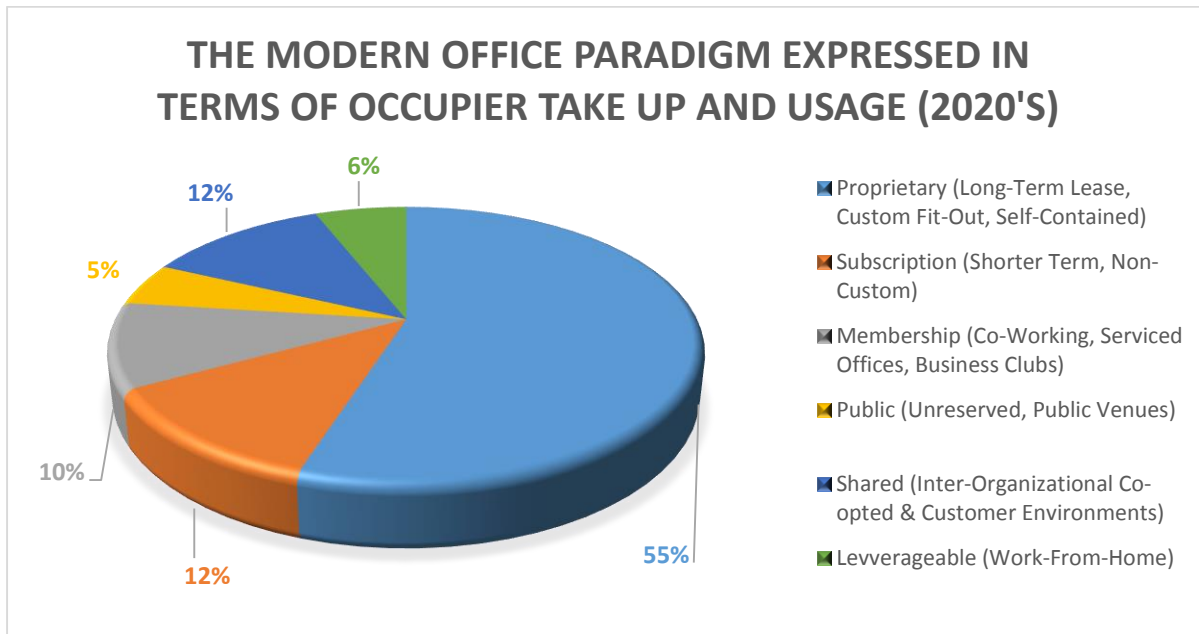
For a company who houses workers to produce “work”, the definition of the Modern Office Paradigm is as follows:

“The Modern Office Paradigm (M-O-P) is strategy and policy that is built around employing some or all of these now-legitimate modalities in support of optimizing a business’s operational infrastructure.”

A strategy built on the M-O-P is designed to effectively platform an increasingly mobile workforce, operate with as close to a right-sized occupancy footprint as often as possible, while minimizing impact of the organization’s environmental footprint. In addition, use of the multiple-modalities drives organizational strategy toward minimizing operational cost leakage and maximizing efficiency.

Successful organizations will have a defined plan to use some or all of these modalities in housing employees and ‘right-sizing’ the real estate portfolio accordingly. The real estate portfolio will be comprised of all of the modalities to some extent, and will be more organically responsive to the needs of the organization and their increasingly dynamic workforce.

Is it difficult to envision a future where “proprietary occupancy” is only a part of the solution stack an occupier engineers in support of the enterprise? Our research points to a future where the marketplace is significantly redefined--witness the “modern office paradigm” more fully realized:



Sophisticated occupiers of tomorrow will embrace an occupancy strategy and policy built around increasing usage of two, three or more of these modalities. Traditional “term occupancy” will continue to decrease as a part of the overall occupancy footprint for the average company.

As for the supply-side, only a few commercial office real estate operators understand this well and are working to reinvent their concept of ‘space’ in support of this emerging paradigm. They are coming up with new ways to build and structure their locations, infrastructures, and agreements. Those out of touch with this emerging reality will no doubt experience flattening yields and relatively weaker positioning becoming a commodity provider where “term occupancy” is no longer the only choice for the occupier in support of their business.

Implications for the Innovators

Today, the average employee enjoys an unprecedented level of mobility, along with the ability to connect and communicate on a whim. More importantly, it has been demonstrated time and time again that increases in employee satisfaction and productivity can be directly linked to working remotely & flexibly.

Today, mobile and cloud-based information sharing and storage is not a choice, it's a necessity, and this necessity has forced employers to open their eyes to the benefits of an untethered workforce...whether they are yet to believe it or not.

For the occupier, the increased profit margins from going paperless and not paying for long-term, costly and largely underutilized leased space provides enough of an incentive for them to embrace this alternative paradigm with enthusiasm. A remote-enabled workforce also widens the pool from which companies find their talent, no longer are they constrained by geographic restrictions. Employees not only will save time and money on commutes, but they can alter their hours to suit their life-style. It's a win-win.

Interestingly, only a few owners are cognizant about the harvestable benefits they can derive in this new environment by more effectively innovating their offerings against those of competitors. A more modern strategy aimed at delivering flexible lease structures, innovative office fit-outs, and dynamic office campuses that cater to an extended lifestyle are elements that should be on many owner/operators' product roadmaps today. Those that act quickly and innovatively will become market leaders that will be difficult to catch.

Implications for the Deniers

Despite the substantial benefits of the modern office paradigm, many companies on both sides of the equation are still showing denial, or in some cases, outright resistance to this new way of thinking. But change is coming and what the future of office properties and occupancy looks like in the face of this wave of innovation still remains somewhat inexact.

But one thing is for certain, as the global population increases, so does the pool of potential, highly-skilled talent, and if companies want to access this talent, which they must do if they wish to remain competitive, is to acknowledge the realities of office and technology innovation as the future. All these factors in play ensure the declining health of the US traditional office space marketplace, and will virtually guarantee oversupply--dealing the traditional supply market a blow to demand and value.

Eyes to the Future

The entire eco-system will be affected; lenders, investors, and of course the entire supporting infrastructure of third-party services providers as well. For the first time in over 60 years, there will be a brave new world in which to find opportunities and to innovate-or risk a loss of relevance in this dynamic environment.

What the future of the modern office actually looks like is still uncertain, but to think that this paradigm won't pose a serious threat to the conventional office environment will be an expensive mistake to make.

AOR is the world's premier commercial real estate strategy advisory and consulting firm. We focus exclusively on the commercial real estate industry, and we help both owners and occupiers understand the nuances of this



Advising the Commercial Office Real Estate Industry

“Modern Office Paradigm”. We work with them to design, build, and operate strong businesses that deliver sustained value to their customers and shareholder, along with measurable growth.

We do this by helping our clients find strategic insight through a robust understanding of their current and future customer priorities, commercial office industry trends & innovations, and the competitive horizon. Our team is made up of people with deep industry experience in commercial real estate, brokerage, and business strategy consulting.

To learn more about Adaptive Office Resources, our capabilities, and how we can help you, visit www.adaptiveofficeresources.com or contact:

*Jeffrey Langdon,
Managing Director
Adaptive Office Resources
Tel: 213-447-5016
Email: jangdon@adaptiveofficeresources.com*

*Dion Fowler
Senior Director
Adaptive Office Resources
Tel: 720-588-6985
Email: dion@brandpremise.com*